

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Village of Varnado
Varnado, Louisiana

April 25, 2001



Investigative Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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Village of Varnado

April 25, 2001



**Investigative Audit
Office of the Legislative Auditor
State of Louisiana**

**Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor**

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OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

April 25, 2001

THE HONORABLE PARIS C. SUMRALL, MAYOR,
AND MEMBERS OF THE BOARD OF ALDERMEN
Village of Varnado, Louisiana

Transmitted herewith is our investigative report on the Village of Varnado. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our finding and recommendation as well as management's response. Copies of this report have been delivered to the Honorable Walter P. Reed, District Attorney for the Twenty-second Judicial District of Louisiana, and other authorities as required by state law.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

SDP:EKL:DGP:dl

[VARNADO]

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Executive Summary

Investigative Audit Report Village of Varnado

The following summarizes the finding and recommendation as well as management's response that resulted from this investigation. Detailed information relating to the finding and recommendation may be found at the page number indicated. Management's response may be found at Attachment I.

Former Mayor Received \$2,396 as Part of \$31,007 in Improper Payments

(Page 5)

Finding:

During a two-year period, Mr. Dennis Magee, while mayor of the Village of Varnado, and Ms. Mona Magee, his wife, made unsupported payments of \$31,007 of which \$2,396 went directly to Mr. Magee. Ms. Magee, who was not a village employee, charged \$596 to a village account without authorization and stated that she took an undetermined amount of cash from village funds for her own use. In 1999 and 2000, village funds were improperly used as follows:

- Mr. Magee used \$504.50 (part of \$2,396 which went directly to Mr. Magee) of village funds to pay sales tax on his personal vehicle but supported the transaction in village records with a fraudulent voucher for maintenance services.
- Mr. Magee cashed a check for \$1,200 (part of \$2,396 which went directly to Mr. Magee) and supported the payment with a fraudulent invoice. Five other checks totaling \$1,859 were made payable to cash and were not properly supported with invoices.
- Mr. Magee, Ms. Magee, and Mr. Clark Harry, a former employee, charged \$691 (part of \$2,396 which went directly to Mr. Magee), \$596, and \$1,817, respectively, to a village account without proper authorization.

- Ms. Magee prepared 65 checks totaling \$17,425 payable to Mr. Leslie Morris, a part-time employee. Ms. Magee stated that she cashed the checks, kept \$20 to \$40 from many of the checks for her own personal use, gave \$100 to a third party, and paid the balance to Mr. Morris in cash.
- Ms. Magee prepared 17 checks totaling \$4,250 payable to and cashed at Little Village, a local convenience store. These checks were not properly supported by invoices.
- Mr. and Ms. Magee prepared nine checks totaling \$1,879 payable to and cashed at Quic Stop, a local convenience store. These checks were not properly supported by invoices.
- Mr. Magee prepared two checks totaling \$785 payable to Charles Ray Myers. Mr. Magee stated that the payee was really Mr. Charles Ray Magee. Both checks indicate Mr. Dennis Magee's driver's license number was used to support the cashing of the two checks.

Recommendation:

We recommend that the village implement policies and procedures to ensure that public funds are not diverted to private use. Because the village has a small staff which limits the effectiveness of its internal controls, the mayor and mayor pro tem should periodically review the village's financial transactions, bank accounts, account reconciliations, petty cash transactions, charge accounts, and payroll. The village should implement a policy on how to reimburse expenses incurred by employees. Finally, we recommend that the District Attorney for the Twenty-second Judicial District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

Management's Response:

Mayor Paris C. Sumrall states that upon taking office, the new administration implemented policies and procedures to correct problems cited in this report which arose during the previous administration. Mayor Sumrall further states that the current administration will cooperate fully with the District Attorney's office in any further investigation of these matters.

Background and Methodology

The Village of Varnado, a Lawrason Act municipality, has three aldermen and a mayor who serve as the governing authority for its residents. The mayor and aldermen serve four-year terms. The village has a police department, maintains roads, and regulates the sale of alcoholic beverages. We received allegations of possible improprieties in the handling of village funds. This office performed an investigative audit that resulted in this report.

The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of the village; (2) interviewing other persons as appropriate; (3) examining selected records of the village; (4) performing observations and analytical tests; and (5) reviewing applicable state laws and regulations.

The result of our investigative audit is the finding and recommendation herein.

Finding and Recommendation

FORMER MAYOR RECEIVED \$2,396 AS PART OF \$31,007 IN IMPROPER PAYMENTS

During a two-year period, Mr. Dennis Magee, while mayor of the Village of Varnado, and Ms. Mona Magee, his wife, made unsupported payments of \$31,007 of which \$2,396 went directly to Mr. Magee. Ms. Magee, who was not a village employee, charged \$596 to a village account without authorization and stated that she took an undetermined amount of cash from village funds for her own use. In 1999 and 2000, village funds were improperly used as follows:

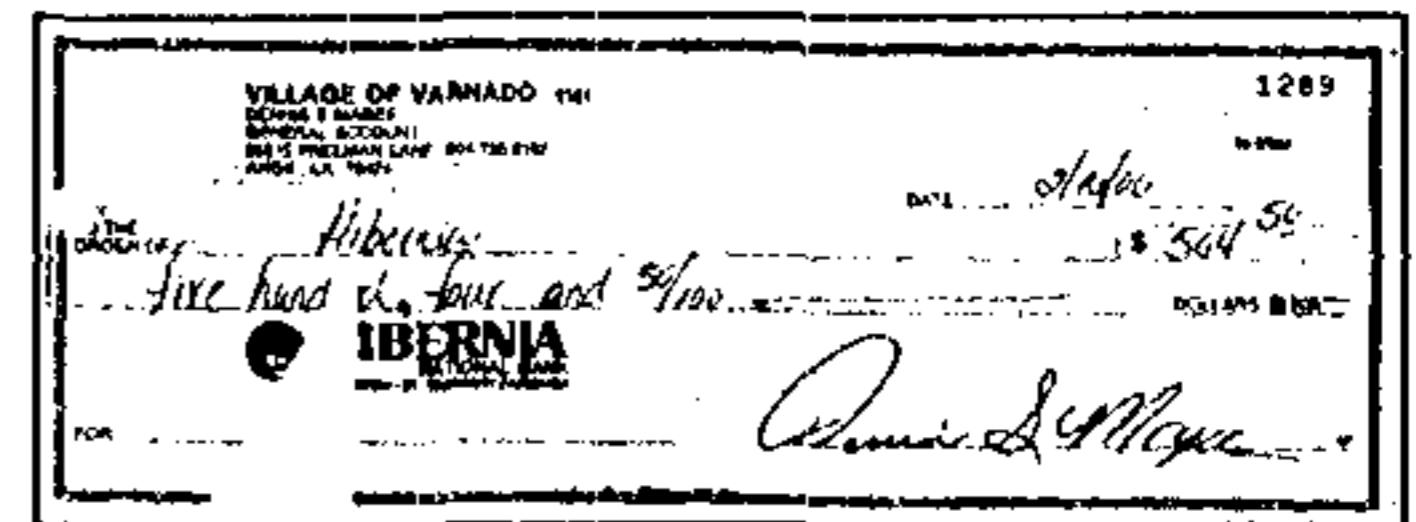
- Mr. Magee used \$504.50 (part of \$2,396 which went directly to Mr. Magee) of village funds to pay sales tax on his personal vehicle but supported the transaction in village records with a fraudulent voucher for maintenance services.
- Mr. Magee cashed a check for \$1,200 (part of \$2,396 which went directly to Mr. Magee) and supported the payment with a fraudulent invoice. Five other checks totaling \$1,859 were made payable to cash and were not properly supported with invoices.
- Mr. Magee, Ms. Magee, and Mr. Clark Harry, a former employee, charged \$691 (part of \$2,396 which went directly to Mr. Magee), \$596, and \$1,817, respectively, to a village account without proper authorization.
- Ms. Magee prepared 65 checks totaling \$17,425 payable to Mr. Leslie Morris, a part-time employee. Ms. Magee stated that she cashed the checks, kept \$20 to \$40 from many of the checks for her own personal use, gave \$100 to a third party, and paid the balance to Mr. Morris in cash.
- Ms. Magee prepared 17 checks totaling \$4,250 payable to and cashed at Little Village, a local convenience store. These checks were not properly supported by invoices.
- Mr. and Ms. Magee prepared nine checks totaling \$1,879 payable to and cashed at Quic Stop, a local convenience store. These checks were not properly supported by invoices.
- Mr. Magee prepared two checks totaling \$785 payable to Charles Ray Myers. Mr. Magee stated that the payee was really Mr. Charles Ray Magee. Both checks indicate Mr. Dennis Magee's driver's license number was used to support the cashing of the two checks.

Mr. Magee was the mayor of the Village of Varnado from January 1997 through December 2000. According to Mr. Magee, he authorized his wife to write checks on village accounts by signing his name to village checks.

While performing the audit of the village, Mr. Bruce Harrell, CPA, determined that support for numerous disbursements was lacking. Mr. Magee then supplied Mr. Harrell with two contradictory sets of documents (vouchers) as support for the disbursements. According to Mr. Magee, the first set was created by a lady whose name he did not know. Mr. Magee also stated that Ms. Magee created the second set. Some of these vouchers are cited and displayed throughout this report.

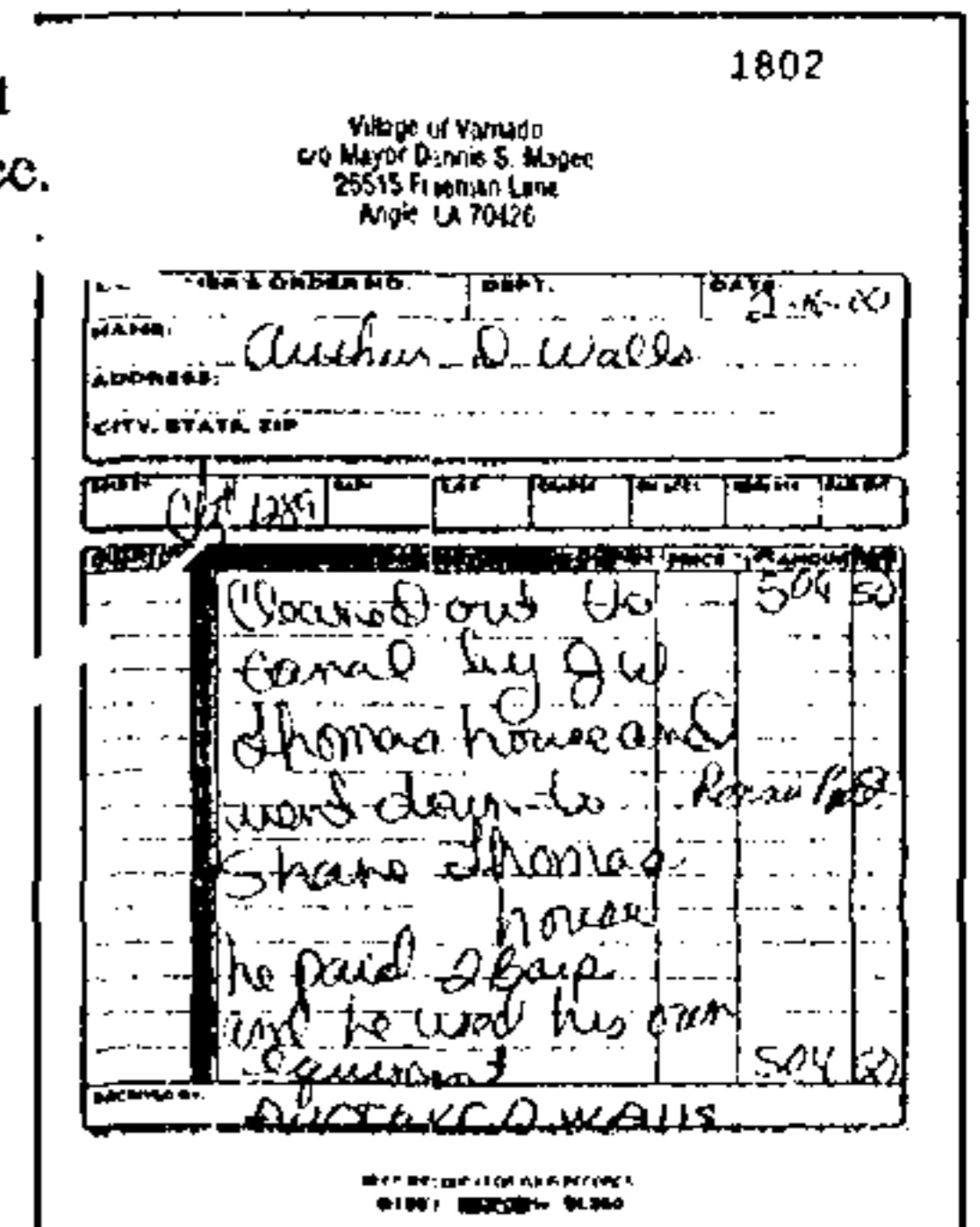
SALES TAX ON MR. MAGEE'S PERSONAL VEHICLE

Mr. Magee used \$504.50 of village funds to pay sales tax on his personal vehicle but supported the transaction in village records with a fraudulent voucher for maintenance services. Check 1289 dated February 16, 2000, was paid to Hibernia for \$504.50 to pay for the sales tax on Mr. Magee's personal truck. Mr. Magee stated that Mr. Carl Fornea and Mr. George Jones, former aldermen, authorized the payment by the village. Both Mr. Jones and Mr. Fornea stated that they did not authorize Mr. Magee to pay sales tax on his personal truck with village money.



Vendor does not match check payee.

Voucher 1802 dated February 16, 2000, indicates that Mr. Arthur Walls was paid \$504.50 on check 1289 for cleaning out a canal. Mr. Walls stated that he did not clean out a canal for the village and was not paid \$504.50. Voucher 1802 references check 1289 but does not support check 1289.



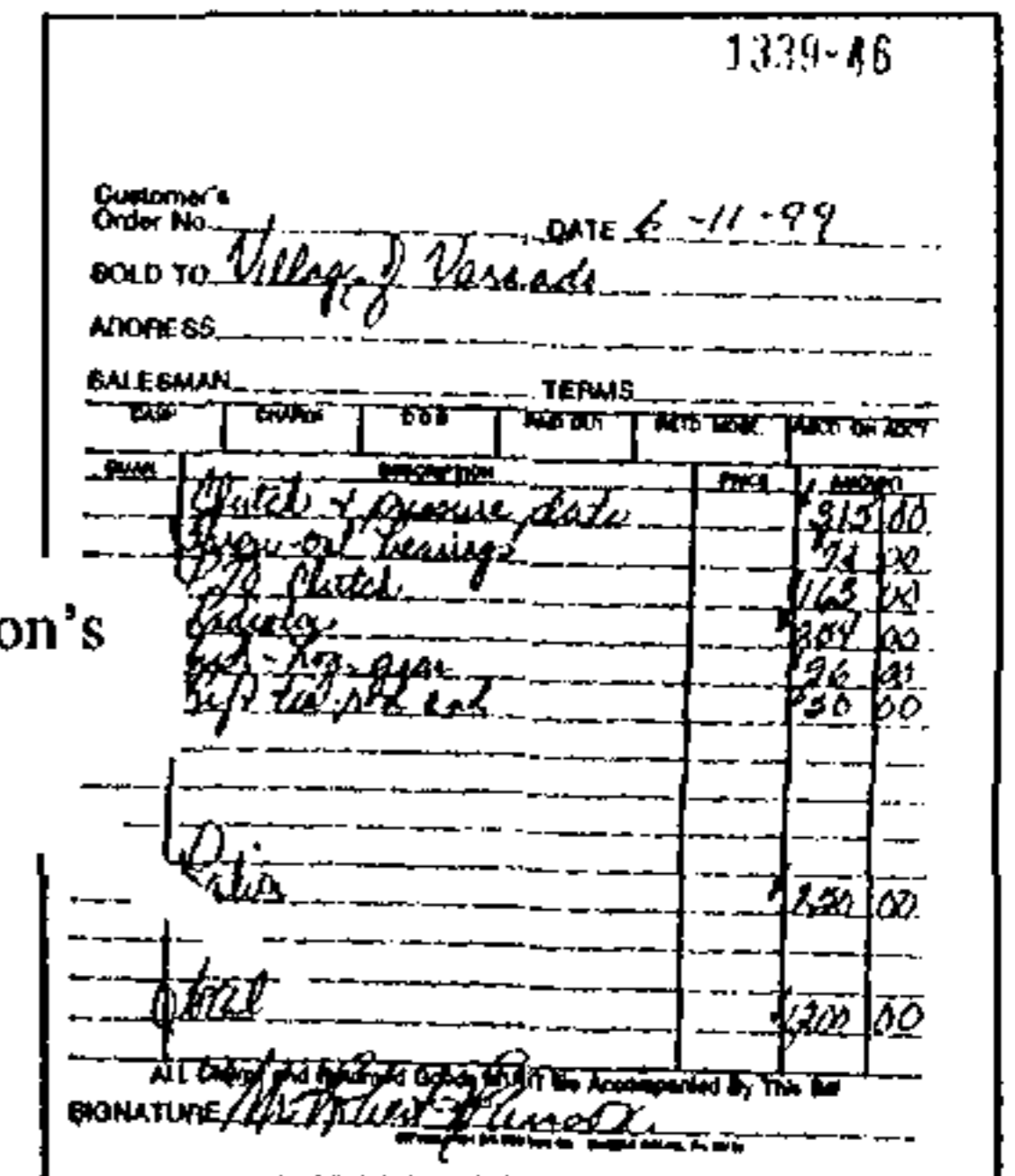
Check 1289

CHECKS PAYABLE TO CASH

Mr. Magee cashed a check for \$1,200 and supported the payment with a fraudulent invoice. Ms. Magee prepared check 1345, payable to cash, for \$1,200 dated June 11, 1999. Mr. Magee stated that he cashed the check, because the vendor would not accept a check. However, the vendor, Mr. Robert Robinson, stated that he:

- (1) only supplied labor to the village, not parts, as shown on the invoice;
- (2) never received \$1,200; and
- (3) never received more than \$100 at any one time.

Not Mr. Robinson's signature



After several unsuccessful attempts to reach Mr. Robinson, we spoke to Mr. Robinson's wife, who stated that her husband did not prepare the invoice and that the signature on the invoice is not his.

From April 21, 1999, through July 3, 2000, Mr. and Ms. Magee issued five other checks paid to cash totaling \$1,859 and not properly supported with vendor invoices.

UNAUTHORIZED CHARGES TO THE VILLAGE

From January 2000 through June 2000, Mr. Magee, Ms. Magee, and Mr. Harry charged \$691, \$596, and \$1,817, respectively, to the village without authorization. Mr. Magee stated that Mr. Fornea and Mr. Jones approved his charging personal gas and truck expenses to the village. Ms. Magee stated that Mr. Magee told her to charge her personal vehicle expenses to the village, because she used her personal vehicle for village business. Mr. Harry stated that Mr. Fornea told him that he could charge his vehicle expenses to the village, because he used his personal vehicle so much for village business. Mr. Fornea and Mr. Jones stated that while the board may have authorized specific vehicle expenses for Mr. Magee, they never authorized all of his expenses and they never authorized Ms. Magee and Mr. Harry to charge any of their personal vehicle expenses to the village.

According to Mr. Magee, on the advice of Mr. Bruce Harrell, village auditor, he reimbursed the village \$426 for his wife's gasoline charges. A review of village records indicates that \$426 was deposited to the general fund on September 11, 2000.

Leslie Morris' Paychecks

Ms. Magee prepared 65 checks totaling \$17,425 payable to Mr. Leslie Morris, a part-time employee. Ms. Magee stated that she cashed the checks, kept \$20 to \$40 for her own personal use, gave \$100 to Mr. Harry, and put the remainder into envelopes for Mr. Morris and Mr. Charles Ray Magee, a part-time employee. Ms. Magee stated that Mr. Harry delivered the envelopes to Mr. Morris and Mr. Magee. Mr. Morris stated that he is unable to read or write and did not see, endorse, or even know that the checks existed in his name. Mr. Charles Magee stated that he also was paid in cash. Mr. Harry denied that he ever received any money out of Mr. Morris' checks.

Little Village

Ms. Magee issued 17 checks totaling \$4,250 payable to Little Village, a local convenience store. These checks were cashed at Little Village. They were not properly supported by invoices. Ms. Magee was employed by Little Village at the time. Mr. Magee sent vouchers to the village auditor to support checks payable to the Little Village. Later, Mr. Magee notified the auditor that he sent the wrong set and replaced the first set of vouchers with a second set of vouchers. These vouchers contradict each other on at least four occasions. Furthermore, these vouchers indicate payees other than the payee, Little Village, indicated on the checks. (See Exhibit IV for an example.)

QUIC STOP

From January 28, 2000, through June 7, 2000, Mr. and Ms. Magee prepared nine checks totaling \$1,879 payable to Quic Stop, a local convenience store. These checks were cashed at Quic Stop. They were not supported by invoices. Ms. Magee changed employment from Little Village to Quic Stop in January 2000.

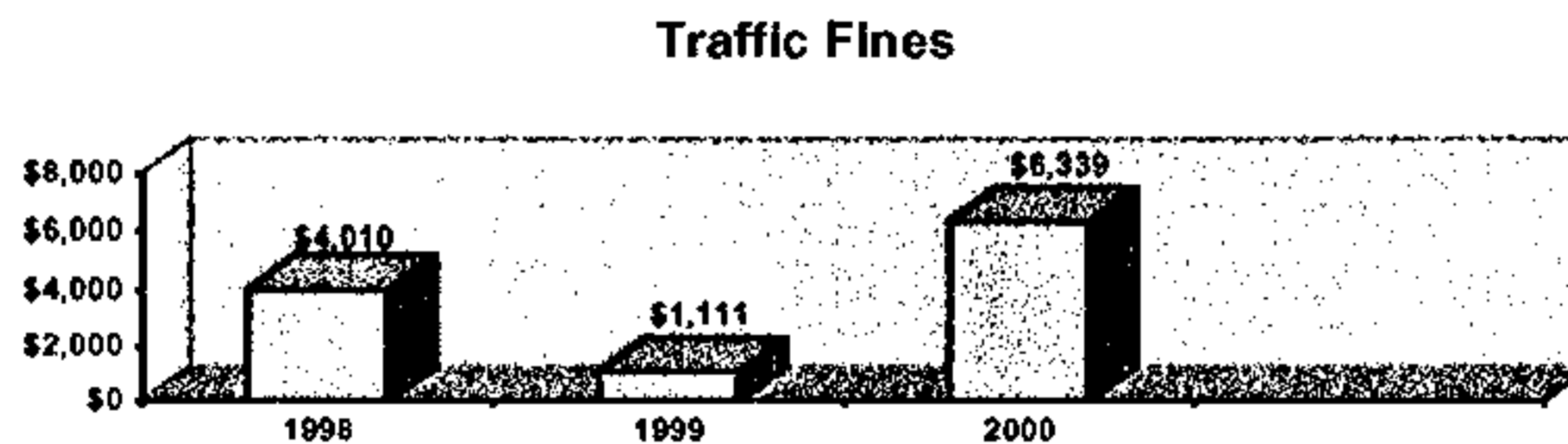
CHARLES RAY MAGEE

Mr. Dennis Magee prepared two checks totaling \$785 payable to Charles Ray Myers. The checks were dated June 15, 2000, and on July 18, 2000, for \$340 and \$445, respectively. Mr. Dennis Magee stated that the payee was really Mr. Charles Ray Magee and that he does not know anyone named Charles Ray Myers. However, the two checks were endorsed as Charles Ray Myers. The fronts of both checks indicate Mr. Dennis Magee's driver's license was used to cash the two checks.

Mr. Charles Ray Magee stated that he was always paid in cash and never received over \$100 on any one occasion.

TRAFFIC FINES

Village records indicate that the village had fine revenues of \$4,010, \$1,111, and \$6,339 in 1998, 1999, and 2000, respectively.



A review of working papers prepared by Bruce Harrell & CO. Certified Public Accountants, indicates that only three cash deposits totaling \$22 were made to village accounts during 1999. Mr. Vernon Smith, a former police officer, stated that at least twice each month, he witnessed drivers taking their citations to Ms. Magee and paying cash of \$100 or more to her. According to Mr. Smith, Ms. Magee put the cash in her purse. Ms. Magee stated that she put the cash in her purse so that she could bring the money home to prepare the deposits to the village accounts. However, a review of banking records shows these fines were not deposited. Ms. Magee stated that the decrease in 1999 might be explained by Mr. Smith's termination in August 1999.

MR. DENNIS MAGEE'S STATEMENT

During our examination, Mr. Magee stated that a break-in to his home occurred, that someone entered his home, wrote and signed village checks, updated the check register, and then cashed those checks. He stated that he does not know who did it but reported the unauthorized entry to the Chief of Police. Mr. Leroy Seal, Chief of Police for the Village of Varnado, stated that Mr. Magee did not report a break-in to him.

CONCLUSION

Mr. Magee took at least \$2,396 from the village for his personal use and has not properly accounted for expenditures totaling \$31,007. Ms. Magee made unauthorized charges of at least \$596 to the Village of Varnado's charge account. By their actions, Mr. Magee and Ms. Magee may have violated the following Louisiana laws:

- R.S. 14:67, "Theft"
- R.S. 14:68, "Unauthorized Use of a Movable"
- R.S. 14:134, "Malfeasance in Office"

Though the actions of the parties listed in this report appear to be within the scope of the laws listed above, the actual determination as to whether individuals are subject to formal charges is at the discretion of the district attorney.

We recommend that the village implement policies and procedures to ensure that public funds are not diverted to private use. Because the village has a small staff which limits the effectiveness of its internal controls, the mayor and mayor pro tem should periodically review the village's financial transactions, bank accounts, account reconciliations, petty cash transactions, charge accounts, and payroll. The village should implement a policy on how to reimburse expenses incurred by employees. Finally, we recommend that the District Attorney for the Twenty-second Judicial District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

Attachment I

Management's Response

VILLAGE OF VARNADO

**63318 FORNEA ROAD
ANGIE, LA 70426
PHONE (985) 732-3343
FAX (985) 732-0281**

MAYOR PARIS C. SUMRALL

POLICE CHIEF LEROY SEAL

**TOWN COUNCIL
MARY THIGPEN, MAYOR PRO TEM
ALBERT J. BOONE
SALLY LAW**

April 16, 2001

Dear Mr. Kyle:

After meeting with Mr. Levy and Mr. Stevens on April 12, 2001, to review the preliminary audit report for the Village of Varnado, I would like to make the following response.

As you are aware, the present council and I took office on January 1, 2001. The audit focuses on the previous mayor and his council. During mid and late 2000, the internal problems and mismanagement of funds in our community government became public knowledge. Immediately upon taking office, my administration implemented policies and procedures intended to correct the previous problems.

These policies include but are not limited to the following:

- 1. Two signatures (the mayor and the mayor pro-tem) are required on all checks. At the present time, the mayor pro-tem is maintaining all financial records.**
- 2. All expenses are reviewed, and payment is authorized by the council at each monthly meeting.**
- 3. Receipts are issued and a copy is attached to each paid traffic fine. All traffic tickets are reviewed by the council at each monthly meeting.**
- 4. Employees must provide a copy of a receipt or bill in order to be reimbursed for town expenses. Reimbursement must be approved by the council.**

As a result of the implementation of these policies, the financial situation of the village has dramatically improved since January 1. The council and I will continue our efforts to get our community back on the right track and move forward in a positive manner into the 21st century.

Our administration will cooperate fully with both your office and the District Attorney's office in any future investigation and/or actions deemed necessary.

Thank you greatly for the time and effort you invested in this matter. Please contact me if I can be of any further assistance.

Sincerely,



Paris C. Sumrall

Mayor

Attachment II

Exhibits

Although labeled as an invoice, this voucher was not prepared by a vendor.

502804

INVOICE

ISSUE TO: Village of Varnado
 20516 Freeman Lane
 Angola, LA 70526

ISSUED BY: Cash
 Wade Harry

DATE: 2-9-99

| QUANTITY | DESCRIPTION | PRICE | AMOUNT |
|----------|-------------------------------------|-------|--------|
| | Removal of tree by Methodist Church | | 400.00 |
| | | | 400.00 |

Checked by: [Signature]

Different Work Performed

Different Vendors

335702

DATE: 2/9/99

NAME: Harry, Beach (LL)

ADDRESS: [Blank]

| QTY | DESCRIPTION | PRICE | AMOUNT |
|-----|--------------------------------|--------|--------|
| 1 | Lowest estimate w/ Cash travel | 400.00 | 400.00 |

Rec'd by: [Blank]

Affidavit Accompanied Voucher 502804

Dated 18 Months After Voucher 502804

VILLAGE OF VARNADO

David G. Moore, Mayor

20516 Freeman Lane, Angola, LA 70526

Aug 07, 2000

We the undersign do here by state that we were paid in cash by Clerk Harry for Village of Varnado for work performed on February 09, 1999 for helping remove an down tree on by the Methodist church. The sum of \$103.00 each, totaling \$400.00

Charles Moses
 26523 Moses Rd.
 Angola, LA 70526

Barry Moore
 63391 T.H. Gray Rd
 Angola, LA 70126
 735-7918

Leslie Moses
 26523 A Moses Rd
 Angola, LA 70426

Andrew Jackson
 14950 Joss Porem rd
 Angola, LA 70126
 735-20

Dated 2/9/99

Payee Little Village

VILLAGE OF VARNADO

PAID TO THE ORDER OF: LL

FOR: [Signature]

DATE: 2-9-99

AMOUNT: \$ 400.00

HIBERNIA NATIONAL BANK

FOR: [Signature]

⑆000127⑆ ⑆0650000706850 07⑆3492 ⑆⑆

Exhibit IV

Attachment III
Legal Provisions

Legal Provisions

The following legal citations were referred to in the Finding and Recommendation section of this report:

R.S. 14:67 provides, in part, that theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

R.S. 14:68 provides, in part, that unauthorized use of a movable is the intentional taking or use of a movable which belongs to another, either without the other's consent, or by means of fraudulent conduct, practices, or representations, but without any intention to deprive the other of the movable permanently.

R.S. 14:134 provides, in part, that malfeasance in office is committed when any public officer or public employee shall (1) intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; (2) intentionally perform any such duty in an unlawful manner; or (3) knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him or to perform any such duty in an unlawful manner.

