

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Town of Cotton Valley
Cotton Valley, Louisiana

July 10, 2002



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

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LEGISLATIVE AUDITOR

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

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TOWN OF COTTON VALLEY
Cotton Valley, Louisiana

Dated June 14, 2002

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge and Shreveport offices of the Legislative Auditor and at the office of the Webster Parish Clerk of Court.

July 10, 2002

TOWN OF COTTON VALLEY
Cotton Valley, Louisiana

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OFFICE OF
LEGISLATIVE AUDITOR
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LEGISLATIVE AUDITOR

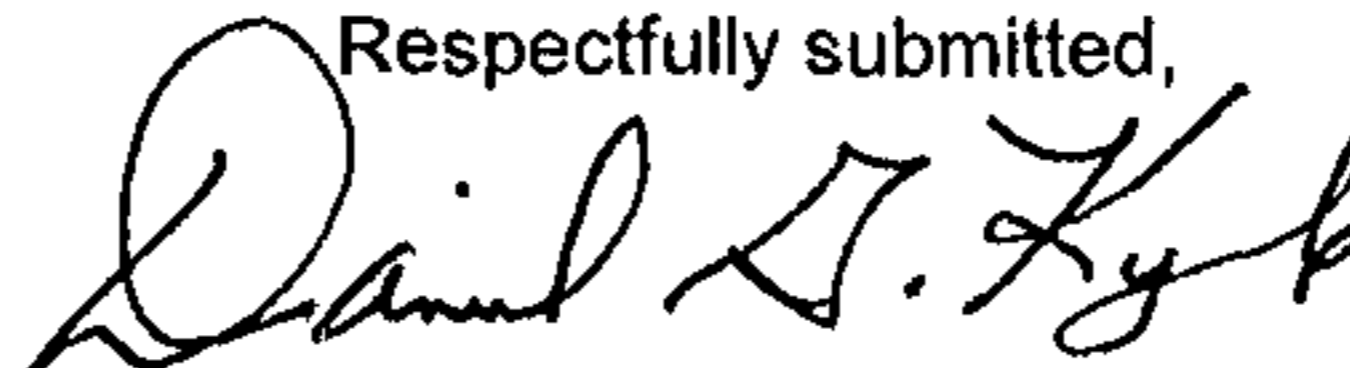
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June 14, 2002

**HONORABLE KEITH CHANLER, MAYOR,
AND BOARD OF ALDERMEN
TOWN OF COTTON VALLEY**
Cotton Valley, Louisiana

We have performed a limited examination of the Town of Cotton Valley (town). Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed at the town's request to address an issue of declining revenues.

The accompanying report presents our findings and recommendations, as well as your response. We will continue to monitor the findings until you resolve them. Copies of this report have been delivered to the Honorable James M. Bullers, District Attorney for the Twenty-Sixth Judicial District of Louisiana, the town, and other authorities as required by state law.

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

ESS:GLM:GCA:dl

[TCV02]

LEGISLATIVE AUDITOR

TOWN OF COTTON VALLEY
Cotton Valley, Louisiana

BACKGROUND AND METHODOLOGY

The Town of Cotton Valley (town), Louisiana, was incorporated under the provisions of the Lawrason Act and operates under a mayor/board of aldermen form of government. The town is located in Webster Parish with a population of approximately 1,100 residents.

The town provides, among other services, utility (water and sewer) services to area residents and businesses. The town bills utility customers on a monthly basis and collects cash, checks, and money orders in payment of these services. Also, the town collects monies for water meter and sewer deposits from new utility customers.

In March 2002, the Legislative Auditor received information relating to possible shortages in the amount of cash deposited into the Utility Fund. We visited the town to determine the accuracy of this information.

We conducted a limited examination of the town's financial records. A limited examination is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Our procedures consisted of the following: (1) interviewing employees, a former employee, and officials of the town; (2) examining selected documents and records of the town; (3) making inquiries and performing tests to the extent we considered necessary to achieve our purpose; and (4) reviewing applicable state laws.

Approximately nine years ago, the Legislative Auditor conducted a similar examination into allegations of improper activities. A report was issued that detailed eleven findings, including the possible theft of town funds by a former employee. Also, recommendations included that the town establish procedures/controls that would ensure that all collections are deposited intact and in a timely manner.

LEGISLATIVE AUDITOR

TOWN OF COTTON VALLEY
Cotton Valley, Louisiana

CONCLUSIONS

The following summarizes the findings that resulted from this limited examination of the Town of Cotton Valley. The Findings and Recommendations section of this report provides details for these findings. The mayor's response is included in Attachment I.

1. There was little control over water and sewer receipts. Town records, which were available, indicated that revenues received from utility operations, totaling \$23,515, were not deposited. In addition, customer water meter and sewer deposit records indicated that \$940 was not deposited. (See page 5.)
2. The utility accounts receivable balance in the general ledger was not reconciled, monthly, with the detailed accounts receivable trial balance listing. In addition, the water and sewer deposit bank account balances and the customer deposit liability account balances in the general ledger were not reconciled, monthly, with the detailed listing of customers' deposits. (See page 8.)
3. Financial statements were not presented to the board monthly. (See page 9.)
4. The town appears to have violated the Local Government Budget Act because the 2001 and 2002 General Fund budgets (1) did not include a budget message; (2) did not include the estimated fund balance at the beginning and end of year; and (3) was not accompanied by a proposed budget adoption instrument. (See page 9.)
5. The supply of traffic/misdemeanor ticket books was not adequately safeguarded, tickets issued to police officers were not reconciled with the issued citations returned by those officers, and there was little accounting for the final disposition of citations. In addition, the clerk collected fines, posted activity/transactions to the accounting records, and prepared the bank deposits, all without supervisory review of her work. (See page 10.)
6. The utility department computer system and data were not backed-up. (See page 10.)

LEGISLATIVE AUDITOR

TOWN OF COTTON VALLEY
Cotton Valley, Louisiana

FINDINGS AND RECOMMENDATIONS

Control Over Water and Sewer Receipts

There was little control over water and sewer receipts. Town records, which were available, indicated that revenues received from utility operations, totaling \$23,515, were not deposited. In addition, customer water meter and sewer deposit records indicated that \$940 was not deposited. Good internal controls require that proper checks and balances be incorporated in the record keeping procedures. The mayor is responsible for establishing, implementing, and monitoring internal controls to safeguard the town's funds/assets. Failure to maintain control over receipts increases the risk that town funds will be stolen or misappropriated. Also, a lack of segregation of duties could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with management's objectives.

Control over water and sewer receipts is extremely weak. The assistant clerk is responsible for all duties in the utility department and her work is not subject to supervisory review. Also, the mayor and the clerk have the same access to cash, as does the assistant clerk. The mayor, clerk, and assistant clerk all (1) collected utility payments; (2) accessed the cash drawers and payment drop box; (3) possessed town hall office keys; (4) had the combination to the safe/vault; (5) had access to town records; and (6) made bank deposits.

From January 1, 2001, through March 31, 2002 (fifteen-month period), town records, which were available, indicated that the town received payments from utility customers totaling \$209,947. However, the town's utility fund bank deposits totaled only \$186,432 during this period, a difference (shortage) of \$23,515. Also, during the fifteen-month time period, available water meter and sewer deposits records indicated \$2,760 was collected; however, bank deposits totaled only \$1,820, a difference (shortage) of \$940.

Mayor Chanler told us that he asked the assistant clerk (employed since March 1998) to resign on February 19, 2002, because she was not performing the daily utility payment postings or making the weekly deposits, and that on February 25, 2002, she was terminated.

The former assistant clerk informed us that she did not know of any money missing, but that there were many people who had their "hands" in the utility drawer. Also, she informed us that she made adjustments every month to utility customer account balances because of various computer problems, and that more often than not the mayor or the clerk told her what to do.

Mayor Chanler stated, "Too many people had access to cash and I couldn't find where it was going." He also told us the former assistant clerk did complain about the computer system; however, he was aware of only one problem they had with the computer. In addition, Mayor Chanler and the clerk informed us that the former assistant clerk came to them occasionally about customers complaining about their utility bills, but that they did not review any of her adjustments.

LEGISLATIVE AUDITOR

TOWN OF COTTON VALLEY

Cotton Valley, Louisiana

Findings and Recommendations (Continued)

We reviewed available town records and performed certain procedures but were unable to determine whether computer problems or the manner in which adjustments were recorded in the computer system were the cause of the receipt/collection records being different from amounts deposited into the bank. In addition, we were unable to determine whether the bank deposit differences/shortages were caused by theft, as Mayor Chanler, the clerk, and the former assistant clerk all had access to the funds and denied knowledge of the shortage.

As a result of our review, it appears that the town's current utility receipt records are in agreement with the bank deposits, and the town has not experienced further computer problems. However, since Utility Fund bank deposits have decreased each year since 1999, the board of aldermen should closely monitor utility finances.

The following control weaknesses were noted during our review:

1. The assistant clerk prepared the monthly utility bills, collected the utility payments, posted the customer payments in the town's accounting records, and prepared the bank deposits, all without supervisory review.
2. The cash drawers and the payment drop box cabinet door were not equipped with locks.
3. The combinations to the vault/safe were not adequately secured to prevent unauthorized access.
4. The cash drawer at the town hall was not balanced to an established cash balance.
5. We observed a board member receiving a customer's payment and accessing the cash drawer. In addition, we observed one of the town's "field" employees removing the contents from the payment drop box. Also, we were informed that the mayor and community service workers have assisted in utility fund collections.
6. The utility payments are not deposited timely. During 2001, bank deposits ranged from twice per month to six times per month.
7. The customer water meter and sewer deposits were not deposited timely. During 2001, only three bank deposits were made.
8. The town did not have written procedures/policies relating to the various utility department duties/functions.
9. The computer posting entries, for utility payments received, were not reconciled to the cash and checks listed on bank deposit slips.
10. The customer payment stubs/cards did not indicate the initials of the person that accepted the payment. In addition, the payment stubs did not always indicate the customer's method of payment (cash, check, or money order).
11. Customer payment stubs/cards were missing from town deposit records. During 2001, thirteen utility payment stubs/cards relating to the town's two largest customers, totaling \$10,993, were missing.

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TOWN OF COTTON VALLEY

Cotton Valley, Louisiana

Findings and Recommendations (Continued)

12. The water and sewer deposit receipt records were not reconciled to the cash and checks listed on deposit slips. Also, the receipt records did not evidence the method of payment (cash, check, etc.). In addition, the pre-numbered receipt books were not used/completed in chronological order.
13. Copies of bank deposit slips and related validated bank deposit receipts were not always maintained.
14. Adjustments, totaling approximately \$41,000, were made to utility customer's accounts with no documentation of mayor or board approval. Also, documentation evidencing the reason(s) for the adjustments was not available.
15. Delinquent "shut-off" fees collected were not accounted for and reconciled to amounts deposited.
16. Customer billing reports for three months were missing (January 31, 2001, April 27, 2001, and September 30, 2001).
17. The mayor and certain town employees were cashing checks out of the utility department cash drawer.
18. Two aldermen had keys to the town hall offices.

The town should:

- Require that the town clerk review and approve all work performed by the assistant clerk to mitigate the lack of segregation of duties.
- *Prohibit more than one employee from working out of the same cash drawer. The town should consider establishing separate cash drawers for employees that handle cash.*
- Install locks on the cash drawers and drop box and require that they be locked at all times. Also, the keys should be adequately secured.
- Secure the combination to the vault/safe under lock at all times.
- Establish a cash balance for the cash drawer. On a daily basis, balance the cash drawer to the established cash balance.
- Strictly prohibit board members, "field" employees, the mayor, and community service workers from collecting/receiving customer payments and from having access to cash drawers and the payment drop box.
- Deposit cash receipts daily if the receipts exceed \$200.
- Develop, adopt, and implement written policies and procedures that address all functions and duties of the utility department clerk.
- Reconcile the customer payments received and posted in the computer system to monies (cash, checks, etc.) deposited.

TOWN OF COTTON VALLEY

Cotton Valley, Louisiana

Findings and Recommendations (Continued)

- Require that, upon receipt, the employee initial the customer's payment stub/card. In addition, the town should require that the employee document the method of payment on all payment stubs.
- Maintain all payment stubs/cards and reconcile to payments posted in the computer system.
- Document the customer's method of payment (cash, check, etc.) on the water and sewer deposit receipt slips. Also, the receipt book entries should be reconciled to the cash and checks recorded on the deposit slip. In addition, the pre-numbered receipt books should be completed/used in chronological order.
- Keep all bank validated deposit receipts on file within the town's deposit records. Also, all deposit slips should be copied and filed in a secure fashion.
- Require that all adjustments to customer utility accounts be approved in advance by the mayor. Town records should include documentation of the mayor's approval as well as the reason(s) for the adjustments made to customer accounts.
- Record the "shut-off" fees collected in the computer system and reconcile to amounts deposited.
- Keep all utility billing reports on file and maintain them in an organized and secure manner.
- Strictly prohibit the cashing of checks from town funds.
- Prohibit aldermen from having keys to the town hall offices.

Control of Utility Accounts and Customers' Deposits

The utility accounts receivable balance in the general ledger was not reconciled, monthly, with the detailed accounts receivable trial balance listing. In addition, the water and sewer deposit bank account balances and the customer deposit liability account balances in the general ledger were not reconciled, monthly, with the detailed listing of customers' deposits.

The detailed accounts receivable trial balance listing was not reconciled monthly with the accounts receivable balance in the general ledger because the most recent general ledger prepared was for March 31, 2001 (over one year ago).

Because the general ledger was prepared only through March 31, 2001, the water and sewer deposit bank account balances and the customer deposit liability account balances in the general ledger were not reconciled monthly with the detailed listing of customers' deposits. In addition, at March 21, 2002, the detailed listing of customers' water and sewer deposits amount

TOWN OF COTTON VALLEY

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Findings and Recommendations (Continued)

to \$22,365, whereas the cash balances in the separate water and sewer deposit bank accounts total only \$12,271, a shortage of \$10,904.

The town should (1) reconcile the accounts receivable balances in the general ledger with the detailed accounts receivable trial balance on a monthly basis; and (2) reconcile the customer water and sewer deposit detailed listing to the related general ledger bank account balances and customer deposit liability on a monthly basis.

Financial Statements

Financial statements were not presented to the board monthly. Louisiana Revised Statute (R.S.) 33:425 requires the treasurer to keep accurate accounts of all receipts and disbursements and report the finances of the municipality in writing to the mayor and board of aldermen at each regular meeting.

The most recent town financial statement was for March 31, 2001 (over one year ago). The mayor informed us that he stopped paying the CPA firm to prepare the town's monthly financial statements because he wanted to use that money to give raises to employees. Had financial statements been made available to the board during the past year, it is likely that the differences/shortages in the Utility Fund would have been addressed and resolved much sooner (see finding "Control Over Water and Sewer Receipts").

The town should ensure that the clerk presents to the board monthly financial statements that report the operations of the town compared to the budgeted amounts.

Local Government Budget Act

The town appears to have violated the Local Government Budget Act because the 2001 and 2002 General Fund budgets (1) did not include a budget message; (2) did not include the estimated fund balance at the beginning and end of year; and (3) was not accompanied by a proposed budget adoption instrument. R.S. 39:1305 requires the mayor to prepare and sign a budget message that includes, among other things, a summary description of the proposed financial plan. Also required is a budget adoption instrument that specifies the mayor's authority to make changes within various budget classifications without approval of the board of aldermen, as well as those powers reserved solely to the board of aldermen. In addition, the budget is required to reflect estimated beginning and ending fund balances.

In the future, the mayor should prepare the town's budget in accordance with state law.

TOWN OF COTTON VALLEY

Cotton Valley, Louisiana

Findings and Recommendations (Continued)

Control Over Traffic/Misdemeanor Tickets

The supply of traffic/misdemeanor ticket books was not adequately safeguarded, tickets issued to police officers were not reconciled with the issued citations returned by those officers, and there was little accounting for the final disposition of citations. In addition, the clerk collected fines, posted activity/transactions to the accounting records, and prepared the bank deposits, all without supervisory review of her work. Good controls over ticket books require that the supply of ticket books be locked and that ticket books be issued only when police officers return those tickets as issued citations. In addition, good controls require that the records be maintained that account for all issued citations and their final disposition. Also, proper internal controls require that appropriate checks and balances be incorporated in the record keeping procedures.

Unused ticket books were kept in an opened box on the floor in the police department. The police chief informed us that the police officers obtain new ticket books as needed, and that there were no records maintained to account for their issuance and receipt. Periodically, the mayor picks up the issued citations from the police department and gives them to the clerk who collects the fines, posts activity/transactions to the accounting records, and prepares the bank deposits, all without supervisory review of her work.

The town maintains a file of unpaid citations in numerical order; however, there were no records maintained that account for the numerical sequence of paid citations. Therefore, we could not determine whether citations were issued or tickets were lost or voided.

The police department should transfer the ticket books to the town hall for proper accounting control. The town should (1) store ticket books in a locked cabinet; (2) maintain a record of ticket books issued to police officers that provides the date of receipt, ticket numbers received, and the police officer's signature of receipt; (3) issue a police officer a ticket book only after the previously issued book has been accounted for and all issued citations have been received from the police officer; (4) account for the numerical sequence of all citations and the final disposition of those citations monthly; and (5) require that the clerk's work be reviewed.

Computer Backup Is Not Performed

The utility department computer system and data were not backed up. Financial data/records relating to the town's utility (water and sewer) operations should be properly safeguarded. If not, in the event of a disaster (e.g., fire, flood, et cetera), these financial records could be destroyed and not be readily reconstructed/replaced.

Upon our visit, the town clerk informed us that the utility department computer system and data had not been backed up since the system was installed in January 2000 (over 2 years ago).

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TOWN OF COTTON VALLEY

Cotton Valley, Louisiana

Findings and Recommendations (Concluded)

The town clerk or the assistant clerk should (1) perform the daily computer system backup twice so that one disk can be taken home (off-site) each day and (2) rotate daily the use of diskettes to provide for the maintenance of financial information for a certain period of time. In addition, the town should formulate and implement a backup and recovery plan to reduce the risk that the town may not be able to continue operations of its computer system in the event of a disaster.

Attachment I

Mayor's Response

KEITH CHANLER
Mayor

LYNN HICKS
Town Clerk
Tax Collector

Town Hall: (318) 832-4272
Mayor's Office: (318) 832-4283

TOWN OF COTTON VALLEY
OFFICE OF THE MAYOR
P.O. BOX 415
COTTON VALLEY, LA 71018-0415

CHUCK RIST
Chief of Police

ALDERMEN
Charlene Lewis
Lynn "Bubba" Guillot
J.T. Lash
Robert Coleman
Chris Ridge

July 8, 2002

Office of Legislative Auditor
State of Louisiana
1600 North Third St.
Post Office Box 94397
Baton Rouge, LA. 70804-9397
ATTN: MR. DANIEL G. KYLE, CPA,CFE

Dear Mr. Kyle,

I appreciate your office trying to find the money we thought was missing from our town. Mr. Eric Sloan spent several long and hard hours helping us to prevent this problem from happening again. Mr. Sloan was very thorough and every recommendation to the town will be adopted.

The former assistant clerk was terminated, in part, for not following orders to make timely deposits and daily posting of paid bills.

We are now having all of our accounts reconciled by an outside accounting firm and will continue to do so as long as I am Mayor. We will also have a yearly audit.

Even though we were presenting a Financial Statement to the Board monthly, it was not as in depth as it should have been.

The ticket books have been locked-up and are being signed for. I disagree with the statement that the assistant clerk was not supervised on her work. The memo I sent out for traffic citations states how the citations and payments are to be handled. I also keep a "perfect record" of all citations as required of the Mayor. I also keep my own court dockets. Neither of these were asked for during the examination. My records are more complete than the example given to me by your office. I will combine the two, as stated, to Mr. Sloan at closing.

Sincerely,


Keith Chanler, Mayor

KC/lh