

REBOWE & COMPANY

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CONSULTANTS

A PROFESSIONAL CORPORATION

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January 13, 2000

Honorable Nickie Monica
Parish President
St. John the Baptist Parish
1801 W. Airline Hwy.
LaPlace, LA 70068

Dear Mr. Monica:

Release Date 2-2-2000

This purpose of this letter is to describe the allegations, summarize the procedures performed, and communicate our findings regarding the alleged manipulation of payroll records by the St. John the Baptist Parish's Payroll Clerk employed in the Finance Department.

Introduction

The payroll tax return (form 941) for the quarter ended December 31, 1999 prepared by an Accountant in the Finance Department reflected a balance due, thus arousing suspicion by the Accounting Manager. Upon further review by Finance Department personnel, it was discovered that the underpayment was related to federal withholding taxes. The Quarterly Federal Withholding Report used to prepare the payroll tax return (form 941) indicated more federal taxes withheld as compared to the Current Earnings Report used to determine the actual payroll tax deposits. A similar discrepancy was also noted on the payroll tax return (form 941) for the quarter ended December 31, 1998.

Allegation

It is alleged that the Payroll Clerk (employee number 1272) manipulated payroll records for the years 1998 and 1999 to reflect federal income taxes being withheld (\$1,729.61 in 1998 and \$1,800.13 in 1999) that were never actually deducted from his gross wages. As a result of this manipulation of the payroll records, the Parish overpaid \$501.11 in federal withholding taxes for the quarter ended December 31, 1998.

Procedures Performed

Our procedures in this investigation included the following for both 1998 and 1999:

1. We reconciled the amounts as reported on the Quarterly Payroll Withholding Reports to the Annual Payroll Withholding Reports both in total and in detail for the amounts related to the Payroll Clerk.
2. We verified the information reported on the quarterly 941 payroll tax returns to the Quarterly Payroll Withholding Reports used to prepare the quarterly 941 returns and the Current Earnings Report used to make the payroll deposits.
3. We observed all payroll check registers which reflected the actual amounts of federal income taxes withheld for the Payroll Clerk and randomly selected cancelled payroll checks for the Payroll Clerk and agreed them to the check registers.
4. We obtained the Payroll Clerk's W-2 and W-4 Forms and compared them to the actual amounts of federal income tax withheld as shown on the payroll check registers.
5. We obtained the Employee Deduction/Benefit Maintenance List for any adjustments that were made to employees' payroll system files.

Findings

Based on the above procedures, we identified discrepancies in the federal withholding amounts reported on the quarterly and annual payroll reports. These differences were further identified to be related solely to the Payroll Clerk. Based on our observation of the *Employee Deduction/Benefit Maintenance List*, we noted adjustments made on the system files for the Payroll Clerk's federal withholdings in the amounts of \$1,729.61 (\$1,898.80 less \$169.19 actually withheld) and \$1,800.13 for 1998 and 1999, respectively. The maintenance report indicated that the 1999 adjustment was made on December 14, 1999 with the Payroll Clerk's name reported as the user ID. Whereas the 1999 report indicates a prior year adjustment was also made for his 1998 federal tax withholdings, a 1998 maintenance report could not be currently produced to determine the exact date of the adjustment and the user ID of the employee who made the adjustment. The maintenance report also indicates that the 1999 adjustment was spread over all four quarters of the calendar year. I have attached for your review a copy of the 1999 Employee Deduction/Benefit Maintenance List which indicates that the adjustments made to the 1999 payroll records were made by the Payroll Clerk.

We further observed randomly selected cancelled payroll checks for both 1998 and 1999 for the Payroll Clerk and agreed them to the check registers without exception. We also noted that the check registers reflected no federal income taxes being withheld during the year except for \$169.19 in the 1st quarter of 1998 and \$16.18 in the 4th quarter of 1999.

We then obtained the Payroll Clerk's 1998 and preliminary 1999 W-2 Forms which reported total federal taxes withheld in the amounts of \$1,898.80 and \$1,816.31, respectively. The most recent W-4 Form (November 1997) was obtained from the Payroll Clerk's personnel file which indicated that federal income taxes should be withheld.

Conclusion

As a result of the adjustments made in 1998 and 1999 to the federal withholding taxes for the Payroll Clerk as indicated on the 1999 maintenance report, there were excess federal withholding taxes reported on his W-2 Form in the amounts of \$1,729.61 and \$1,800.13, respectively. The maintenance report indicates that the adjustment was made in 1999 by the Payroll Clerk, which resulted in an incorrect 1999 W-2 Form. The maintenance report also indicates an adjustment was made in 1998, which led to an incorrect 1998 W-2 Form that could have been used by the Payroll Clerk to obtain a refund of federal income taxes which were not actually withheld from his wages. However, this matter would need to be pursued further by an enforcement agency authorized to perform such an investigation.

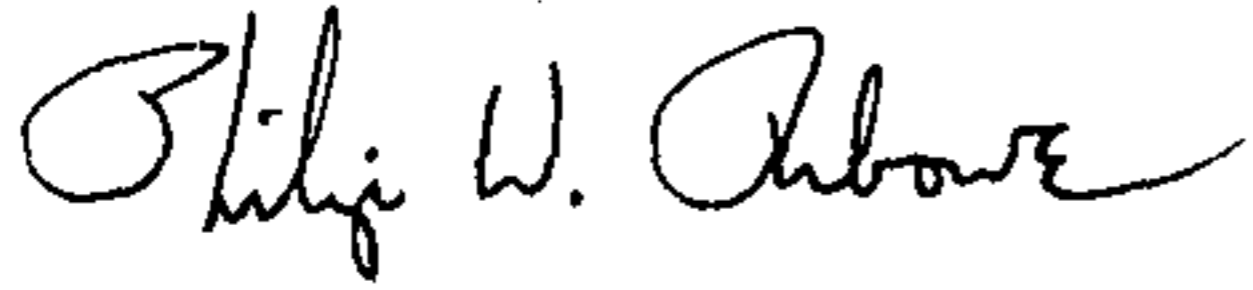
Also, for the quarter ended December 31, 1998, the Parish overpaid \$501.11 in federal withholding taxes related to that quarter's adjustment made to the federal withholdings for the Payroll Clerk. The Parish should file an amended 4th quarter 1998 (form 941) payroll tax return and request a refund of the amount overpaid. In 1999, the 4th quarter (form 941) payroll tax return also reflected a balance due in the amount of \$437.68 related to the maintenance adjustment; however, this payroll tax return has not yet been filed and should be corrected. In addition, the Payroll Clerk's 1998 Form W-2 should be corrected to reflect the actual federal income taxes withheld.

In accordance with Louisiana Revised Statute 24:513 as cited in the Louisiana Governmental Audit Guide (the Guide) published jointly by the Louisiana Legislative Auditor and the Society of Louisiana Certified Public Accountants, the Parish should immediately notify the Legislative Auditor in writing of this misappropriation. Further, in accordance with page 78 of the Guide, in addition to notifying the Louisiana Legislative Auditor, "...the appropriate enforcement agency, including the local district attorney and sheriff..." should also be notified. We recommend that the Parish Attorney be consulted in connection with the required notifications to the Legislative Auditor, District Attorney and Sheriff.

Once you have had the opportunity to review our report, we would be pleased to discuss any questions or concerns that you may have. Please call me at your earliest convenience.

It has been our pleasure serving you.

Sincerely,

A handwritten signature in cursive script that reads "Philip W. Rebowe". The signature is written in black ink and is positioned above the printed name.

Philip W. Rebowe, CPA, CFE, CFSA

Attachment

SYSTEM DATE 01/07/2000 EMPLOYEE DEDUCTION/BENEFIT MAINTENANCE LIST
 FILES ID A COMPLETE REPORT

TIME 10:05:18
 USER LELA

REC RECD D/B D/B D/B TIMES TIMES ACCRUAL/ LEAVE LEAV CALC G/L PROJ DESC REF ID TAX
 ID STAT DESCRPT CODE TYPE FREQ TO USE USED DED AMT ACCRUED VALUE CODE CODE DIST-DIST TYPE CODE

TABLE # 1 TABLE # 2 TABLE # 3
 *--- EXEMPTIONS *
 *--- CREDITS *

CHANGED TO...: 809 Pitre, Curt ON DATE.. 12/14/1999 AT TIME..... 10:08:22 BY USERID...: KEVIN
 01 AC Fed. Tax FIT D E 0 0 000 .00 I N N F 00 00
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CHANGED FROM.: 819 Toney, Edward A. ON DATE.. 12/14/1999 AT TIME..... 11:07:45 BY USERID...: KEVIN
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CHANGED TO...: 819 Toney, Edward A. ON DATE.. 12/14/1999 AT TIME..... 11:07:45 BY USERID...: KEVIN
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CHANGED FROM.: 1272 Prudhomme, Kevin ON DATE.. 12/14/1999 AT TIME..... 11:16:10 BY USERID...: KEVIN
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 99 00 00 00

PAID TO DATE TOTALS CURRENT M-T-D 1st QUARTER 2nd QUARTER 3rd QUARTER 4th QUARTER C-Y-T-D F-Y-T-D
 PREVIOUS YEAR TOTALS .00 .00* .00* .00* .00* 1898.80 1898.80

CHANGED TO...: 1272 Prudhomme, Kevin ON DATE.. 12/14/1999 AT TIME..... 11:16:10 BY USERID...: KEVIN
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PAID TO DATE TOTALS CURRENT M-T-D 1st QUARTER 2nd QUARTER 3rd QUARTER 4th QUARTER C-Y-T-D F-Y-T-D
 PREVIOUS YEAR TOTALS .00 .00 426.41* 474.57* 461.47* 437.68* 1800.13* 1898.80

CHANGED FROM.: 1272 Prudhomme, Kevin ON DATE.. 12/14/1999 AT TIME..... 11:18:03 BY USERID...: KEVIN
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 PREVIOUS YEAR TOTALS .00 .00 426.41 474.57 461.47 437.68 1800.13 1898.80

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