

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Village of Hodge
Hodge, Louisiana

June 14, 2000



Investigative Audit

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

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Village of Hodge

June 14, 2000



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

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

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

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

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

June 14, 2000

THE HONORABLE QUENTON CAUSEY, MAYOR,
AND MEMBERS OF THE BOARD OF ALDERMEN
Hodge, Louisiana

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

This report presents our finding and recommendation, as well as your response. Copies of this report have been delivered to the Honorable Walter E. May, Jr., District Attorney for the Second Judicial District of Louisiana; the United States Attorney for the Western District of Louisiana; and others as required by state law.

Respectfully submitted,

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

Daniel G. Kyle, CPA, CFE
Legislative Auditor

GFC:DGP:AFB:dl

[HODGE]

Executive Summary

Investigative Audit Report Village of Hodge

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

Former Village Clerk Took Public Funds for Her Personal Use

(Page 5)

Finding:

Ms. Theresa McMillan, former Clerk for the Village of Hodge, admitted that she took cash from Village collections for her personal use and then used subsequent collections and falsified accounting records to conceal her actions. Village records for the period July 1997 through January 2000, indicate that \$156,716 was collected but not deposited.

Recommendation:

The lack of separation of accounting functions and adequate accounting controls allowed Ms. McMillan to take cash from the Village's collections without detection. We recommend that the Village review its accounting procedures and internal controls and establish and implement such controls that will reduce the likelihood of irregularities occurring in the future without timely detection. These policies and procedures should, at a minimum, ensure that (1) amounts billed are collected; (2) collections are deposited intact and in a timely manner; (3) revenues are properly recorded; (4) deposits are reconciled to collections; and (5) bank statements are reconciled and reviewed periodically by an appropriate supervisor.

In addition, we recommend that the District Attorney for the Second Judicial District of Louisiana and the United States Attorney for the Western District of Louisiana review this information and take appropriate action, to include seeking restitution.

Management's Response: We agree with the finding and understand that allowing our receipts and disbursements to be handled by one individual did not provide for an adequate internal control system. We have established an additional office position to aid in our internal control structure. We have also implemented new procedures requiring receipts to be recorded on an in-house computer and deposited daily. The Village has also selected a computerized software package for our utility billing process. This package should ensure that amounts billed are both collected and deposited intact within a timely basis. In addition, the mayor has started to supervise the day to day operations of the Village more closely. Finally, we have discussed with our auditors the possibility of having surprise cash counts performed during our fiscal year.

Background and Methodology

The Village of Hodge is located in Jackson Parish and was incorporated under the provisions of the Lawrason Act. The Village operates under the Mayor/Board of Alderman form of government. The board is comprised of three members. The Village of Hodge has a population of approximately 562 residents.

The Legislative Auditor received information from the Village police department stating that former town clerk, Ms. Theresa McMillan, admitted taking public funds for her personal use. This investigative audit was performed to determine the amount of public funds missing from the Village.

The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of the Village; (2) interviewing other persons as appropriate; (3) examining selected documents and records of the Village; (4) making inquiries and performing tests to the extent we considered necessary to achieve our purpose; and (5) reviewing applicable state and federal laws.

The result of our investigation is the finding and recommendation herein.

Finding and Recommendation

FORMER VILLAGE CLERK TOOK PUBLIC FUNDS FOR HER PERSONAL USE

Ms. Theresa McMillan, former Clerk for the Village of Hodge, admitted that she took cash from Village collections for her personal use and then used subsequent collections and falsified accounting records to conceal her actions. Village records for the period July 1997 through January 2000, indicate that \$156,716 was collected but not deposited.

The Village collects revenues from various sources including utility services, taxes, fines, and fees. Utility revenues are generated through village owned facilities that provide residents with water, sewerage, electric, and sanitation services. These facilities are managed and operated by the Hodge Utility Operating Company (HUOC). In addition, the Village collects revenue for sales and property taxes, fines, licenses, and services performed for HUOC. Sales taxes, which are received from the Jackson Parish Collection Agency and revenues for services performed for HUOC, are always received by check. All other collections are received by both cash and check.

Typically, in a government accounting environment, revenues collected are recorded into funds according to their function and/or source. For example, utility revenues are recorded in a utility fund and property taxes are recorded in the general fund. The Village uses a similar accounting system that includes a general fund, sales tax fund, water/sewerage fund, electricity fund, and other funds for various revenue generating activities.

Until January 14, 2000, Ms. McMillan was responsible for collecting, recording, and depositing village revenues. During January 2000, Ms. McMillan admitted that, while serving as the village clerk, she collected cash revenues, kept a portion of the cash for herself, and substituted checks received by the Village in place of the cash. This was done in an effort to conceal the missing monies. According to Mr. Kenneth Folden, a certified public accountant contracted to perform the Village's annual financial audit, Ms. McMillan informed him that she took approximately \$130,000 from the village.

Village records support that Ms. McMillan was substituting checks from one source for cash received from another source. In addition, Village records reveal that Ms. McMillan did not properly record nor deposit all of the money collected. For example, from July 1, 1997, through January 14, 2000, the Jackson Parish Collection Agency sent checks totaling \$900,017 to the Village. However, Ms. McMillan recorded sales tax revenues of only \$798,349--a difference of \$101,668. Likewise, during this period, HUOC sent checks totaling \$93,298 to the Village and Ms. McMillan recorded only \$37,466 of these revenues; \$55,832 was not recorded. Though in both instances, all of the checks were actually deposited into Village accounts, they were deposited into other funds to cover for cash that was not deposited.

Examples of specific checks substituted for other collections that were not deposited are as follows:

On July 31, 1998, the parish collection agency issued check #1419 for \$33,833 for the Village's portion of sales tax collections. This check should have been deposited and recorded into the Village sales tax fund. However, for deposit purposes, this check was added to other checks and cash totaling \$173 for a total deposit of \$34,006. Instead of being deposited into the sales tax fund, \$5,300 was deposited into the general fund and \$28,706 was deposited into the electricity fund.

On September 30, 1998, the parish collection agency issued check #1441 for \$33,144. This check, along with other checks and cash totaling \$1,489, was deposited on October 16, 1998, for a total deposit of \$34,633. This deposit was split; \$33,833 (amount of check #1419) was deposited to the sales tax account and \$800 was deposited into the water/sewerage fund.

As can be seen in the above examples, Ms. McMillan substituted the July sales tax check to cover shortages in the general fund and electricity fund. She then substituted the September 1998 sales tax check to cover the July sales tax check. As a result of this practice, at any specific point in time, total deposits would fall short of total collections. Village records for the period July 1997 to January 14, 2000, indicate that \$156,716 in revenues collected by the Village were not deposited as follows:

<u>Revenues</u>	<u>Recorded/ Deposited</u>	<u>Estimated Collections</u>	<u>Variance</u>
Taxes:			
Property	\$389,257	\$412,106	(\$22,850)
Franchise	3,662	3,300	362
Sales	798,349	900,017	(101,668)
Licenses/permits - occupational licenses	22,056	7,375	14,681
Intergovernmental:			
Fire insurance rebate	8,278	8,278	
Tobacco tax	5,318	4,700	618
Police supplemental pay	35,634	35,634	
Fees and charges - garbage	12,980	11,625	1,355
Fines and forfeitures	16,742	15,000	1,742
Service to HUOC	37,466	93,298	(55,832)
Utilities:			
Electricity	993,677	989,167	4,510
Water sales	22,249	23,250	(1,001)
Sewer sales	10,667	9,300	1,367
Total	<u>\$2,356,335</u>	<u>\$2,513,050</u>	<u>(\$156,716)</u>

(Note: This schedule is based on available Village records. Because the actual amounts collected for certain revenues are not known, this schedule is not intended to include all Village revenues for the period shown.)

Ms. McMillan informed us that she took cash from Village collections for her personal use. In addition, she agreed with the methodology by which we arrived at the amount missing from Village deposits (\$156,716). However, though she did not know the exact amount, she believed she took less cash than our calculations indicated. Ms. McMillan stated that, occasionally, she posted a resident's account as paid when in fact, the resident had not paid the amount due to the Village. Ms. McMillan offered that this practice might account for the difference in the amount missing per our calculations and the amount that she actually took for personal purposes.

By diverting cash collections for her personal use, substituting checks for cash taken, falsifying accounting records, and recording residents' accounts as paid when no payment was received, Ms. McMillan may have violated one or more of the following state and federal laws:

- R.S. 14:67, "Theft"
- R.S. 14:134, "Malfeasance in Office"
- 18 U.S.C § 1341, "Mail Fraud"

The lack of accounting controls, separation of accounting functions, and inadequate bookkeeping practices allowed Ms. McMillan to take cash from the Village's collections without detection in the normal course of business. We recommend that the Village review its accounting procedures and internal controls and establish and implement such controls that will reduce the likelihood of irregularities occurring in the future without timely detection. These policies and procedures should, at a minimum, ensure that (1) amounts billed are collected; (2) collections are deposited intact and in a timely manner; (3) revenues are properly recorded; (4) deposits are reconciled to collections; and (5) bank statements are reconciled and reviewed periodically by an appropriate supervisor.

In addition, we recommend that the District Attorney for the Second Judicial District of Louisiana and the United States Attorney for the Western District of Louisiana review this information and take appropriate action, to include seeking restitution.

Attachment I

Management's Response

TELEPHONE
(318) 259-4704

June 5, 2000

Dr. Daniel Kyle, Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397



RECEIVED
LEGISLATIVE AUDITOR

00 JUN - 8 AM 10:01
P. O. DRAWER 280
HODGE, LOUISIANA 71247

We are responding to the comment contained in your investigative audit report of the Village of Hodge, as of June 30, 1999. We agree with the finding and the following is our response concerning the action taken or planned to be taken to reduce the likelihood of irregularities occurring in the future.

In the past, our receipts and disbursements were handled by only one individual. We understand that this did not provide for an adequate internal control system. We established an additional office position to aid in our internal control structure; the additional office personnel has already been hired.

During the audit period, our accounting system was not maintained on a computer system. Currently, we are recording our daily receipts on an in-house computer and we have started depositing daily. These new procedures should aid in ensuring that revenues are properly recorded, deposits are reconciled to collections and bank statements.

Regarding our utility billing process, we have selected a computerize software package for utilities. We are currently in the process of having a computer programmer customize the package to fit our needs. This package should ensure that amounts billed are both collected and collections are deposited intact within a timely basis.

Subsequent to your audit, I have started supervising closer the day-to-day operations of our office. This includes both the receipts and disbursements for the Village of Hodge.

Additionally, we have discussed with our auditors, Kenneth D. Folden & Co., CPAs, the possibility of having surprise cash counts performed during our fiscal year. The auditors have agreed that this procedure could be performed and should help strengthen our accounting controls.

Should you have any additional questions, please contact me.

Sincerely,

Quenton Causey, Mayor

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Attachment II
Legal Provisions

Legal Provisions

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

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

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

18 U.S.C. §1341, "Mail Fraud" provides, in part, that mail fraud is having devised or intended to devise any scheme to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises for the purpose of executing such scheme or attempting so to do, places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Postal Service, or takes or received therefrom, any such matter or thing, or knowingly causes to be delivered by mail according to the direction thereon.

