

2183

RECEIVED  
LEGISLATIVE AUDIT  
04 SEP -8 AM 11:18

**CITY OF LAKE CHARLES  
PUBLIC WORKS INVESTIGATION REPORT  
FOR THE PERIOD  
OCTOBER 1, 2002 THROUGH MARCH 31, 2004**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9-15-04

# McELROY, QUIRK & BURCH

A Professional Corporation • Certified Public Accountants • Since 1925  
800 Kirby Street • P.O. Box 3070 • Lake Charles, LA 70602-3070  
337 433-1063 • Fax 337 436-6618 • Web page: www.mqb-cpa.com

Carl W. Comeaux, CPA  
Barbara Husson Gonzales, CPA  
Martin L. Chehotsky, CPA, CFE  
Robert M. Gani, CPA, MT  
Mollie C. Broussard, CPA



Billy D. Fisher, CPA  
Jason L. Guillory, CPA  
Greg P. Naquin, CPA, CFP™  
Joe G. Peshoff II, CPA, CVA

Charles P. Quirk, CPA, Retired  
Otray J. Woods Jr., CPA, Inactive  
Robert F. Cargile, CPA, Inactive  
William A. Mancuso, CPA, Retired  
Judson J. McCann Jr., CPA, Retired

CFE - Certified Fraud Examiner  
MT - Masters of Taxation  
CVA - Certified Valuation Analyst  
CFP - Certified Financial Planner

R:\05001-06200\05005-0\2004\Financial Statements\public works report.wpd

Mr. Billy E. Loftin, Jr.  
Attorney for the City of  
Lake Charles, Louisiana  
1800 Ryan Street Suite 101  
Lake Charles, LA 70601

Mr. John Cardone  
City Administrator  
Director of Operations  
PO Box 900  
Lake Charles, LA 70602-0900

We were engaged to perform an investigation concerning certain possible irregularities relating to work orders and inventory within the Public Works Department.

## BACKGROUND INFORMATION

Certain information came to the attention of city management relating to sales of garbage cans and collection of cash for such sales by the Solid Waste Department during the first quarter of 2004. Additionally, the *Lake Charles American Press* ran a series of articles concerning alleged abuses at the Public Works Department during the first quarter of 2004.

It should be noted that there was a parallel investigation conducted by the Calcasieu parish Sheriff's Office at the request of the City concerning theft of cash in excess of \$500 in which an employee within the Solid Waste Department was arrested. It is our understanding that prosecution of this case is on-going as of the date of our report.

## **OBJECTIVES**

The objectives of our investigation were to:

- I. Investigate whether there was evidence of possible fraud in the vehicle maintenance division as set forth in the allegations contained in the article that appeared in the *Lake Charles American Press* on April 1, 2004.
  1. Determine that vehicle repair charges are properly supported by documentation.
  2. Determine the amount, if any, of unreasonable or unsupported expenditures.
- II. Evaluate existing internal controls regarding inventory and work order processing within the Public Works Department.

## **SCOPE OF THE INVESTIGATION**

The scope of our initial investigation was limited at your request to the following period of October 1, 2002 through March 31, 2004

## **SUMMARY OF PROCEDURES PERFORMED**

1. Interview selected public works personnel
2. Obtain an understanding of internal controls within the department
3. Evaluate the system to determine potential weaknesses
4. Prepare recommendations for improvement
5. Determine if work orders and other forms are numerically accounted for

6. Select a sample of work orders and review supporting documentation for reasonableness of charges
7. Reconcile work orders to monthly parts usage reports on a sample basis
8. Select entries in monthly parts usage report and trace to completed work orders on a sample basis
9. Prepare report containing findings, recommendations and management responses

## **SUMMARY OF RESULTS**

During the course of our investigation the following personnel were interviewed:

Gene Mevis	Public Works Director
Kevin Hagerich	Management Specialist
Hilbert DeJean	Technical Supervisor
Angie Van Pelt	Parts Coordinator
Tory Carter	Buyer III
Danna Bertram	Administrative Clerk II
John LeDoux	Mechanic III - Wastewater (formerly dispatcher at Vehicle Maintenance Department)

Based on the interviews conducted and review of selected documents, computer records and observations of physical inventory and equipment, the following is noted:

### **I. INVESTIGATION OF VEHICLE MAINTENANCE:**

1. We determined that work orders for vehicle repairs appear to be numerically accounted for and reviewed. We did note that safety equipment issues are not numerically accounted for in the same manner as the vehicle work orders.
2. We determined that vehicle repair charges were properly supported in the sample of work orders selected.

3. We determined, in general, based on the sample of documents selected and reviewed that expenditures were supported by documentation. We did note that internal controls can be improved in several areas which will be discussed below.
4. We reconciled work orders, on a test basis, to the monthly parts usage reports.
5. We traced entries, on a test basis, in the monthly parts usage reports to completed work orders.
6. We reviewed work orders 14979 and 15477 for unit number 504-123, which showed three (3) tires installed and four (4) tires installed respectively on November 5, 2002 and December 14, 2002. Based on our review, only work order 15477 shows four (4) tires removed from inventory and installed. The public works records reviewed do not show that tires were removed from inventory or installed for work order 14979.

## II. INTERNAL CONTROL PROCEDURES:

Management also requested that we review the existing internal control procedures in an effort to identify areas to improve the system and opportunities for efficiencies. These findings, recommendations and management responses are detailed below:

### 1. Findings

- A. We found through a test of work orders that there appears to be adequate documentation in place to track work performed in the maintenance garage.
- B. We found that work orders are generally accounted for numerically but the review process of pending work orders needs to be improved.
- C. We found that issuance of safety equipment such as goggles, gloves, rags, etc. do not follow the same process as regular work orders.

- D. We found during our reconciliation process of a sample of the vehicle parts usage reports to actual completed work orders that parts used agree with parts usage reports.
  
- E. We found during our review of a sample of work order histories of selected units that similar work was done on a frequent basis to certain units. Typically, these types of charges were for brake pads, rotors, batteries, garbage truck paddles and street sweeper brushes.

**Recommendations**

- A. We noted that charges to the usage report appear to be substantiated by completed work orders. Individual work orders tested also appear to be reasonable based on the work performed. However, in reviewing work order histories, we noted on certain units that similar work was done on very frequent intervals. Typically, these types of charges were for brake pads, rotors, batteries, garbage truck paddles and street sweeper brushes. We inquired with the public works staff and the explanation given was that many of such vehicles such as police cars are heavily used. Another possibility may be that current staff may need additional training in diagnosing problems.
  
- B. We recommend that the city consider hiring a qualified existing or new employee to become a diagnostic technician. It would be beneficial to invest in properly diagnosing repair issues, rather than continuing to incur the costs of unnecessary parts charges.

**Management response**

Management is currently in the process of interviewing qualified applicants for Service Writer. One of the responsibilities of this employee will be to diagnose mechanical problems.

**2. Findings**

- A. We found that the City maintains and utilizes a preventive maintenance system for public works vehicles and equipment and most other department vehicles and equipment. We recommend that the City consider adopting the preventive maintenance system for all departments.

- B. We found that when items are missing, broken or believed stolen, a theft or loss of use report is required to be prepared. That report is submitted to public works management.

**Recommendations**

We recommend that the city-wide preventive maintenance program be evaluated to determine its overall effectiveness. Specifically, the following issues should be addressed:

- A. All preventive maintenance procedures should be customized to fit the particular piece of equipment.
- B. Monitor compliance with established time lines for performance of preventive maintenance procedures.
- C. Review reports from the system and follow up on delinquent participants.
- D. Safety items should be addressed, such as vehicle cleaning or damage.
- E. If damage is noted, an accident or incident report should be prepared and reported to Risk Management, Finance Department and Public Works Management.
- F. Theft or loss of use reports should be submitted to the Risk Management, Finance Department, as well as, Public Works Management.

**Management response**

New work order procedures will address these items:

- A. Reviewing preventive maintenance procedures to insure they are customized to fit the particular piece of equipment.
- B. Reviewing established time lines for performance of preventive maintenance.

- C. Insuring reports are being reviewed and insuring that inspections are being conducted.
- D. Vehicles are being inspected for cleaning and any damage during service and when departing public works yard.
- E. Damage to vehicles is noted on inspection form and reported as needed.

### 3. Findings

We found that inventory control procedures are in place with respect to the public works general inventory. However, controls need to be improved in off-site inventory areas, specifically the tire inventory.

The department's tire inventory is held in a separate location from the general parts inventory. As a result, the inventory tracking system is dependent on information being communicated between locations in order for accurate inventory information to be recorded.

### Recommendations

We recommend that a verification by inventory control personnel be obtained and attached to work orders for all tire related work orders. Additionally, it is recommended that in order for new tires to be issued, the old tires should be turned in and the work order be approved and verified by the appropriate supervisor.

### Management response

Tire changes are being noted on the work order by stamping the work order identifying the size, type and amount of tires installed. Prior to work order completion, the Supervisor or Service Writer verifies installation of new tires and the discard of used tires.



**4. Finding**

We found that controls over access to the general parts inventory could be enhanced. It is important to ensure control access be limited to specific authorized individuals for after-hours shifts and certain other inventory areas, specially tire and garbage can parts.

**Recommendation**

The inventory room staff works until 4:30 PM, but after that time there are certain individuals who have access to the inventory room. The city should determine the necessity of this access and compare it with the vulnerability to theft caused by access.

**Management response**

Only authorized personnel have keys to inventory room. Duplication of keys is prohibited. City will consider rescheduling of parts room personnel allowing the parts room to remain open until 7:00 pm.

**5. Findings**

- A. We found that physical inventories for parts are taken on an annual basis.
- B. We found certain items such as trash cans are not included in the annual physical inventory performed by the finance department.

**Recommendations**

We recommend that all parts inventories be conducted on a more timely periodic basis. Additionally, management should assess which items are required to be inventoried. We noted that trash cans are currently being inventoried by the Public Works Department but not recorded as inventory in the accounting records. It is highly recommended that such items be recorded as inventory in the accounting records.

**Management response**

Items are inventoried by the Finance Department annually. Public works management will start a quarterly inventory by each division.

- A. Trash cans are inventoried by Public works. Public works will submit copies of work orders to the Accounting Department each month to identify cans disbursed.
- B. Trash cans are assigned to properties by serial numbers and entered into computer. Weekly inventories are being conducted of cans on hand by the superintendent of the Solid Waste Division.

**6. Finding**

We found that work orders are generally accounted for numerically but the review process of pending work orders needs to be improved.

**Recommendation**

We found that generally work orders are accounted for, however, we believe internal control can be improved by comparing on a timely basis completed work orders to the computer records. All outstanding work orders should be evaluated to determine their status on a monthly basis. We recommend that all issues continue to be documented on a numerically accounted for work order.

**Management response**

A new work order system is being developed that will include the above mentioned procedures. This work order system will also allow management to monitor and track all work orders on a daily basis.

**7. Findings**

We found that generally access is limited to authorized personnel in inventory and other public works areas.

**Recommendations**

It is recommended that an inventory of all keys to all maintenance facilities be conducted. Management should consider which employees require keys and evaluate whether all keys are accounted for. Additionally, if a determination is made that there are too many unauthorized keys, management may want to consider changing locks on the facilities.

**Management response** - An evaluation of those employees responsible for keys is being conducted. Authorized personnel will be required to sign a statement that they are responsible for keys and that they shall not be duplicated or given out to any other personnel. Locks to these facilities are changed periodically as needed.

**8. Findings**

We found that there are three entrances/exits to the main public works facility but that there is only one guard stationed at the front entrance.

**Recommendations**

We did not find formal procedures in place to determine which vehicles or personnel are inspected and whether daily reports are issued to management indicating the results of the inspection process. Additionally, we noted that there is a back entrance to public works by the incinerator and that this exit is not manned by a guard. Also, there is a walk-thru entrance to the public works parking lot that is not manned. We recommend that management evaluate the need to monitor all entrances/exits to the main Public Work facility.

**Management response**

The guard at the gate has been issued inspection forms to inspect vehicles leaving the yard and is assigned to inspect vehicles randomly as they leave the yard. Inspection forms are turned into the Public Works Director daily. The back gate has been locked and is no longer in use. The personnel gate at the parking area is randomly checked as personnel are available to man the facility.

**9. Findings**

We found that cash collections were being accepted at the Public Works Department for trash can sales. Additionally, we found that there was ineffective accounting of receipts issued for such sales within the Public Works Department.

**Recommendations**

- A. It is recommended that cash not be accepted at the public works facility for trash can sales. As an alternative, it is recommended that any collections be made at City Hall through the cashier's office. The cashier would distribute a copy of the receipt to the customer and one copy would be sent to public works authorizing the release of the item or scheduling deliveries. It may be necessary to modify or develop a new form to accumulate all data necessary.
  
- B. Our review also indicated that receipts need to be numerically accounted for by the Solid Waste Department. Our review indicated that many receipt numbers were not accounted for.

**Management response**

Effective May 17, 2004, all money collected from the sale of trash cans is handled by the business office at City Hall. Receipts are faxed to the Public Works Department for delivery of the cans.

**10. Findings**

We found that cash and checks are collected at the Public Works Incinerator Department.

**Recommendations**

It is recommended that controls be improved to insure that all receipts, specifically cash are accounted for and turned in timely to the cashier's office at City Hall.

**Management response**

The personnel at the incinerator currently issue receipts to all customers. Each receipt is numbered and a copy is given to each customer. Money and receipts are turned in weekly to the administration office at Public Works and submitted to accounting. A sign has been installed at the facility to advise customers and City personnel to request receipts.

**11. Findings**

We found that specialized parts for vehicles and other equipment are stored in the general inventory area.

**Recommendations**

Because these parts are applicable to only specific vehicles and equipment, it is recommended that when specialized vehicles or equipment are sold, all related parts should be included in the bid package so as not to increase obsolete inventory levels.

**Management response**

All related parts will be included when vehicles are scheduled to be sold. Currently, the obsolete inventory is bid out by the Purchasing Department. The Public Works Management will monitor and audit obsolete inventory.

**12. Findings**

We found that the majority of equipment is identified with unique identification numbers; however, we did note that certain pieces of equipment are grouped collectively without specific identification.

**Recommendations**

Our review indicated that small equipment such as lawnmowers and weed eaters are used by various grounds crews on a regular basis. However, there does not appear to be an appropriate check-out and check-in of such equipment on a per project basis. Management may want to develop a tracking system to insure that all equipment used on recurring projects is timely returned to inventory.

**Management response**

All small equipment is assigned to crews by the Division Superintendent as needed to accomplish the tasks of that crew. Each Division Superintendent issues these items to the crew foreman who signs for the items. Crew foremen are held responsible for inventory and maintenance of the equipment assigned to their crew. Management is reviewing this process for other Divisions to determine if additional procedures are warranted.

**13. Findings**

We found various vehicles and equipment that were not in operation are being stored at the Public Works Department.

**Recommendations**

It is recommended that a complete inventory of all City rolling stock, i.e., vehicles, etc., be conducted to insure that all items are accounted for and that the preventive maintenance procedures are being performed and are up to date.

**Management response**

All rolling stock (vehicles) are inventoried by the Finance Department and are assigned specific identification numbers. Each division in Public Works also has an inventory of equipment assigned to them. Preventive maintenance procedures on Public Works vehicles are currently in place. Management is reviewing maintenance procedures for other departmental vehicles and equipment.

**14. Findings**

We found during our review of work order histories of selected units that similar work was done on a frequent basis to certain units. Typically, these types of charges were for brake pads, rotors, batteries, garbage truck paddles and street sweeper brushes.

**Recommendations**

It is recommended that both department/division supervisors throughout the city and accounting department personnel review the work order usage report on a timely basis and investigate any unusual variances.

**Management response**

This is and has been a practice in Public Works. Management will review this practice to ensure this procedure is still being followed in all departments and divisions.

**15. Findings**

We found that cash is collected at other off-site city facilities, including Public Works.

**Recommendations**

It is recommended that the accounting department review deposits from all off-site locations on a monthly basis to insure that all off-site locations are making timely deposits with the Cashier. It may be necessary to identify all off-site locations to insure that appropriate monitoring will occur.

**Management response**

Petty cash and other deposits/receipts are turned over to Finance monthly/weekly. The Accounting Division will perform random audits of all City deposits and implement online cash receipting where feasible.

**16. Findings**

We found controls over tools and consumable supplies need to be improved.

**Recommendations**

It is recommended that tools and supplies be more closely controlled. Management should consider developing a supply usage charge for each vehicle repaired. Such charges would cover the cost of rags, grease, etc. used on vehicles. A check in/out process should be developed for tools in order to better account for such items. Additionally, any missing tools should be reported on a theft/loss report and submitted to management.

**Management response**

Oil is supplied to the Service Center by a controlling device within the parts room and is charged to the vehicle as used. The schedule is monitored by the Fuel Man system to ensure each vehicle is serviced on schedule. The parts room will check in/out all tools used to ensure that they are returned in proper working condition.

**17. Findings**

We found that Public Works and other departments use, in some cases, blanket purchase orders for various supplies.

**Recommendations**

Finance/Purchasing should consider evaluating all blanket purchase orders used by the city departments for various vendors and report to city administrators their recommendations and findings. While our review did not indicate noncompliance with public bid law, it is important to realize that all purchases under this method should be evaluated to determine that purchases are in compliance with public bid law.

**Management response**

Management will request the Finance/Purchasing Department to reevaluate the existing procedures to see if any changes are necessary.



**18. Findings**

- A. We found that the Public Works Department, as well as, other city departments were using the "Fuel Man" system to control fuel and lubricant charges to city vehicles.
- B. We found that there are many features of the "Fuel Man" system that the city does not utilize.
- C. We found that the "Fuel Man" reporting system is not being evaluated for inconsistencies on a timely basis by some departments within the City.

**Recommendations**

We recommend that procedures be developed to insure that all department supervisors within the city responsible for reviewing "Fuel Man" reports are adequately trained to analyze the weekly reports. Our review indicated many anomalies in the odometer reading and miles per gallon calculations. The "Fuel Man" system contains a myriad of useful reports which are not being utilized. It is recommended that all reports be reviewed carefully and any variances should be investigated.

**Management response**

Public Works has and will continue to review the Fuel Man report as required. Public Works also receives an additional report to monitor which vehicles are being serviced and the date of last service. City management will instruct the Human Resource Department and Purchasing to further evaluate the capability of the Fuel Man system and will have Fuel Man representatives train supervisors in all departments on monitoring and evaluating Fuel Man reports and other options offered.

**19. Findings**

We found that currently the Public Works Department does not utilize video surveillance equipment.

**Recommendations**

Management may wish to consider installing video surveillance in the following areas:

- A. Main maintenance facility
- B. Tire inventory building
- C. General parts inventory area
- D. Front entrance
- E. Rear entrance
- F. Walk-through front gate
- G. Fuel Man station at public works

Management should consult its legal counsel regarding notification procedures to employees and others that the premises are being videotaped.

**Management response**

Public Works has a security guard at the main gate during normal work hours. The rear gate is secure and the personnel gate is monitored randomly. The small equipment parts and supplies will be moved to a more secure area and issued as needed and signed for by division heads. The Public Works Department will evaluate the feasibility of installing video surveillance equipment.

**20. Findings**

We found that City management has not performed a cost analysis to determine the potential benefits of outsourcing certain aspects of the Public Works Department.

**Recommendations**

Management may wish to consider the cost/benefit of out-sourcing certain aspects of the Public Works Department to the private sector using a competitive bid process. Management would need to analyze the areas that may be feasible to out-source and develop specific specifications for services required.

**Management response**

City Management will evaluate and consider the cost/benefit of this recommendation.

**RESTRICTIONS**

The validity of this report is predicated on the extent to which full, honest and complete disclosures was made to all parties.

This report is intended solely for the information and use of the management of the City of Lake Charles, Louisiana and the Louisiana Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, the report is distributed by the Legislative Auditor as a public document.

*Mc Elroy, Quirk & Birch*

Lake Charles, Louisiana  
June 18, 2004