

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Town of Kinder
Kinder, Louisiana

October 8, 2003



Investigative Audit

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Daryl G. Purpera, CPA, CFE

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October 8, 2003

HONORABLE FRED ASHEY, MAYOR,
AND MEMBERS OF THE TOWN COUNCIL
TOWN OF KINDER
Kinder, Louisiana

Transmitted herewith is our investigative report of the Town of Kinder. 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 recommendations as well as your response. Copies of this report have been delivered to the Town of Kinder; the Honorable Douglas L. Hebert, Jr., District Attorney for the Thirty-Third Judicial District of Louisiana; and others as required by state law.

Respectfully submitted,

Grover C. Austin, CPA
First Assistant Legislative Auditor

JLS:DGP:dl

[KINDER03]

Executive Summary

Investigative Audit Report Town of Kinder

Background *(See page 3.)*

The Town of Kinder (Town) is located in southwest Louisiana in Allen Parish. It is a Lawrason Act community with a population of 2,246. The Town is governed by a mayor and a five-member town council. The Town provides and bills its residents for gas, water, and sewerage services.

Mires and Company, Certified Public Accountants, audited the Town of Kinder for the fiscal year ending June 30, 2002. Included in their report were findings that were material weaknesses involving internal controls. In addition, our review of the Town's utility accounts revealed unusual deposits. This investigative audit was performed to determine the propriety of certain Town transactions.

Finding *(See page 5.)*

Mrs. Vicky Mancil, former bookkeeper for the Town, prepared a bank deposit ticket that included a \$1,967 check that was substituted for cash. Though the deposit was for the Town's gas, water, and sewer bank account, the check was unrelated to the Town's utility collections. The Town was unable to demonstrate that the \$1,967 cash that was collected was ever deposited.

Recommendations *(See page 7.)*

The Town should:

1. Secure utility payments received so as to restrict access before deposit
2. Restrict access to the cash drawer to as few individuals as possible
3. Cease allowing employees to borrow from the cash drawer
4. Ensure segregation of duties as much as possible. In addition:
 - a. The collections and cash receipts sheets should be reconciled daily to the postings to customer accounts and bank deposit tickets.
 - b. The employee(s) preparing bank deposit tickets should not perform the daily cash reconciliations or the monthly bank reconciliations.

- c. Periodic reviews of collections and reconciliations should be performed by the mayor and/or finance committee.
5. Reconcile bank statements monthly
6. Reconcile subsidiary utility ledgers to the general ledger
7. Properly authorize and record adjustments to utility bills
8. Make daily deposits
9. Seek legal advice regarding seeking recovery of the \$1,967

Management's Response (*See Attachment 1.*)

Management agrees with the recommendations. Some of the recommendations have been implemented, while others are in the process of being implemented. Furthermore, management agrees to consider its options regarding civil recovery.

Background and Methodology

The Town of Kinder (Town) is located in southwest Louisiana in Allen Parish. It is a Lawrason Act community with a population of 2,246. The Town is governed by a mayor and a five-member town council. The Town provides and bills its residents for gas, water, and sewerage.

Mires and Company, Certified Public Accountants, audited the Town for the fiscal year ending June 30, 2002. Included in their report were findings that were material weaknesses involving internal controls. In addition, a review of the Town's utility accounts revealed unusual deposits.

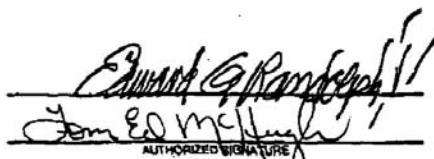
The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of the Town; (2) interviewing other persons as appropriate; (3) examining selected Town records; (4) performing observations and analytical tests; and (5) reviewing applicable state laws and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

Finding

Mrs. Vicky Mancil, former bookkeeper for the Town of Kinder (Town), prepared a bank deposit ticket that included a \$1,967 check that was substituted for cash. Though the deposit was for the Town's gas, water, and sewer bank account, the check was unrelated to the Town's utility collections. The Town was unable to demonstrate that the \$1,967 cash that was collected was ever deposited.

The Town bills its customers for gas, water, and sewer services and payments are received at the Town Hall. Upon receipt, an employee enters the payments into the Town's utilities receivables account. To prepare a bank deposit, a Town employee prints out a payments edit report listing all payments received. The edit report totals payments received by type--gas, water, and sewer. The employee removes the payments from the cash drawer, counts the cash and checks, and prepares a daily cash receipt sheet. The composition of the payments is listed as either cash or checks on the receipt sheet. The totals on the payments edit report are compared to the totals on the receipt sheet. The employee that prepares the receipt sheet then fills out the bank deposit ticket. Generally, whoever prepares the deposit ticket takes the deposit to the bank.

The cash receipt sheets dated December 15, 2001; December 18, 2001; and January 7, 2002, show that cash totaling \$5,091 was collected on these dates. The corresponding cash deposited into the bank was \$3,124--a difference of \$1,967. The total amount of checks listed on the sheets was \$18,200 while the amount of checks deposited was \$20,167--a difference of \$1,967. The bank provided itemized detail of the deposits. The actual deposits included a \$1,967 check payable to the Town from the Louisiana Municipal Risk Management Agency. This check was a refund to the Town for premium overpayments made during 1999; it was not a utilities payment. This check was not entered into the Town's receivables system. Therefore, a check amounting to \$1,967 was substituted for cash before the deposit was made. The Town was unable to demonstrate that the \$1,967 cash that was collected was ever deposited.

| | | | | |
|---|--|--|-----------|-----------------|
| LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY LIABILITY FUND P.O. BOX 4327 BATON ROUGE, LA 70821 | | HIBERNIA NATIONAL BANK BATON ROUGE, LOUISIANA | 001941 | |
| PAY | | DATE | CHECK NO. | CHECK AMOUNT |
| ONE THOUSAND NINE HUNDRED SIXTY-SEVEN AND | | 09/15/2001 | 0001941 | *****\$1,967.00 |
| TO THE ORDER OF | | 00/100 DOLLARS | | |
| TOWN OF KINDER P.O. BOX AH KINDER LA 70648 | |  AUTHORIZED SIGNATURE | | |
| ⑈001941⑈ ⑆065400140⑆96 00⑈8587 2⑈ | | ⑈0000196700⑈ | | |

Mrs. Traci Fontenot, Town employee, stated that the receipt sheets should equal the bank deposits both in total and in the composition of checks and cash. Mrs. Mancil confirmed that the receipt sheets should equal the deposits.

Mrs. Fontenot, Mrs. Mancil, and Mrs. Denise Mose, another Town employee, identified Mrs. Mancil's handwriting on the receipt sheets dated December 15, 2001; December 18, 2001; and January 7, 2002, and on the associated bank deposit tickets. This indicates that Mrs. Mancil prepared the receipt sheets listing the actual cash collected and the deposit listing \$1,967 less cash. A review of other deposits did not reveal that this cash was ever deposited. We attempted to speak with Mrs. Mancil further about this issue, but she asked us to leave her home.

Recommendations

The Town should:

1. Secure utility payments received so as to restrict access before deposit
2. Restrict access to the cash drawer to as few individuals as possible
3. Cease allowing employees to borrow from the cash drawer
4. Ensure segregation of duties as much as possible. In addition:
 - a. The collections and cash receipts sheets should be reconciled daily to the postings to customer accounts and bank deposit tickets.
 - b. The employee(s) preparing bank deposit tickets should not perform the daily cash reconciliations or the monthly bank reconciliations.
 - c. Periodic reviews of collections and reconciliations should be performed by the mayor and/or finance committee.
5. Reconcile bank statements monthly
6. Reconcile subsidiary utility ledgers to the general ledger
7. Properly authorize and record adjustments to utility bills
8. Make daily deposits
9. Seek legal advice regarding seeking recovery of the \$1,967

Attachment I

Management's Response

COUNCIL MEMBERS

SUSAN DOUMITE
ESTES LEDOUX, JR.
LOWELL KEYS
FERDA WYKOFF
BENNIE PELICAN



TOWN OF KINDER

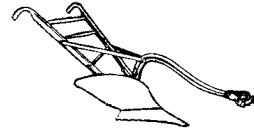
FRED A. ASHY, MAYOR

P. O. DRAWER AH

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TOWN ATTORNEY
JOHN DEMORUELLE

TOWN CLERK
JOHN TAYLOR

September 25, 2003

Mr. Grover Austin, CPA
Office of the Legislative Auditor
State of Louisiana
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Investigative Audit Report – Town of Kinder

Dear Mr. Austin:

On Tuesday morning earlier this week we had a meeting here at City Hall with Mr. Joseph Stevens and Mr. Dan Daigle of your office, our Town Clerk, John Taylor, and myself. Mr. Stevens and Mr. Daigle presented a preliminary draft of your Investigative Audit Report, and explained/discussed the audit findings, as well as the related auditor recommendations.

As you know, our Town Council voted to terminate several of our office employees after studying audit report findings by the Town auditor Mires & Co. for fiscal year ending June 30, 2002. Mr. Taylor, an experienced accountant, came to work as our new Town Clerk in February, 2003, and since then has been steadily involved overseeing a shift to acceptable and appropriate accounting practices for all ongoing daily office activities at City Hall, especially focusing on prior office weaknesses, including the handling of cash and check receipts, balancing cash drawers, tying to daily receipt ledgers, etc.

Specifically, we respond to your recommendations (in numerical order) as follows:

- 1) Utility payments are secured as they are received. Cash drawers (2) are balanced at days end, reconciled/tied to customer receipts register (daily customer payment edit report listing by type), and deposit paperwork is prepared daily for deposit in night depository at bank.
- 2) Access to cash drawers is restricted to our 3 clerks working in our front office.
- 3) Employees no longer “borrow” from cash drawers. Cash drawers used exclusively for customer utility payments and other Town receipt activity.

- 4) We have a small office, and to the best of our ability we endeavor to segregate and split office responsibilities as best we can. Collections and cash receipt reports are reconciled daily to customer ledger and daily deposit tickets. Mr. Taylor insists on cross-training, while maintaining a segregation of functions/duties as best as we can. Mr. Taylor oversees preparation of collection reports and reconciliations and provides appropriate reporting to me. We do not have a finance committee.
- 5) Bank statement reconciliations fell behind after the two office employees were terminated. We have almost caught up with all of our reconciliations, but with 40+ bank accounts, we are still not completely current. We are currently awaiting receipt of additional detail missing from a number of our statements that has been requested from the banks. I expect we will be fully caught up and current by year-end.
- 6) Subsidiary utility ledgers are not yet reconciled to the general ledger, but it is another of mine and Mr. Taylor's tasks/goals, given time, as well as some assistance from the Town auditor.
- 7) When adjustments to utility bills are warranted, these adjustments are properly authorized (usually by the Mayor), with appropriate file documentation/notations..
- 8) After final audit report is released, we will meet with Town Attorney to discuss Town's civil action options.

On behalf of the Town Council and our office staff, we appreciate the courtesies and assistance of your auditors during this investigation. We especially appreciate the efforts and professionalism of your lead auditor, Mr. Joseph Stevens. I have every confidence that we are headed in a true direction of accuracy and accountability at our City Hall. If I can provide any additional information for be of further assistance, please let me know.

Very truly yours,
TOWN OF KINDER


Fred A. Ashy, Mayor