

TOWN OF FERRIDAY



ADVISORY SERVICES REPORT
ISSUED MARCH 26, 2008

**LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

March 26, 2008

**HONORABLE GENE ALLEN, MAYOR,
AND MEMBERS OF THE BOARD OF ALDERMEN
TOWN OF FERRIDAY**
Ferriday, Louisiana

We visited the Town of Ferriday (town) to determine management's resolution of recurring audit findings reported in the town's 2004, 2005, and 2006 audit reports. These findings related to the utility (water and sewer) system and included (1) billing a large number of customers the minimum usage fee, (2) incomplete customer meter deposit records, and (3) uncollectible customer balances not written off.

In reviewing management's resolution of these recurring audit findings, we found that cash received from various utility customers was missing and the missing cash was concealed by using a check substitution scheme. The following provides our findings related to this matter.

Check Substitution Scheme (See Attachment 1 for Summary Schedule.)

We examined town utility records for nine days selected randomly in 2007 and found that a total of \$3,568 of cash collected from customers is missing. The actual payments received from utility customers on these days were more than the amounts deposited in the town's bank accounts by \$3,568. The missing cash was concealed by using a check substitution scheme as follows:

Checks and Cash

- Total funds deposited were less than total payments received (missing cash).
- Certain checks were received and deposited in the town's bank accounts but were not recorded in the utility system. These checks were substituted for the missing cash.

Customer Billing Records

- When checks were substituted for missing cash, the customer billing records were either deleted or payment was posted as a credit at a later date to conceal the missing cash.
- The customer billing stubs accompanying these payments made by check were missing, but the checks received were deposited.

Extent of Check Substitution Scheme

Although the scope of our examination of town records was generally restricted to the nine days, we reviewed certain town records and performed limited procedures outside of this time period. Our extended procedures revealed evidence of additional missing cash and that the check substitution scheme may have begun in October 2004 when the new system was operational.

Current Status

We provided details and supporting documents of the check substitution scheme to the District Attorney for the Seventh Judicial District of Louisiana (DA) as required by law. The DA is obtaining investigative assistance from the Louisiana Attorney General's Office in this matter.

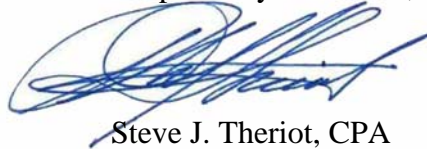
Recommendations

In addition to including recommendations to improve controls over the utility system billings, receipts, and customer accounts receivable, Attachment 2 contains recommendations resulting from our assessment of the financial procedures and practices of the town's various departments. We used our *Checklist of Best Practices in Government* in making our assessment. Management's response is presented in Appendix A.

Our recommendations are intended to improve controls over financial operations, provide advice in implementing good business practices, and ensure compliance with state laws. However, management of the town should consider the costs of implementing our recommendations compared to the benefits they will provide.

This assessment is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards; therefore, we are not offering an opinion on the town's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

RLT:GLM:JSI:dl

FERRIDAY08

**Summary Schedule of
Check Substitution Scheme**

SUMMARY SCHEDULE OF CHECK SUBSTITUTION SCHEME

A	B	C	D	E	F	G	H	I
Payment Transaction Date	Total Payments Received	Total Funds Deposited	Missing Cash	Deleted Customer Billings	Adjusted Customer Billings	Payments Not Posted	Customer Paid Twice	Check Payments Received and Not Recorded
February 1, 2007	\$4,508.21	\$4,182.09	\$326.12	\$215.40		\$110.72		\$326.12
February 21, 2007	4,109.31	4,063.51	45.80			45.80		45.80
April 4, 2007	5,126.43	4,624.91	501.52	107.70	\$215.40	178.42		501.52
April 10, 2007	4,857.14	4,513.48	343.66	343.66				343.66
April 30, 2007	5,094.48	5,002.87	91.61		91.61			91.61
June 4, 2007	7,943.09	7,495.75	447.34	329.14	85.40		\$32.80	447.34
June 25, 2007	1,578.84	1,197.29	381.55	52.41	218.42		110.72	381.55
October 26, 2007	3,056.97	2,528.50	528.47			528.47		528.47
November 2, 2007	7,089.64	6,187.94	901.70	364.30	383.90	153.50		901.70
			<u>\$3,567.77</u>	<u>\$1,412.61</u>	<u>\$994.73</u>	<u>\$1,016.91</u>	<u>\$143.52</u>	<u>\$3,567.77</u>

Scope of Examination

Our examination included the following dates: February 1 & 21; April 4, 10, & 30; June 4 & 25; October 26; and November 2, 2007

Explanation of Columns

- A. Payment Transaction Date - Customer payment transaction date
- B. Total Payments Received - Total customer utility payments (cash and checks) received by the town
- C. Total Funds Deposited - Total customer utility payments (checks and cash) deposited by the town
- D. Missing Cash - Difference between actual cash received by the town and actual cash deposited (more cash was received than actually deposited). The missing cash was removed from cash collections and replaced with a check(s) that was not recorded in the utility system (check substitution scheme).
- E. Deleted Customer Billings - Customer billing records deleted from the utility system. Billing records were deleted to conceal the cash taken from the cash collections. The customers payment stubs accompanying the payments are missing, but the checks received were deposited. This made the customer payment stubs to support payments received agree to the amount of funds deposited on the deposit slip, which agreed to the amounts recorded as received in the utility system.
- F. Adjusted Customer Billings - Customer billing records adjusted in the utility system. The customer billing records were later issued credits on their account in the utility system in lieu of payments being correctly posted in the system on the date the customers remitted their check.
- G. Payments Not Posted - Customer Account's balance remains unadjusted and uncredited as of November 8, 2007.
- H. Customer Paid Twice - Although the customer paid the utility bill, the payment was not posted to the customer's account in the utility billing system. Therefore, the customer's subsequent utility bill contained the previous month's purported delinquent amount, which the customer paid again in addition to the current month's bill.
- I. Check Payments Received and Not Recorded - Customers check payments received by the town. These checks were deposited but were not recorded in the utility system. Cash was taken from the deposit and these accounts were subsequently credited, the balance was deleted, balance remains outstanding or the customer paid the bill twice. Therefore, the customer payment was not recorded in the utility system. This allowed for these checks to be substituted for the cash that was taken from the cash collections.

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Recommendations

The following are the recommendations resulting from our advisory services. The recommendations are presented to improve the system of controls that provide for the safeguarding, managing, and accounting for assets of the town and to ensure compliance with applicable state laws. However, management of the town should consider the costs of implementing these recommendations compared to the benefits they will provide. For those recommendations not implemented, management should be aware of the risks of not implementing such controls.

Management's response to the recommendations is included in Appendix A.

Water and Sewer System Financial Deficits

Operating expenses are exceeding operating revenues for the utility fund (water and sewer), resulting in operating losses and requiring the town's general fund to subsidize the utility system operations. The following schedule summarizes the financial operations of the utility system, including the amount of general fund monies transferred to subsidize operations for fiscal years ended June 30, 2005, and June 30, 2006:

	Fiscal Year	
	2005	2006
Total operating revenues	\$734,994	\$792,717
Total operating expenses	<u>(850,663)</u>	<u>(1,094,976)</u>
Operating loss	(115,669)	(302,259)
Net nonoperating expenses	<u>(161,430)</u>	<u>(160,859)</u>
Net Loss	<u><u>(\$277,099)</u></u>	<u><u>(\$463,118)</u></u>
Funds transferred from the General Fund	<u>\$280,633</u>	<u>\$482,306</u>

We identified the following matters that contributed to the above financial deficits that required the town's general fund to subsidize the utility fund:

- **Broken water meters** - The audit reports for fiscal years 2005 and 2006 reported 95 percent and 89 percent, respectively, of the customer bills audited were charged the minimum fee. The auditor concluded that either the water meters were broken or the meters were read incorrectly. Our review of customer bills for fiscal year 2007 confirmed the auditor's conclusions that the town has failed to correct or implement corrective measures to resolve the problem.
- **Incomplete customer meter readings input in billing system** - The last digit of customer meter readings are not entered in the billing system. The omission of the last digit reduces the number of gallons of water billed to customers. The resulting effect is a significant loss in revenues because the majority of customers are only billed the minimum usage fee for water and sewer services (\$32.80 for residential customers and \$85.40 for commercial customers).

- **Cut-off policy not followed** - The town's water cut-off policy requires customers to pay their bill on or before the fifteenth day of the following month or their water service will be cut off. The past due accounts listing report dated August 29, 2007, shows that 483 active accounts, totaling \$129,175, are 30 days or more past due and the customers were still receiving water services.
- **Units of water produced not monitored** - Although a master water meter was installed at the town's water plant, the master meter is not used to analyze water consumed and billed to customers. Reconciling water production with units consumed would provide information relating to significant leaks in the water lines, inaccurate meters or meter readings, and unauthorized or non-metered water usage.

The continued operation of the water system and the quality of service provided to customers depends on the town collecting for the services it provides. Continuing to provide services to these customers after the cut-off date and under-billing for water consumed affects the quality of services provided and jeopardizes the continued operations of the water system. In addition, giving free water and sewer services violates Louisiana's constitution (Article VII, Section 14 of the Louisiana Constitution of 1974).

Recommendation: The town should:

- Replace or repair all known broken water meters
- Adopt a formal plan to replace antiquated or potentially deficient water meters on a regular basis (meters equipped with current technology in metering water usage should be considered)
- Require the water department field supervisor to submit a monthly listing of broken meters or meters with inaccurate readings to the mayor and aldermen
- Enter complete meter readings in the billing system and require the town clerk to verify that correct readings are entered in the system before customer bills are printed and mailed (include a one time notification to utility customers providing an explanation of billing changes and the resulting increase in their water and sewer bills)
- Enforce the town's cut-off policy to ensure that non-paying customers' services are discontinued
- Require the mayor to review the accounts receivable aging report at least monthly to ensure compliance with the cut-off policy
- Take aggressive action to collect delinquent accounts, including legal action when necessary, and use a collection agency
- Require the water plant supervisor to reconcile units of water produced to the units consumed (billed) to customers to provide insight relating to significant leaks in the water lines, inaccurate meters, or meter readings, and unauthorized or non-metered water usage (this reconciliation, documenting the difference and plausible explanations, should be provided to the mayor and aldermen monthly)

- Adopt procedures to monitor water lines for illegal taps and to report them to the mayor and aldermen
- Monitor the monthly financial statements on a timely basis to ensure that operating revenues are sufficient to operate the system (consider increasing rates or implementing measures to reduce costs if operating costs exceed operating revenues) [See recommendation for “Financial Statements.”]
- Determine the cost effectiveness of having a “water well” instead of using water from the Mississippi River overflow lake for the town’s water (consideration should include the cost of chemicals to treat the overflow lake water and the ability to obtain state and federal grants)

Financial Statements

Current financial statements are not always made available to the mayor or aldermen. Our review revealed that financial statements were presented to the aldermen up to six months after the end of the month being reported. Having current financial statements enables management to fulfill its fiduciary responsibility to monitor current financial information compared to the budgeted amounts to properly manage the town’s fiscal operations.

Recommendation: We recommend that monthly financial statements be prepared and presented to the mayor and aldermen timely each month. Without timely financial statements, the mayor and aldermen cannot effectively exercise their fiduciary responsibilities of managing the town’s fiscal operations and monitoring the budget.

Written Policies and Procedures

The town’s written policies and procedures are not complete. Formal written policies and procedures ensure a clear understanding of what should be done, how it should be done, who should do it, and when it should be done and ensure the procedures followed meet management’s expectations. Also, written policies and procedures aid in the continuity of operations and for cross-training of staff.

Written Policies - We recommend written policies for the following:

1. Financial Reporting Policy - The written policy should include the nature, extent, and frequency of financial reporting information provided to the mayor and aldermen.
2. Code of Ethics - The written ethics policy should be in accordance with state law and address such items as nepotism, prohibited activities (related party transactions), and transactions after termination of public service. In addition, we recommend that an annual certification letter be signed by each alderman and other members of management attesting to their compliance with the ethics policy.

3. Capital Assets - The dollar thresholds for the capitalization of capital assets should be established, along with policies addressing the inventory taking and tagging of capital assets.
4. Records Retention Policy - Louisiana Revised Statute (R.S.) 44:36 requires the town to exercise diligence and care in preserving public records. In compliance with this law and in accordance with R.S. 44:411, the town should develop and submit a records retention schedule, including e-mail communications, to the state archivist (Louisiana Secretary of State Office) for approval.

Written Procedures - We recommend written procedures for the following:

1. Preparing, adopting, monitoring, and amending the budget
2. Purchasing process, including (1) how purchases are initiated; (2) the preparation and approval process of purchase requisitions and purchase orders; (3) checks and balances to ensure compliance with the bid law; and (4) documentation required to be maintained for all bids and price quotes
3. Receiving and distributing incoming mail
4. Processing, reviewing, and approving disbursements
5. Receiving, recording, and preparing deposits for cash receipts
6. Processing, reviewing, and approving time/attendance records and payroll, including leave taken and overtime worked
7. Investing excess cash, including procedures for ensuring that bank balances and investments are fully secured
8. Recording, tagging and safeguarding capital assets
9. Accounting for the use of the Fuelman cards and monitoring the weekly statements
10. Storing, issuing, and accounting for traffic and misdemeanor tickets/citations
11. Collecting fines for traffic and misdemeanor tickets/citations
12. Recording, maintaining, inventorying, and disposing of confiscated items (evidence room)
13. Preparing customer water and sewer bills, including reading water meters
14. Collecting customer payments for water and sewer bills and water meter deposits
15. Enforcing the cut-off policy for water and sewer services
16. Collecting ad valorem taxes
17. Issuing building, gas, and electrical permits
18. Backing up and storing computer files offsite and general controls for the computer system

Organizational Chart

The town does not have an organizational chart that shows the lines of authority and responsibilities for all employees.

Recommendation: An organizational chart should be prepared that shows in graphical form the way work is distributed in the town and clearly shows direct supervisor - subordinate relationships. The chart should show the job titles and employees' names for each position.

Revenues/Receipts

Incoming Mail - Checks received by mail are not listed on a daily receipts log and restrictively endorsed before they are given to the town clerk or other appropriate employee for processing.

Recommendation: All checks received by mail (except for water/sewer and property tax payments) should be listed on a daily receipts log and restrictively endorsed and then given to the town clerk for deposit and entry into the accounting system. The daily receipts log should be given to the contract accountant that reconciles the bank accounts to verify deposits made during the bank reconciliation process.

Checks received for water/sewer and property tax payments should be restrictively endorsed and then given to the appropriate employee responsible for entering payments into the system. Listing these payments on the daily receipts log is not necessary as there should be other controls in place to ensure that the payments are deposited and recorded in the accounting records.

Checks and Balances - There is no segregation of duties for the receipt and subsequent deposit and recording of town funds. For example, the water clerk performs a variety of duties that are incompatible for a proper system of checks and balances. The water clerk (1) sets up new utility accounts; (2) enters meter readings into the utility billing system; (3) makes meter reading adjustments to the system; (4) collects and posts payments to the customers' accounts; and (5) prepares the bank deposits.

Good business practices and proper controls over cash received requires that more than one individual be involved in the billing, collecting, and recording of receipts. Separating the duties of billing, collecting cash, and recording the transactions in the utility billing system would provide controls to help ensure that no single employee controls all facets of the process.

Recommendation: Where possible, the town should segregate the duties of billing, receiving, and recording receipts into the utility system. The town has enough employees to work toward providing adequate checks and balances. This can be achieved by clearly defining employee duties, limiting employee access to specific functions, restricting the ability of employees to record transactions in the utility system, and providing overall oversight of these functions. We suggest the following:

General

- Use the two cash registers to record all receipts (e.g., utility collections, meter deposits, property taxes, building permits, etc.). The cash registers should be programmed to identify each type of receipt. Also, the daily transaction report (Z tape) from the cash registers should be balanced daily with the checks and cash received for the day. (This will provide an accounting of all checks and cash received.)
- Restrict access to the cash registers to employees who do not have access to billing records. These employees should have their own cash drawer and have access to the cash registers by entering their password. Each employee should be held accountable for any shortages or overages in his/her cash drawer. The daily Z tape should identify the employee collecting the payment.
- Use current available electronic technology for water and sewer bills, such as “bar codes” on customer bills that can be scanned into the utility system when customers pay their bill.
- Verify that all checks and cash received as documented on the cash register tapes agree to the amount of funds deposited.

Water and Sewer System

- Restrict access to the water and sewer (utility) system:
 - Require each employee to use his/her own password to access the computerized billing system.
 - The employee that inputs the customer meter readings should not have access to receiving and recording receipts into the utility system.
 - Do not allow any employee the ability to delete billing records or to back date an entry (incorporate this into the utility software system).
- Require the mayor to approve all adjustments and credits to customers’ accounts in the billing system (approval should be documented and include an explanation of why the adjustment/or credit is made).
- Allow the adjustment or credit to customers accounts to be made only by the town clerk (incorporate this into the utility software system).
- Require employees to enter in the utility system whether payment is made by cash or check (Incorporate this into the utility software system)

Bank Deposits

- Verification of bank deposits:
 - The town clerk should verify that the cash register tapes agree to the bank deposits each day and ensure that the cash drawers for each register is balanced to the predetermined cash amount.

- For the utility fund (water and sewer payments), the town clerk should verify each day that the cash register tapes, customer payment stubs, payments entered into the utility system, and bank deposit all agree.

Recording Receipts

The town clerk should make the appropriate entries into the accounting system to record the receipts and ensure that the supporting documentation (cash register tapes, utility customer payment stubs, utility system daily transaction report, and other remittance advices) is properly maintained.

Water and Sewer Accounts Receivable

Reconciling Accounts Receivable - The accounts receivable balance in the accounting system (general ledger) is not reconciled with the accounts receivable balance in the detailed utility (water and sewer) customer listing each month.

The reconciliation of these two independent records each month is very important and essential for a good system of controls over customer accounts receivable. As of August 31, 2007, the accounting system (general ledger) receivable balance for the customer receivables was \$377,215 and the balance reported in the detailed utility customer receivable listing was \$248,863, a difference of \$128,352.

Recommendation: The town clerk should reconcile these two separate records each month and any difference should be investigated and resolved in a timely manner. In addition, we suggest that the town integrate the accounting system with the utility system to enhance controls over utility receivables and eliminate the need to reconcile these two separate records.

Inactive Accounts - Monitoring compliance with the town's cut-off policy is very important and having inactive accounts (customers that no longer receive water services) intermingled with active customer accounts makes this process very difficult. As of August 31, 2007, there were 227 accounts totaling over \$27,000 that were inactive.

Recommendation: The town should:

- Identify all customers that no longer receive water services
- Prepare a listing of these customers to include the amounts owed the town and the date of last payment received
- Present the listing to the aldermen during a public meeting for their information and approval to remove these accounts from the active customer file
- Write off the inactive accounts from the accounting system (general ledger) and move these inactive accounts to an inactive status in the utility system (review inactive accounts before reconnecting or opening new customer accounts for balances due the town)

- Take aggressive action to collect these inactive accounts, including legal action and using a collection agency
- Require that a list of all future inactive accounts be provided periodically to the aldermen during a public meeting for their information and approval to remove from the active customer file (after approval, follow the procedures above)

Customer Meter Deposits - The customer meter deposit liability balance in the accounting system (general ledger) is not reconciled with the cash maintained in the restricted bank account and with the customer meter deposit balances on the customer listing (subsidiary ledger). As of August 31, 2007, the meter deposit bank balance was \$39,411; the general ledger meter deposit liability account balance was \$83,276; and the customer listing was \$43,760. In addition, the meter deposit information for only 458 out of 1,532 total customers is included in the customer listing (subsidiary ledger) on the computerized system.

Management of the town has a fiduciary responsibility to properly account for customer meter deposits.

Recommendation: The town should input all customer deposit information into the computerized accounting system and perform a monthly reconciliation of the balances in the general ledger, restricted bank account, and the customer meter deposit subsidiary ledger. Any difference should be investigated and resolved in a timely manner.

Property Taxes

The town does not record the property taxes assessed as an accounts receivable in the accounting records. Reconciling the detailed listing by property owner to the accounting records is a control feature as these two records should agree at all times.

Recommendation: The town should:

- (1) require the town clerk to record the property taxes receivable in the accounting records when the tax assessment roll is received from the assessor's office;
- (2) require the town clerk to reconcile each month the property tax receivable in the accounting records to the balances still due as documented on the tax assessment roll (this reconciliation process should be documented and retained in the records of the town); and
- (3) consider having the tax collector for the parish (parish sheriff) collect this tax for the town and remit collections received, less the fee for collecting, to the town.

Purchases and Disbursements

Compliance with Bid Law - During fiscal year 2007, the town purchased approximately \$124,000 in chemicals from one vendor without obtaining competitive bids as required by R.S. 38:2212.1. Although the individual purchases did not exceed the \$20,000 bid limit amount, total purchases for the year exceeded the bid limit. The Louisiana Attorney General has opined in Opinion No. 02-122 that recurring purchases that exceed the bid limit must be advertised and let by public bid.

Obtaining price quotes when making recurring purchases ensures that goods and services are obtained at the most favorable prices and that all vendors have an opportunity to participate in the process.

Recommendation: The town should seek quotes when large items are purchased to ensure that the most favorable prices are obtained. We suggest that these quotes be documented as part of the approval process before the purchase is made. In addition, the town should be aware of Louisiana's bid law requirements when purchasing large items. The public bid law requires competitive bids for all purchases of materials and supplies exceeding \$20,000. In addition, the public bid law requires that purchases between \$10,000 and \$20,000 be made by obtaining at least three telephone or facsimile quotes.

Proper Controls for Disbursements - Our review of payments to vendors revealed that appropriate documentation to support the payments was not always available. Purchase requisitions, purchase orders, receiving reports, and approvals were not always included with the paid vendor invoice.

Proper controls for paying vendors require that appropriate documentation is available before payment is made for those services provided or materials received. Documentation to support payments should include the following:

- Purchase requisition - submitted by the department requesting the purchase and approved by a designated town official
- Purchase order - prepared by the town clerk who verifies that funds are budgeted and available and that the purchase is in compliance with the public bid law (approved by a designated town official)
- Receiving report - evidence from the town employee that the services or materials were actually received
- Invoice - evidence from the vendor of the services or materials provided
- Approval of invoice - verification by the approver that documentation is present to support the payment and the amount owed is correct

Recommendation: The town should:

- (1) require that all supporting documentation is included before payment is approved--approval should mean that all appropriate documentation is available and the amount owed is correct;
- (2) require that check signers review the supporting documentation for completeness before signing town checks; and
- (3) file the paid vendor invoice and supporting documents together (do not separate the supporting documents into separate files).

Timely Payments - Vendor invoices are not always paid timely, resulting in vendors charging the town late charges. For example, Fuelman charged the town late charges totaling \$242 on two of its September 2007 vendor invoices.

Paying vendor invoices late results in misusing public funds and creates an atmosphere that the town is unable to pay its bills or manage the resources entrusted by its taxpayers.

Recommendation: The town should require that vendor invoices be paid timely by establishing time tables to pay all outstanding vendor invoices. We suggest that bills be paid every two weeks. In addition, a list of all unpaid bills documenting the invoice amount, invoice date, and due date should be provided to the mayor and aldermen at each public meeting.

Payroll

Time Cards and Time Sheets - Although town employees document the hours worked and leave taken (annual and/or sick) on a time clock card or a time sheet, the following deficiencies were noted:

- Employees are clocking in and out at the same time (e.g., time in 11:59 a.m. and time out 11:59 a.m.).
- Employees are clocking in and out for the entire pay period on the same day and the time cards are approved by the supervisors.
- Employee is paid for more hours than documented on the time sheet.
- Time sheets are not always signed by either the employee or the supervisor.
- Time clocks at the water plant and police department are not set to the correct date.

Recommendation: The town should:

1. Require employees to clock in at the beginning of the day/shift and clock out at the end of the day/shift
2. Require employees to sign their time card or time sheet to certify they actually worked the hours documented

3. Require the supervisors to review and approve the time cards or time sheet for accuracy (correct dates and hours worked)
4. Reset the time clocks at the water plant and police department to the correct day/time

Annual and Sick Leave

- Annual and sick time earned and used for each employee is not being consistently maintained. Also, the department directors do not monitor annual and sick time for their department.
- Employees are allowed to accumulate unused annual leave each year, which is contrary to town policy. The policy states, "An employee may not carry over or accumulate annual leave from one employment anniversary date to another."

Recommendation: The town should:

1. Require that detailed records be maintained to account for annual and sick leave earned and taken by employees
2. Either comply with the annual leave policy or revise the policy to agree to current practice

U.S. Department of Homeland Security - Form I-9, Employment Eligibility Verification, is not maintained for all employees hired after November 6, 1986.

Recommendation: The town should require each employee hired after November 6, 1986, to complete Form I-9 and maintain the completed form in the town records.

Fuelman Credit Cards

The town needs to improve controls over gasoline/diesel purchases. The town uses Fuelman which is a fuel purchasing system for its gasoline and diesel purchases. Although records are maintained that document the number of gallons of fuel dispensed for each vehicle, the odometer readings are not always accurately recorded for each vehicle. Therefore, the miles traveled and miles per gallon information reported by the Fuelman system is not accurate. Also, department supervisors are not reviewing the Fuelman statements timely to ensure whether fuel usage is reasonable.

Recommendation: The town should:

- Require department supervisors to review the fuel usage statements to ensure accurate odometer readings are reported and review for reasonableness, the dates of use, gallons purchased, miles traveled, and miles per gallon information reported on the statements
- Require employees to enter correct odometer readings when fueling vehicles

- Ensure Fuelman cards are used for assigned vehicles only (each vehicle should be assigned a card)
- Document the disposition of all missing and/or erroneous odometer readings on the Fuelman statements

Ordinance Book

Ordinances adopted by the Board of Aldermen are included as part of the town's official minutes. However, ordinances adopted from July 2004 to the present have not been included in the town's ordinance book as required by Louisiana law. R. S. 33:406(D) (1) requires the original of all ordinances adopted by the board be filed immediately in the town's ordinance book.

Recommendation: The town clerk should comply with Louisiana law and update the ordinance book to include the originals of all adopted ordinances. In addition, the ordinances should be codified periodically by subject matter (e.g., public works, public safety, etc.).

Traffic/Misdemeanor Tickets

Accounting for Tickets - The police department is not accounting for the numerical sequence of traffic/misdemeanor tickets. Without accounting for the numerical sequence of tickets, there is no way to determine whether citations were issued, lost, or voided. Proper accounting for traffic/misdemeanor tickets is important to ensure (1) collecting traffic fines or taking appropriate action for nonpayment, (2) complying with Louisiana laws, and (3) preventing misappropriation of assets.

Although the department enters information for issued citations into a software program used to prepare the docket for Mayor's Court and to account for the final disposition of the citations, this is not done until after a citation has been issued.

Recommendation: The town should:

- Require the police department to enter the ticket numbers and the police officer name in the computerized system when a ticket book is issued to a police officer
- Require the police chief to account for the numerical sequence of all citations issued and the final disposition of those citations monthly (the software program used to prepare the docket for Mayor's Court has the capability to track traffic tickets by ticket number)

Depositing Fines - Fines collected by the police department are not deposited timely. During the period from August 28, 2007, through December 19, 2007 (82 work days), the deposits for 41 of those days (50%) were made from two to seven days after the fines were collected.

Recommendation: The department should require that fines collected be deposited daily.

Employees Not Covered by Surety Bond - Police department personnel, who collect fines, are not bonded. Good business practices require that all employees who handle cash be covered by a surety bond.

Recommendation: The town should obtain a surety bond that covers all police department personnel who handle cash.

Management should consider receiving payments for traffic tickets and misdemeanor summons at Town Hall instead of at the police department. Collecting the fines at Town Hall would centralize the collection of all town receipts/revenues to one location, eliminate the expense of having a surety bond for police personnel who collect cash, and allow more time for police personnel to handle law enforcement duties.

Contracts

Although there is evidence in the town's official minutes approving a contract for legal counsel, town officials could not provide us with that contract. Good business practices require written agreements/contracts for services setting forth the specific terms and conditions. Agreements/contracts ensure that services received comply with the town's expectations.

Recommendation: We suggest that all agreements for services (professional or otherwise) with third parties be in the form of a written contract. Also, all contracts should be monitored by a designated employee to ensure that services received by the town comply with the terms and conditions of the contract. In addition, we suggest that the town consider the following when contracting for legal services:

1. Establish the specific services to be provided as general counsel services
2. Clearly identify services included as general counsel services versus hourly amounts charged for litigation services
3. Require that out-of-pocket expenses be itemized, if applicable
4. Obtain request for proposals for legal services as a good business practice

Disaster Recovery and Business Continuity

We recommend that a formal written disaster recovery/business continuity plan be prepared and tested/revised annually. Having a formal written plan is a good business practice as it will provide the steps to be performed to continue town operations in the event of a natural disaster, fire, or terrorist attack.

Management's Response



TOWN OF FERRIDAY

Honorable Gene T. Allen, Mayor

Shannon Beatty, Clerk

COUNCIL MEMBERS

March 19, 2008

Robin Charpentier

Glen Henderson

Jerome Harris

Johnny Brown

Gloria Lloyd

Steve Theriot, State Leg. Auditor
Baton Rouge, Louisiana

Via Email: rtrahan@lla.la.gov

Dear Mr. Theriot:

Attached you will find the responses to the recent advisory services report prepared by your office. Please let us know if you should need additional information.

Sincerely;

Mayor Gene T. Allen
Ferriday, Louisiana

Equal Opportunity Employer

1116 SECOND STREET, FERRIDAY, LOUISIANA 71334
(318) 757-3411 PH. ~ (318) 757-4456 FAX ~ ferridaymayor@bellsouth.net

Appendix A: Management's Response

Water and Sewer System Financial Deficits:

Broken Water Meters: The Town of Ferriday has contacted the town's engineer Bryant Hammett who is working with Triton Company to put in use a grant from USDA to replace all meters within the town. The grant has already been approved, but the Town will be responsible for approximately \$300,000 of expenses, so due care needs to be exercised to ensure the best use of Town funds for improvements to the system. The Town of Ferriday will have the field supervisor manage all meters and adopt a formal plan to replace any antiquated or potentially deficient water meters on a regular basis. Such field supervisor will submit a monthly listing of broken meters and those with inaccurate readings to the Mayor and Council. We believe that a uniform meter system will also help address other problems in the utility billing area.

Incomplete customer meter readings input in billing system: There is some question as to whether the last digit of the reading actually applies to the usage on all types of meters. The previous explanation regarding the standardization of meters will ensure that consistent readings can be entered into the system to calculate correct billings. As part of the above mentioned study, correct reading entry procedures will be instituted. The Town Clerk will verify all meter readings before entering in the system and once again before bills are printed.

Cut-off policy not followed: The Town will enforce the cut-off policy to ensure that non-paying customers' services are discontinued. The Mayor will be given an accounts receivable aging report monthly to ensure compliance with the cut-off policy. The Town of Ferriday will look into taking aggressive action to collect delinquent accounts. The Town Attorney will be consulted regarding possible legal action against some of the largest accounts in order to set a precedent regarding the Town's intent to collect.

Units of water produced not monitored: The Town of Ferriday Water Plant Supervisor will produce a report on a monthly basis to reconcile units of water produced to the units consumed (billed) to customers. The Mayor will review the report with the Water Plant Supervisor and investigate reasons for significant variances, including reviewing leak reports.

The Town will look into procedures to monitor water lines for illegal taps and for the reporting of them to the Mayor and Council. This will be done in conjunction with the study listed above.

The Town is working with Bryant Hammett, the town's engineer, who is working with a company as listed in the item above to give a detailed report of the cost of having well water instead of using top surface water.

Financial Statements:

In the past year, the accounting system of the Town was converted to QuickBooks and checks and deposits are being entered by the Town Clerk. Therefore, the reports are now being prepared and presented to the Town monthly for their consideration. At times, when the Finance Committee has not reviewed the financial statements in advance, they are not presented to the full Council for their study. Effort will be made to ensure that the reports are presented monthly.

Written Policies and Procedures:

Written Policies:

The Town of Ferriday will ensure that written policies will include a Financial Reporting Policy that will state the nature, extent, and frequency of financial reporting information provided to the Mayor and Council, as well Code of Ethics that will be in accordance with state law and address such items, as nepotism, prohibited activities, and transactions after termination of public service. The policy will include such changes as were recently enacted by the Legislature in 2008. Also, each year an annual certification letter will be signed by each council member. The Town Attorney will develop the certification letter.

The policy will state all capital assets established, along with policies addressing the inventory taking and tagging of capital assets. The Town office assistant has been involved in listing and tagging the capital assets since August, 2007 and is in the process of completing the inventory at this time.

The Town of Ferriday will look into a Records Retention Policy to be developed and submitted to the state archivist. The Town Clerk will meet with the contract accountant to develop this policy.

Written Procedures: The Town Clerk will reduce to writing the following procedures that are already being administered:

1. The CPA prepares the budget that is approved by the Mayor and Council in which the Town Clerk monitors, in accordance with the Budget Act.
2. A purchasing process will be written into the employee manual. This process has already been initiated which includes a requisition to be filled out by the supervisor of the department requesting such purchases order that must be approved and signed by the Mayor. A copy of the purchases order is given to the supervisor and the other copy is attached to the requisition. Receipt of purchase is brought back to the town clerk that is attached then is attached to the incoming invoice and set up for payment. The town clerk will check to ensure compliance with the bid law and documentation required maintaining for all bids and price quotes and kept.

3. One person will be responsible for the opening and distribution of all mail. The office assistant has been assigned this duty.
4. The Town Clerk will process, review and approve all disbursements, then forward them to the mayor for his approval.
5. Checks that are received in the mail will be listed by the office assistant as received. Copies of utility receipts and property tax payments are made and kept with the daily report for those departments. Utility receipts are posted by the Utility Clerk and property tax receipts are posted by the Tax Clerk. Checks for other receipts are given to the Town Clerk who prepares a deposit slip and posts them into the general ledger.
6. Time records will be reviewed by the supervisor of each department and approved by that supervisor's signature on the time cards. Each employee is to sign off stating that they concur with time. All supervisors will approve leave time taken and overtime worked with the prior approval of the mayor.
7. Excess cash is being invested in local banks at this time. All checking accounts are reviewed to be sure they are interest bearing accounts. The Town Clerk and the contract accountant will develop a report so that security for deposits in excess of FDIC coverage can be reviewed on a semi-annual basis.
8. The office assistant is in the process of tagging and listing inventory and will be put in charge of adding any new assets purchased to that list. An annual inventory reconciliation will be begun.
9. New Fuelman cards have been ordered and assigned to each vehicle of the town. Each employee has their own pin number. Fuelman cards will be used along with the mileage of the vehicles. When mileage from a vehicle is not adding up Fuelman will send a email to the town clerk for review.
10. All ticket books are placed in a locked closet, some ticket books are then placed with the dispatcher who signs out such books to the officers as needed. There will be a Master Ticket Sheet used to assign each ticket book issued to officers. The Master Ticket Sheet will be reviewed by the Assistant Chief before any more books are given to the dispatcher. Each officer is responsible for the safekeeping of their ticket books. They will be returned to the Asst. Chief of Police when the book is empty. The Asst. Chief of Police checks the books for accuracy, record the return of the completed book on the Master Ticket Sheet, then turns it over to the Court Clerk of the Town of Ferriday. The Court Clerk is then responsible for the storage of such records.
11. The collection of fines for traffic and misdemeanor tickets/citations will be the responsibility of the dispatcher whom will have a surety bond in place. Any employee that doesn't have such bond in place may not be allowed to accept any

type of money for the Town of Ferriday. Such fines collected will be deposited on a daily basis.

12. The Chief Investigator is responsible for the recording, maintaining, inventorying and disposing of confiscated items. All items are recorded by the Chief Investigator when received. Drug items are sent to the state Crime Lab for analysis, while non-drug items are put in a separate evidence bag and put into the evidence vault until needed for court purposes. The Crime Lab returns evidence after analysis and it is also kept in the vault. The recording of such evidence is kept in the vault. All evidence to be disposed of must be approved by the District Attorney's Office of Concordia Parish. The Chief or the Assistant Chief will begin to conduct a monthly inventory of evidence per the Chief Investigator's list to ensure proper handling.
13. The utility procedures have been discussed in other parts of this response. Certain procedures are already in place, and more will be instituted. These will be refined in conjunction with the study of the utility system mentioned first above.
14. The main procedures here involve using password security for each clerk, requiring each clerk to be responsible for their own collections and involving the Town Clerk in the daily reconciliation of the collections.
15. The Town of Ferriday will enforce the cut-off policy. The Utility Clerk will develop a timetable for cut-off each month to be approved by the Mayor.
16. The Town Clerk will work with the CPA on making a program for the collecting of the ad valorem taxes. The Clerk will provide the total assessed amount to be recorded in the general ledger and monthly collections will be posted. The Town Clerk can then compare the balance monthly with the uncollected taxes per the Assessor's report.
17. The building, gas, and electrical permits will be collected by the water clerk and recorded on the register and deposited by the town clerk daily. The Town now has a Building Inspector who can provide a weekly list of building and electrical permits and the Sewer Operator can provide a listing of gas permits to be compared to those amounts actually posted into the general ledger.
18. All computer systems are now being backed up regularly. The Town Clerk will investigate investing in an automatic backup system that will do a daily backup of all systems. Backups are now being kept off-site.

Organizational Chart:

An organizational chart will be prepared that will show in graphical form the way work is distributed in the town and clearly will show the direct supervisor – subordinate

relationships. The chart will provide the job titles and employees names for each position.

Revenues / Receipts:

Incoming mail: All checks received by mail with the exception for utility payments or property tax is listed on a daily receipt log then given to the town clerk for deposit and entry into the accounting system. This log will be giving to the CPA for the purposes of verifying the deposits made during the bank reconciliation process.

All checks received for utility or property tax will be endorsed and given to the employee responsible for entering payments into the system. All checks are copied daily for record keeping purposes.

Checks and Balances:

The Town of Ferriday has three (3) cash registers: 1- for the utility department, 2- Property tax department, 3- for the use during lunch breaks. All cash registers are programmed to identify each type of receipt. The (z-tape) from the cash registers are balanced daily with the checks and cash received by the town clerk.

Only one employee is authorized per cash register. All employees have their own password while working on the utility cash register. Each employee will be held accountable for any shortages or overages in their cash drawer.

The Town of Ferriday is in the process of working with the town engineer who has hired a company to do a survey of the utility billing system. The town will look into replacing the current billing system.

The town clerk is verifying that the cash register tapes agree to the bank deposits each day and ensure that the cash drawers for each register is balanced to the predetermined cash amount.

The town clerk verifies each day that the cash register tapes, customer payments stubs, payments entered into the utility system, and bank deposit all agree.

The town clerk makes the appropriate entries into the accounting system to record the receipts and ensure that the supporting documentation is properly maintained.

Water and Sewer Accounts Receivable.

The Town Clerk will work with the CPA to institute a procedure to reconcile accounts receivable. A daily reconciliation sheet will be developed so that the Utility Clerk can list activity and then have that activity used as backup for the daily report given to the Town Clerk. The end of the month reconciliation will be noted by the CPA when the financial statements are prepared.

Inactive Account:

The Town of Ferriday will work to identify all customers that no longer receive water services, prepare a listing of such customers to include the amounts owed and the date of last payment received. The Town Clerk will present this listing to the council for information and approval to remove such accounts from the active customer file. At such time the town clerk will write off the inactive accounts for the accounting system and move the inactive accounts to an inactive status in the utility system to be reviewed before new customers are added. A spreadsheet or database will be developed to track those accounts removed from the system so further collection action can be taken. This list can be consulted each time a new connect is made to prevent someone from accruing additional amounts and collection of old amounts can be added to their account.

The town will look into taking action to collect these inactive accounts if feasible.

The town will look into providing periodically to the council the list of inactive accounts.

Customer Meter Deposits:

The Water Clerk will input all customer deposit information into the computerized accounting system and the town clerk will perform a monthly reconciliation of the balances in the general ledger along with the CPA. Such deposits will be maintained into the customer meter deposit subsidiary ledger and all differences will be investigated and resolved in a timely manner. The Utility Clerk will be put in charge of completing the task of recording older deposits into the system. The Town will add amounts to its restricted deposit accounts to maintain that escrow system amount.

Property Taxes:

The Town Clerk will record the property taxes receivable in the general ledger when the tax assessment roll is received from the assessor's office. Daily collections will be posted to the general ledger and to the assessment roll. Weekly totals of uncollected taxes per the assessment roll will be computed by the Tax Clerk and given to the Town Clerk for reconciliation with the general ledger. All documentation will be retained in the records of the town and reviewed by the CPA monthly.

The Town will consider having the Sheriff's office, who is the ex-officio tax collector for Concordia Parish, collect the taxes for the town and remit them to the Town.

Purchases and Disbursements:

Compliance with Bid Law:

The Town will seek quotes when large items are purchased to ensure that the most favorable prices are obtained. All quotes will be documented as part of the approval

process before the purchase is made. The Town of Ferriday will follow the Louisiana bid law requirements.

Proper Controls for Disbursements:

The Town of Ferriday has put into place the submittal of a Purchase requisition to be approved by a designated town official (Mayor). Purchase orders are prepared by the town clerk who will verify that funds are budgeted and available and the public bid law will be followed. The Town Clerk is receiving evidence from the town employee that the services or materials were actually received along with an invoice from the vendor. The Town Clerk verifies that all documentation is present to support the payment and the amount owed is correct. These documents are all collected and attached to a check stub showing verification and approval. These are filed daily in vendor files after final payment.

Timely Payments:

All vendor invoices are being paid timely with in 30 days of the receipt of such invoice. All invoices will be entered into the accounting system once received by mail and paid according to payment date. A list of all unpaid bills with invoice amount, date, and due date will be recorded and presented to the council each public meeting.

Payroll:

Supervisors of each department are responsible in maintaining time cards of employees. The supervisor has required that employees to clock in at the beginning of the day/shift and clock out at the end of the day/shift. All employees are required to sign their time card or sheet to certify they actually worked the hours documented. All supervisors are required to review and approve the time cards or sheets for accuracy. All time clocks are to be set with correct day/time. The Town is obtaining documentation for the correct operation of all the time clocks owned by the Town.

Annual and Sick Leave:

Detailed records are maintained to account for annual and sick leave earned and taken by employees with in the payroll located on the QuickBooks program. The Town of Ferriday is complying with the annual leave policy located with in the employee manual. Leave time hours for vacation and sick is documented with in the payroll system and located on each employee pay check stub.

U S Department of Homeland Security:

Form I-9 has been obtained, along with the required documentation, has now been obtained and is kept in their employee file.

Fuelman Credit Cards:

All department supervisors are to review the fuel usage statements to ensure accurate odometer readings are reported and review for reasonableness, dates of use, gallons purchased, miles traveled, and miles per gallon information reported on the statements. All employees are required to enter correct odometer readings when fueling vehicles. The Town of Ferriday has ordered new Fuelman cards that are assigned to each vehicle with the identifying number being the last 6 digits of the VIN number. Each employee is assigned their own personal pin number. Missing and/or erroneous odometer readings on the Fuelman statements will be documented. The town clerk has set up a procedure with Fuelman that when such odometer readings are missing or erroneous that an email will be sent to the Town regarding such omissions along with the information on the statement.

Ordinance Book:

The Town of Ferriday has paid Municipal Code Assoc. the sum of \$10,000.00 for the updating of the ordinance book. The Town of Ferriday has since sent the new revised criminal code and new ordinances that the town has approved to be put into place. The Town of Ferriday has not been able to make contact with this company. The Town of Ferriday will keep trying to make contact with such company. All new ordinances will be maintained in a separate book of originals with original signatures of the Mayor and Clerk.

Traffic/Misdemeanor Tickets:

Accounting for tickets:

The Town of Ferriday will require the police department to investigate the use of a computerized system to account for their ticket system. Training will be provided to personnel in the use of the system. Once the system is active, a periodic report will be provided to the Town Clerk to review and reconcile with the ticket collections deposited to the bank. There should be reports of issued tickets in number order for the Assistant Chief to reconcile to her Master Ticket Sheet. A monthly report will be given to the Mayor for his review and consideration by the Council.

Until the time that the computerized system is active, the Assistant Chief will reconcile the deposit of fine receipts to the Master Ticket Sheet and give it to the Town Clerk monthly for comparison to the general ledger.

Depositing Fines:

All fines that are collected will be deposited daily.

Employees not covered by Surety Bond.

The Town of Ferriday will obtain a surety bond that covers all police department personnel who handle cash.

Contracts :

The Town of Ferriday will establish the specific services to be provided for all professional services and reduce these to the form of a written contract. Such contract will clearly identify services to be provided, procedures for billing and payments, and general counsel services versus hourly amounts charged for litigation services. Also, other amounts to be reimbursed will be specified and itemized bills for out-of-pocket expenses will be required. When practical, request for proposals for any professional services will be used.

Disaster Recovery and Business Continuity –

The Town of Ferriday is in the process of written a disaster recovery/business continuity plan that will be tested and revised annually. An inventory of the items absolutely necessary for the continuity of town services will be prepared and a list of suppliers of these items will be kept by the Town Clerk. Annual surprise drills will be held regarding the viability of these plans and updates will be made at that time for changes in technology and facilities.

Check Substitution Scheme –

The Town of Ferriday has been and is implementing many changes to its utility billing and collection systems. Many of these internal controls have already been put into place and more are being developed daily. The Town has been awarded a grant for a study of its entire utility system and that is in the early stages at this time. This may include a new accounts receivable computer system to better track billings and collections.

The Town is using every means at its disposal to continue to improve its system of checks and balances on the utility system on a daily basis to prevent any loss of Town resources. The Mayor pledges the full cooperation of Town personnel with any investigations and hopes to include the incoming Mayor and his transition team in these efforts.