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STATE OF LOUISIANA LEGISLATIVE AUDITOR

Village of Natchez
Natchez, Louisiana

Financial Related Audit
Dated June 14, 1998



Policy and Quality Assurance Division

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



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VILLAGE OF MATCHEZ
Matchez, Louisiana

Financial Related Audit
Cated June 14, 1995

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

August 20, 1996

VILLAGE OF NATCHEZ
Natchez, Louisiana

Financial Related Audit and
Independent Auditor's Report
Dated June 14, 1999

CONTENTS

	Page
Independent Auditor's Report	2
Executive Summary	4
Background	5
Findings and Recommendations	8
	Attachment
Management's Responses	i
Legal Provisions	ii



GARRETT S. BYRD, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-4907

9000 ROBERTS FRANKLIN BLVD
POST OFFICE BOX 24207
TELEPHONE: (504) 389-2500
FACSIMILE: (504) 389-2870

June 14, 1995

Independent Auditor's Report

**HONORABLE FRANCIS C. THOMPSON, CHAIRMAN,
AND MEMBERS OF THE LEGISLATIVE AUDIT
ADVISORY COUNCIL**

Baton Rouge, Louisiana

We have performed a financial related audit of the Village of Matched for the period from July 1, 1995, through May 31, 1995. The objectives of our audit were to (1) determine the extent of corrective action taken by the village to address findings included in (a) the audit report on the village's Safety and Rehabilitation grant issued by the Louisiana Housing Finance Agency on November 27, 1995, and (b) the audit report on the village's June 30, 1995, financial statements issued by Eugene Frenessaux, CPA, on February 10, 1996; (2) review certain allegations of village officials relating to possible instances of noncompliance with laws and regulations or illegal acts; and (3) audit certain financial transactions of the village for possible irregularities, illegal acts, and other noncompliance.

Our audit was performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, applicable to a financial related audit. Our audit procedures, which are described in more detail in the methodology section of this report, consisted of (1) reviewing the two audit reports; (2) analytical procedures; (3) obtaining an understanding of applicable management controls; (4) reviewing applicable Louisiana Revised Statutes; (5) interviewing village officials; (6) and reviewing selected village records.

These limited procedures are substantially less in scope than an audit of the financial statements in accordance with government auditing standards, the purpose of which is to provide assurance on the entity's presented financial statements, assess the entity's internal control structure, and assess the entity's compliance with laws and regulations that could materially impact its financial statements. Had we performed such an audit or had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Based upon the application of the procedures referred to previously, the accompanying findings and recommendations represent those conditions that we feel warrant attention by the appropriate parties. Management's responses to the findings and recommendations presented in this report are included in Attachment I.

LEGISLATIVE AUDITOR

HONORABLE FRANCIS C. THOMPSON, CHAIRMAN,
AND MEMBERS OF THE LEGISLATIVE AUDIT
ADVISORY COUNCIL
Baton Rouge, Louisiana

By state law, this report is a public document. Copies of this report have been delivered to the Village of Natchez, the District Attorney of the Tenth Judicial District, the Commission on Ethics for Public Employees, the Internal Revenue Service, the Department of Public Safety and Corrections, Public Safety Services; and others as required by Louisiana Revised Statute 24:508.

Respectfully submitted,



Daniel G. Kyle, CPA, CFE
Legislative Auditor

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VILLAGE OF MATCHEZ
Matchez, Louisiana

EXECUTIVE SUMMARY

The following represents a summary of the findings that resulted from our financial related audit of the Village of Matchez dated June 14, 1995. Detailed information relating to the findings can be found in the findings and recommendations section of the report.

- The village failed to maintain adequate controls over the receipt and disbursement of grant funds.
- The village police chief has been charged with malfeasance in office.
- The village does not have adequate controls over receipts.
- There are inadequate controls in place to account for citations (tickets) issued for violations of ordinances and traffic laws.
- The village does not have adequate controls over disbursements.
- The village has not maintained proper accounting records.
- The village has failed to maintain records of fixed assets.
- Payments were made to immediate family of the village clerk in violation of the Code of Governmental Ethics.
- A bonus was paid to the village clerk in violation of Article 7, Section 14 of the Louisiana Constitution of 1974.
- The village did not comply with the Local Government Budget Act.
- The village did not file informational tax returns (Form 1099) for all individuals receiving compensation of \$600 or more.
- The village did not maintain records of adopted ordinances.
- The village did not submit required reports to the Department of Public Safety and Corrections.
- The village did not obtain surety bonds on individuals who handle village funds.

VILLAGE OF MATCHEE
Matchee, Louisiana

BACKGROUND

The Village of Matchee was incorporated by proclamation in 1973 under the provisions of the "Lawson Act" (Louisiana Revised Statutes (LSA-R.S.) 33:321, et seq.). The village operates under the Mayor-Board of Aldermen form of government consisting of the mayor and three aldermen. The Louisiana Revised Statutes give the village various powers in regulating and directing the affairs of the village and its inhabitants. The more notable of these are the power to make regulations for its own government, to regulate the construction and maintenance of roads and drainage and sewer systems, and to provide police protection.

The village has an elected mayor and police chief and two employees (village clerk and assistant police chief). The village provides police protection for the 533 village residents and provides sewerage service for 250 customers.

The Louisiana Housing Finance Agency (LHFA) issued an audit report dated November 27, 1989, on the village's LHFA Safety and Rehabilitation grant. The findings included in the LHFA audit report and the actions taken by the village are summarized in the findings and recommendations section of this report. (See finding - Safety and Rehabilitation Grant.)

In addition, Eugene Frenaux, Certified Public Accountant, issued an audit report dated February 10, 1990, on the financial statements of the Village of Matchee for the year ended June 30, 1989. The audit report contained numerous findings requiring corrective action by the village. The following findings included in the auditor's report have not been resolved by the village:

1. The village has not maintained a complete record of its general fixed assets.
2. The village has expended certain federal grant funds relating to a grant from the Louisiana Housing Finance Agency in a manner that may have violated certain of the restrictive provisions of the related grant agreement.
3. Journals of cash receipts and disbursements were not maintained.
4. Form 1099s were not completed and submitted to the Internal Revenue Service where required.
5. Checks were made out in cash, the mayor, of the paper was left blank.
6. The village paid a Christmas bonus to the village clerk in violation of Article 7, Section 54 of the 1974 Constitution.

VILLAGE OF NATCHEZ

Natchez, Louisiana

Background (Continued)

7. Supplies for repairs were purchased; however, there was no indication on the supporting documentation of where the supplies were used.
8. There is a deficit fund balance in the General Fund.
9. There is no documentation or cross-reference between cash receipts and a given bank deposit.

These unresolved findings and those findings resulting from our financial related audit are presented in the findings and recommendations section of this report.

OBJECTIVES

Our financial related audit of the Village of Natchez was conducted for the following purposes:

- To determine the extent of corrective action taken by the village to address findings included in (a) the audit report on the village's Safety and Rehabilitation grant issued by the LIIFA on November 27, 1995, and (b) the audit report on the village's June 30, 1995, financial statements issued by Eugene Fierroaux, CPA, on February 18, 1996.
- To review certain allegations of village officials relating to possible instances of noncompliance with laws and regulations or illegal acts.
- To audit certain financial transactions of the village for possible irregularities, illegal acts, and other noncompliance.

SCOPE AND METHODOLOGY

Our audit was performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States, applicable to a financial related audit (fieldwork) and reporting standards for performance audits.

The audit covered the 15-month period July 1, 1995, through May 31, 1996, except for the following findings, which are included in detail in the findings and recommendations section of this report:

- Lack of Controls Over Disbursements (Certain transactions were reviewed from July 1, 1995, through June 5, 1995.)
- Inadequate Control Over Citations (Tickets) (Certain transactions were reviewed from January 1, 1995, through May 31, 1996.)

VILLAGE OF NATCHEZ
Natchez, Louisiana
Background (Concluded)

The procedures performed to address the audit objectives consisted of the following:

- Reviewing the Louisiana Housing Finance Agency's audit report dated November 27, 1995, for the Safety and Rehabilitation grant
- Reviewing the independent certified public accountant's audit report dated February 13, 1995
- Analytical procedures to determine the reasonableness and completeness of revenue amounts and variations in expenditures
- Obtaining an understanding of applicable management controls
- Reviewing applicable Louisiana Revised Statutes, specifically those sections relating to the Mayor-Board of Aldermen form of government
- Interviewing the mayor, village clerk, police chief, the village's grant consultant, the District Attorney of the Tenth Judicial District, a Natchitoches Parish Sheriff's deputy, employees of the Natchitoches Parish Clerk of Court, and residents of the Village of Natchez
- Examining the village's board minutes, ordinances, check registers and stubs, selected canceled checks, supporting vendor's invoices, traffic citations, and utility billings

LEGISLATIVE AUDITOR

VILLAGE OF HATCHEZ
Hatchez, Louisiana

FINDINGS AND RECOMMENDATIONS

SAFETY AND REHABILITATION GRANT

The village failed to maintain adequate control over the receipt and disbursement of grant funds. The Village of Hatchez was awarded a \$75,000 Louisiana Housing Finance Agency (LHFA) Safety and Rehabilitation grant in June 1994. Under this grant, payments totaling \$88,312 were made to two contractors for renovations to six houses in the village between September 12, 1994, and August 28, 1995. The grant was audited by LHFA who issued an audit report dated November 27, 1995. The findings included in the LHFA report follow:

1. The village failed to maintain adequate controls over the receipt and disbursement of funds.
2. Documentation required by the State Recipient Agreement (agreement) was missing from the individual project files. The project files did not contain the following items:
 - Proof of ownership, lead based paint certification signed by the homeowner, portions of the home project summary application, and confirmation of income eligibility
 - Proof of compensation insurance, public liability and property damage insurance
 - A notice to proceed, a notice of acceptance of work or a clear lien certificate
3. The project files did not contain complete write-ups of the work to be performed for each house. The village must submit a corrected work write-up for each house meeting the requirements of Article III, Section 3.4 of the agreement.
4. Disbursements totaling \$30,367 for three houses were determined to be ineligible due to "conflicts of interest." These houses are owned by relatives of the former mayor (Pearlie Hamilton) and are ineligible to participate in the program under the "conflict of interest" provisions of Appendix 15, Section 16 of the agreement. The village has been instructed to reimburse these funds to LHFA under the provisions of Article VIII, Section 8.2(f) of the agreement.

LEGISLATIVE AUDITOR

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Continued)

5. The three remaining houses inspected did not meet minimum Housing Quality Standards. The village was required to submit a plan of action to LHFA to bring these houses up to minimum Housing Quality Standards. If these three houses cannot be brought up to minimum Housing Quality Standards, the village will be required to remit funds totaling \$36,650 to LHFA.
6. The village did not have a Fair Housing Ordinance or Section 3 plan.
7. There was no documentation that the contracts for the renovations were advertised for bids.
8. There was no documentation to substantiate the amounts paid to contractors for renovations. Reimbursement to LHFA of funds spent on ineligible projects is required under Article VIII, Section 8.2(f) of the agreement.
9. The village signed and submitted an "Affordable Housing Certification" for all six projects which certified that rehabilitation was complete and that the houses met minimum housing standards. The audit disclosed that the certifications were misrepresented and that funds were disbursed to the village before completion of rehabilitation to Housing Quality Standards.
10. A payment certification voucher totaling \$75,000 was signed and submitted to LHFA for payment by the former mayor (Pearlie Hamilton) after her term expired. Ms. Hamilton's term as mayor expired on June 30, 1994; however, the Payment Certification Voucher was signed on July 26, 1994. On August 16, 1994, a check for \$53,825 was disbursed to the Village of Natchez in care of Ms. Hamilton. This check was sent to Ms. Hamilton's personal residence and was not obtained by the village until August 29, 1994. The balance of the grant (\$21,175) was disbursed directly to the village on April 12, 1995.
11. The village did not have a Displacement and Relocation Plan as required by Appendix 18, Section C of the agreement.
12. The village did not have a Section 504 Plan to comply with the requirements of the Rehabilitation Act of 1973.
13. The village did not have a citizen participation plan or complaint procedure.

LEGISLATIVE AUDITOR

VILLAGE OF MATCHEZ

Matchez, Louisiana

Findings and Recommendations (Continued)

The LHFA audit report required the Village of Matchez to submit a plan of action to resolve each finding contained in the report. In April 1995, the village hired a consultant to address the findings contained in the LHFA audit report. The consultant reinspected the six houses, determined the work actually performed by each contractor, and determined the extent of additional work required in each house to meet minimum housing quality standards. During the inspections of the houses, it was determined that additional work was done by the contractors that was not included in the original work orders. Change orders have been prepared to revise the original contracts to reflect the work actually performed on each house. In addition to the amount due to LHFA for the ineligible houses (the three "conflict of interest" houses) determined by the LHFA audit, the consultant determined the amount due back to LHFA by each contractor by comparing the revised contract amount (amount actually earned for work performed) to the amount paid to contractors for each house.

The original contract amount, the consultant's estimate of the revised contract amount, the amount paid to each contractor, the amount due to LHFA for ineligible projects, and the amount due from each contractor for work not performed is summarized in the tables that follow:

Clemens Moss, Contractor

Homeowner	Original Contract Amount	Revised Contract Amount per Consultant	Amount Paid to Contractor	Amount Due LHFA for Ineligible Projects	Amount Due from Contractor for Work Not Performed
Major Williams	\$14,710	\$10,200	\$14,700	NONE	\$4,495
Ray Medley**	15,000	11,500	14,500	\$4,000	3,475
Total	\$29,710	\$21,700	\$29,200	\$4,000	\$7,970

Freddie Fowler, Contractor

Edgar Smith**	\$0,000	\$0,000	\$0,000	\$0,000	
Algebra Hamilton**	10,881	11,281	10,881	10,881	(3000)
Dorothy Coory	10,000	11,700	10,000	NONE	5,000
Leatrice Forrest	0,240	7,800	0,240	NONE	0,700
Total	\$21,121	\$27,861	\$21,121	\$17,881	\$1,240

** "Conflict of Interest" houses per LHFA report total of \$20,961 destroyed and due to LHFA.

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Continued)

The balance of the grant funds received by the village and the amount disbursed by the village, totaling \$8,888, was returned to LHFA on October 5, 1995.

According to the present mayor, the village plans to initiate legal action against the former mayor to recover the \$32,367, relating to the three conflict of interest houses. In addition, the village plans to pursue legal action, if necessary, against the two contractors to recover the amounts due for work not performed.

On June 26, 1995, we were informed by the village mayor that the Federal Bureau of Investigation and the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General are investigating matters relating to the village's Safety and Rehabilitation grant.

The village should take action to recover grant funds disbursed for ineligible houses and for work not performed. The village has known the amount due to LHFA for ineligible houses (\$32,367) since November 27, 1995 (approximately 8 months). In addition, the amounts due for work not performed have been known since May 1995. The mayor informed us on June 14, 1995, that legal counsel had been consulted to recover the funds; however, as of July 2, 1995, no legal action has been taken. Additional delays in initiating legal action increase the likelihood that the grant funds will not be recovered.

BILL OF INFORMATION - MISFEASANCE IN OFFICE

In June 1995, the District Attorney of the Tenth Judicial District filed a bill of information with the district court charging the village police chief, Chris Anderson, with misfeasance in office. The Bill of Information alleges the police chief committed the following unlawful acts:

1. Violated or sanctioned traffic tickets written by the police chief.
2. Violated LSA-R.S. 14:87 (theft) by making out check No. 2008 on the Village of Natchez account for \$950 and cashing the check on or about April 20, 1995. The mayor gave the signed blank check to the police chief to purchase gasoline for the village's police vehicles.
3. Violated LSA-R.S. 14:87 (theft) by cashing check No. 1976 on the Village of Natchez account for \$111 on or about June 5, 1995. The check was made payable jointly to Chris Anderson and the Village of Natchez Sewerage and represented the amount of the police chief's salary withheld by the village to pay the balance of his delinquent sewer bill.

LEGISLATIVE AUDITOR

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Continued)

4. Made or attempted to make unauthorized purchases of a shotgun, gasoline, and a radio.
5. Violated village ordinances on numerous occasions by failing to submit weekly reports of shift work to the village, failing to devise and implement a weekly work schedule for himself and his employees, failing to maintain mileage logs on the village police vehicles, and operating the village police vehicle outside the municipal limits of the Village of Natchez for reasons unrelated to his official duties.

These actions occurred in part because the village does not have adequate management controls over disbursements and stations (traffic tickets). These deficiencies in management controls are addressed in separate findings included in this report.

The village should:

1. Establish controls to ensure that all traffic ticket books are accounted for and that police officers do not have access to copies of issued tickets after they are given to the village clerk.
2. Initiate appropriate action to recover the \$1,001 received by the police chief.
3. Establish controls to ensure that all purchases are properly authorized. The village should require a purchase order to be approved by the mayor before making any purchases of supplies or equipment.
4. Initiate appropriate action to ensure the village police chief complies with the provisions of village ordinances. The village should require the police chief to submit weekly work schedules and mileage logs and cease using village police vehicles for unauthorized purposes.

LACK OF CONTROLS OVER RECEIPTS

The Village of Natchez does not have adequate controls over receipts. Sound business practice and accountability of public funds dictate that proper controls, to the extent feasible, be maintained to control cash receipts. In addition, LSA-R.S. 38:1212 requires that cash receipts be deposited daily whenever practicable.

There is a lack of segregation of duties because the village clerk receives cash and checks over-the-counter and by mail, writes receipts, prepares the deposit tickets, brings the deposit to the bank, and reconciles the bank accounts. Because an adequate system of internal control

LEGISLATIVE AUDITOR

VILLAGE OF HATCHEZ Hatchez, Louisiana Findings and Recommendations (Continued)

is not feasible due to the limited number of employees, it is very important that certain controls be implemented along with having the involvement of the board.

The village clerk and the mayor each receive payments and issue written receipts at the village office. In addition, the mayor receives payments from individuals outside the village office and maintains a separate receipt book.

Our audit disclosed the following additional weaknesses in controls over receipts:

- The numerical sequence of receipts is not accounted for and the receipts issued are not reconciled to the amount deposited. Our tests of cash receipts revealed that receipt numbers 1226-1234 were missing.
- In addition, our audit disclosed that the mayor received cash totaling \$865 for payment of five traffic citations; however, the cash was not deposited into the village's bank account. The mayor told us he received cash totaling \$865 for payment of four tickets and placed the cash and tickets in an envelope in the village's file cabinet. He said the envelope containing the cash and tickets subsequently disappeared. For the other ticket totaling \$92, the mayor could not recall what happened to the cash he received. (See finding - Inadequate Control Over Citations (Tickets).)
- Daily deposits of receipts are not made. The village clerk informed us that because the nearest branch of the village's fiscal agent bank is located more than ten miles outside the village, daily deposits are not always made. In addition, the clerk informed us that she sometimes keeps the village's daily receipts at her home overnight. Failure to make daily deposits subjects village funds to increased risk of loss.
- Receipts are not deposited intact. Our review of the cash receipts for the period disclosed that the village clerk cashed three personal checks totaling \$730 from sewer and traffic citations collections.
- There is inadequate control over unused prenumbered receipt books. Receipt books were stored in an unlocked filing cabinet.
- All checks received through the mail or over-the-counter are not restrictively endorsed upon receipt. Checks should be endorsed "For deposit only - Village of Hatchez" or similar endorsement.
- Our audit disclosed that a customer's check for delinquent sewer service was made payable to "Clay Mike Davis" (the mayor) for \$136. A receipt dated January 25, 1995, was issued for this payment from the mayor's receipt book; however, the check was deposited in the mayor's personal bank account. The

LEGISLATIVE AUDITOR

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Continued)

Mayor subsequently remitted the \$108 to the village and the funds were deposited in the village's sewer account on February 26, 1998.

- The mayor and the village clerk collect receipts; however, neither is bonded.

The lack of appropriate controls over cash receipts has created an environment in which cash could be misappropriated and not be detected by village personnel in the normal course of operations. As a result, the village's controls over receipts do not provide reasonable assurance that collections are complete and that financial data are properly recorded, processed, and reported. The village should do the following:

- Duties relating to the collection and deposit of receipts should be separated where possible so that employees do not perform incompatible functions.
- Fines and fees should not be collected outside the village office.
- The mayor should not maintain a separate receipt book.
- All prenumbered receipts should be accounted for and the total receipts should be reconciled to the amount deposited.
- Receipts should be deposited intact daily. Personal checks should not be cashed from cash receipts.
- The mayor should repay the village for the \$955 he received which was subsequently misplaced or stolen.
- Unused receipt books should be stored in a locked file cabinet.
- Restrictive endorsements such as "For deposit only - Village of Natchez" should be placed on all checks upon receipt.
- The mayor and the village clerk should obtain surety bonds.

INADEQUATE CONTROL OVER

CITATIONS (TICKETS)

There are inadequate controls in place to account for citations issued for violation of village ordinances and traffic laws. Adequate controls should be in place to properly account for all citations issued.

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Continued)

LSA-R.S. 32:395.2(D) and (E) require the village to maintain a copy of all traffic citations issued and maintain a record of each ticket's final disposition. In addition, LSA-R.S. 32:442 requires the village police chief to attend the mayor's court.

Our audit disclosed the following weaknesses relating to controls over citations:

1. There is no log maintained of unused (blank) citation books received from the printing company.
2. The village is not accounting for all citations issued and their final disposition. Our audit determined that 23 of 102 citations selected for testing could not be located.
3. Copies of issued citations and unused ticket books are not maintained in a locked file cabinet. The village clerk and the mayor informed us that the file cabinets where copies of issued citations are filed and unused ticket books are stored could not be locked.
4. There is no centralized collection place for the payment of citations. Fines and traffic tickets were paid either at the village office or directly to the mayor outside the village hall. The mayor collected cash totaling \$895 for payment of five traffic tickets that was not deposited into the village's bank account.
 - On August 14, 1995, the mayor signed cash receipt number 1001 for \$803 cash received for payments of ticket numbers 4876 through 4879 (four tickets). We were unable to locate these four tickets or trace the cash received into the village bank account. The mayor informed us he put the cash and tickets in an envelope and placed it in a file cabinet in the village hall. He said he discovered the envelope was missing approximately two months later.
 - On January 9, 1995, the mayor collected \$82 cash for payment of ticket number 4522. We were unable to locate ticket number 4522, a copy of a cash receipt or trace the deposit of the cash into the village's bank account. There was a notation that the mayor received cash for payment of the ticket in the village clerk's log book of tickets received. The mayor informed us that he received cash for payment of the ticket; however, he could not remember what happened to the cash. (See finding - Lack of Controls over Receipts.)
5. Two tickets were dismissed by the mayor due to the failure of the police chief to be present at the mayor's court.

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Continued)

Failure to establish and maintain an adequate control structure over citations could result in errors or irregularities and creates an environment in which misappropriation of funds could occur and not be detected in a timely manner.

Controls over citations should be improved as follows:

1. A log should be maintained to control unused citation books received from the printing company. This log should include those (book number sequences (book) books) given to individual police officers. Citation books should not be issued until the previously issued citation books and individual tickets are accounted for.
2. The village should account for all citations issued and their final disposition.
3. Copies of all citations and unused ticket books should be stored in a locked file cabinet.
4. All fines should be collected at the village hall.
5. The village police chief should attend the mayor's court.

LACK OF CONTROLS OVER DISBURSEMENTS

The Village of Natchez does not have adequate controls and procedures in place to ensure that all disbursement transactions are properly authorized, approved for payment, supported by adequate documentation, and that goods and services are actually received before payment is made. Article 7, Section 14 of the Louisiana Constitution of 1974 prohibits using public funds for non-public purposes. In addition, LSA-RS 33:462 requires that all expenditures by the village shall be in pursuance of a specific budget and in no other manner. This budget must be approved by the board of aldermen. Since expenditure of funds requires an appropriation from the board of aldermen, the board has an obligation to approve the payment of bills. Furthermore, good business practices require that disbursement procedures provide reasonable assurance that village resources are used consistent with laws and regulations and sufficient supporting documentation is obtained to provide evidence that goods or services have been received.

We examined the available documentation for certain disbursement transactions from the general and sewer funds between July 1, 1995, and June 6, 1998, and the following deficiencies were noted:

1. Four disbursements totaling \$2,500 paid for grass cutting were not supported by adequate documentation. Two of these disbursements (totaling \$600) were paid to McKinley Hoover, a former village police chief. The other two disbursements

LEGISLATIVE AUDITOR

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Continued)

(totaling \$1,800) were paid to Joe Poinesell, the village clerk's father. (See finding - Payments to Family of Village Clerk.) There was no support for these disbursements other than notations on the check stubs that the checks were for grass cutting. We were informed by the mayor and village clerk that the payments were for grass cutting at the village's recreational area (park) and sewer facility.

2. Three disbursements totaling \$300 were made to Andrew Vallien. There was no support for these disbursements. We were informed by the mayor that Mr. Vallien was paid a monthly fee of \$100 as the village attorney; however, there was no written retainer agreement between the village and Mr. Vallien.
3. Two disbursements totaling \$5,000 were made to a contractor, Freddie Fowler. There was no support for these payments; however, we determined these payments were partial payments on contracts to renovate houses under the village's LHA Safety and Rehabilitation grant.
4. One disbursement for \$175 was paid to the clerk's mother, Iris Poinesell. There was no support for this disbursement other than a notation on the check stub that the disbursement was for an air conditioning unit for the village office. (See finding - Payments to Family of Village Clerk.)
5. One disbursement for \$148 payable to "cash" was endorsed and cashed by the village clerk. There was no support for this disbursement other than a notation on the check stub that the disbursement was for lights, heaters, fans, and a motor. The village clerk informed us these items were purchased from her husband, Mike LaCaze. (See finding - Payments to Family of Village Clerk.)
6. One disbursement for \$800 was made payable to the village police chief, Chris Anderson. There was no support for this disbursement; however, the mayor informed us that the police chief was given a signed blank check to purchase gasoline for the village's police car. The police chief allegedly made the check payable to himself, endorsed, and cashed the check. (See finding - Bill of Information - Malfeasance in Office.)
7. One disbursement for \$143, payable to Captain's Men's Store, was made from the account statement without supporting invoices. We were informed by the mayor that this was for two police uniforms.
8. There is a lack of segregation of duties due to only one employee (village clerk) performing all disbursement functions. The village clerk has custody of the unused checks, prepares the checks, mails the checks to the vendors, and reconciles the bank accounts. Although an adequate system of internal control

LEGISLATIVE AUDITOR

VILLAGE OF HATCHEE Natchez, Louisiana Findings and Recommendations (Continued)

is not feasible due to only one employee, board involvement could strengthen controls.

The village should formally establish appropriate controls and procedures to ensure that disbursement transactions are properly authorized, approved for payment, and supported by adequate documentation. These controls and procedures should, at a minimum, include that:

1. Payment be made only when adequate documentation is available to support the disbursement.
2. Paid invoices and all supporting documentation be filed in an appropriate manner to safeguard them from being misplaced or lost and to prevent unauthorized personnel from having access to them.
3. Checks not be made payable to "cash."
4. Blank checks not be signed in advance. Checks should be signed only when the check is completely filled out (date, payee, and amount) and proper documentation and approval is available to support the payment.
5. The use of a check protector (machine that stamps the check amount on the check) for all checks written before the checks are signed.
6. Payment be made only from an original invoice. Payment from a statement or copy of an invoice, including a facsimile, should be prohibited.
7. A purchase order system to be used for disbursement of funds over a specified dollar threshold. A purchase order system is simply procedures that ensure funds are budgeted and available, the public bid law and other appropriate laws and regulations are complied with, and approval is obtained before ordering materials and supplies or contracting for services. The village should designate one person to be the "purchasing agent." The purchasing agent would be responsible for ensuring that the purchasing procedures are being followed and that an approved purchase order is obtained before ordering materials and supplies or contracting for services.
8. The board of aldermen review all invoices on a monthly basis before payment of the invoices. The review would ensure that invoices are for valid village expenditures consistent with laws and regulations and have all the appropriate documentation to support the invoice.
9. Bank statements be received by the board of aldermen unopened. The board of aldermen should review the canceled checks to determine that (a) all checks were written for valid village expenses, and (b) all checks include the two

VILLAGE OF MATCHEZ

Matchez, Louisiana

Findings and Recommendations (Continued)

authorized signatures. After the board of aldermen's review of the bank statements, they should be given to the village clerk to be reconciled to the village's cash book balances.

ACCOUNTING RECORDS NOT MAINTAINED

The village has not maintained adequate accounting records. The village's accounting records consisted of one checkbook for the operating account, one checkbook for the sewer account, and a computerized sewer billing system. The village accounting records did include a cash receipts journal or a cash disbursements (books of original entry) or a general ledger. Proper accounting records should (1) provide evidence that village officials have fulfilled their stewardship responsibilities, (2) properly reflect and account for the receipt and disbursement of funds, (3) demonstrate the village's compliance with applicable laws and regulations, (4) properly manage and safeguard village assets, and (5) provide for the preparation of accurate and timely financial statements. Failure to maintain adequate accounting records creates an environment with a general lack of management control and prohibits management from recording and reporting its accountability for public funds. As a result, we were unable to determine if the village has eliminated the General Fund and Sewer Fund deficits that existed during the prior audit period ending June 30, 1995.

The village should maintain books of original entry and a general ledger. Books of original entry include a cash disbursements journal and a cash receipts journal. The cash disbursements journal, at a minimum, should include the check number, date paid, payee, amount, and account charged. The cash receipts journal, at a minimum, should include the source of the receipt, date received, amount, and account credited. The general ledger should be used to summarize the cash receipts and disbursements transactions on a monthly basis.

FAILURE TO MAINTAIN FIXED ASSET RECORDS

The village has not maintained records of its general fixed assets or Enterprise Fund fixed assets. LSA-R.S. 24:215 and federal regulations (the Common Rule - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments) require the village to maintain records of all fixed assets and movable property to include the date of purchase, initial cost, and disposition of such property, if applicable. Furthermore, good business practices require that a proper fixed asset accounting system be developed to ensure that all assets are accounted for when received and safeguarded against loss or misuse.

LEGISLATIVE AUDITOR

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Continued)

Our audit disclosed the following:

1. The village does not maintain records of its general fixed assets or Enterprise Fund fixed assets.
2. The village did not adopt written fixed asset policies and procedures until May 2, 2006.
3. An inventory of the village's fixed assets has not been performed.
4. Fixed assets are not tagged.
5. The village does not have an accounting system that provides for the recording of property and equipment as it is purchased and/or disposed.

Failure to maintain an adequate inventory system subjects the village to noncompliance with local government laws and regulations and increases the risk of the following:

1. Assets could be lost, stolen, destroyed, or misplaced, and the village would not have a record or a description of the asset.
2. Assets could be subjected to loss or damage arising from unauthorized use.
3. Assets may not be adequately insured.

The village should develop an accounting system for fixed assets and movable property that ensures assets are properly accounted for and properly safeguarded against loss or misuse. The system should include, at a minimum, the following:

1. A complete list of fixed assets/movable property that includes information as to (a) a description of the property; (b) a serial number or other identification number; (c) the source of the asset; (d) who holds title to the asset; (e) the date of acquisition; (f) the cost or estimated cost; (g) the percentage of federal participation in the cost of the asset; (h) the location of the asset; (i) the use and condition of the property; and (j) any ultimate disposition data including the purpose of the disposition, date of disposal, sale price, and the recipient of items.
2. Physical inventories should be taken at least annually. Follow-up procedures should be established for items not found during the physical inventory.
3. The village should establish procedures to identify (tag) assets as belonging to the village.

LEGISLATIVE AUDITOR

VILLAGE OF HATCHEZ

Hatchez, Louisiana

Findings and Recommendations (Continued)

4. The list of fixed assets should be used to periodically review the adequacy, type, and amount of insurance coverage.

PAYMENTS TO FAMILY OF VILLAGE CLERK

The village paid members of the village clerk's immediate family for services and equipment in violation of the Code of Governmental Ethics. The Code of Governmental Ethics (LSA-R.S. 44:9112) provides in part, that no public servant shall participate in a transaction involving the governmental entity in which his or her immediate family has a substantial economic interest. During the 11-month period beginning on July 1, 1985, and ending June 30, 1986, the Village of Hatchez paid the clerk's father, mother, and husband a total of \$6,741 for grass cutting (\$5,108), repairs to the village's sewer facility (\$255), an air conditioning unit for the village office (\$175), and various supplies and equipment (\$143).

The village should discontinue the practice of paying immediate family members of the clerk or other village employees for services or equipment that violate the provisions of the Code of Governmental Ethics (LSA-R.S. 44:9112).

BONUS PAID IN VIOLATION OF STATE LAW

The village paid a bonus to an employee in violation of state law. Article I, Section 14 of the Louisiana Constitution of 1974 prohibits loaning, pledging, or donating public funds to any person, association, or corporation, public or private. The village paid a bonus of \$150 to the village clerk on December 15, 1985. Payment of this bonus is in violation of Article I, Section 14 of the Louisiana Constitution of 1974.

We strongly recommend that bonuses not be paid in the future. Extra compensation for past services rendered is prohibited. If the village deems it appropriate to pay an employee additional compensation, it should be in the form of salary increases for future services to be rendered. The village should review the appropriateness of the current salary structure of employees of the village and the ability of the village to fund proposed salaries.

FAILURE TO COMPLY WITH LOCAL GOVERNMENT BUDGET ACT

The village did not comply with the budget requirements set forth in LSA-R.S. 56:1361-1364 (Louisiana Local Government Budget Act). The act contains various budget

VILLAGE OF MATCHEE

Matchee, Louisiana

Findings and Recommendations (Continued)

requirements for the General Fund and special revenue funds for political subdivisions of the state. During our audit, we found that, because of the lack of a control consciousness by village officials, the village did not comply with the requirements of the act as follows:

1. **Budget preparation** - The act requires that the chief executive officer (mayor) prepare a proposed budget that includes a budget message, a proposed budget for the General Fund, and a proposed budget adoption instrument that specifies the mayor's authority to make budgetary amendments without approval of the board of aldermen. For the year ended June 30, 1990, the mayor did not prepare a budget. For the year ending June 30, 1997, a proposed budget for the General Fund was prepared; however, a budget message and a proposed budget adoption instrument specifying the mayor's authority to make budgetary amendments was not included.
2. **Certified copies** - After adoption, the act requires that the mayor retain a certified copy of the budget at the village's domicile. For the year ending June 30, 1997, certified copies of the budget were not made available at the village.

These deficiencies, in addition to placing the village in noncompliance with the Local Government Budget Act, reduce the effectiveness of the village's budgetary controls over revenues and expenditures.

The village should comply with all the procedures prescribed by LSA-R.S. 39:1301-1314 (Louisiana Local Government Budget Act). Every year, the village should do the following:

1. The mayor should prepare a proposed budget for the General Fund and include a budget message and a proposed budget adoption instrument specifying the mayor's authority to make budgetary amendments.
2. After adoption, the mayor should retain a certified copy of the budget at the village hall.

REPORTING PAYMENTS TO INTERNAL REVENUE SERVICE

The Village of Matchee did not file informational tax returns (Form 1099) required by the Internal Revenue Service (IRS). Sections 6041-6050 of the Internal Revenue Code require that 1099 forms be filed for anyone, other than a corporation or tax exempt organization, to whom payments of fees or other forms of compensation of \$600 or more are made during a year.

LEGISLATIVE AUDITOR

VILLAGE OF NATCHEZ

Natchez, Louisiana

Findings and Recommendations (Concluded)

reports should be submitted when the person was convicted, forfeited his bail, or upon other final disposition.

The village should file the reports to the Department of Public Safety and Corrections, Public Safety Services, on persons violating motor vehicle laws. In addition, the village should contact the department to determine what action should be taken regarding reports not filed.

FAILURE TO OBTAIN SURETY BONDS

The village has not obtained fidelity bonds for those employees and officials who handle village funds. LSA-R.S. 33:380 and sound business practices require that employees and officials who receive and disburse public funds obtain fidelity bonds. The village clerk and mayor receive public funds and the mayor and an alderman sign village checks; however, they are not bonded. The mayor informed us that he was not aware of the requirement for bonds. Failure to obtain bond coverage places the village in a situation in which they would not be able to recover loss of funds due to errors or irregularities.

The village should obtain fidelity bonds for all employees and officials receiving or disbursing funds.

Attachment I

Management's Responses

MAYOR
CLAYTON MORGENTHAU, JR.

Village of Natchez

304 MAIN STREET
P.O. BOX 229
NATCHEZ, LOUISIANA 71401
(504) 532-9414
CITY 252-6266 Fax

CITIZENSHIP
1980-1981-82
DANIEL L. JOHNSON
ALLEN HENSLER, JR.

CLERK
PRINCESS LACROIX

August 5, 1990

Daniel G. Kyle, CPA, CFE
Legislative Auditor
State of Louisiana
Post Office Box 94897
Baton Rouge, Louisiana 70804-0897

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RE: RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT

Dear Mr. Kyle:

After reviewing the Independent Auditor's Report that was conducted on the Village of Natchez, we have considered all findings and have reviewed all recommendations given by the Office of Legislative Audits, with this information we have formulated a Plan of Action or Corrective Action which will be performed to clear some of the findings that were written in the Independent Auditor's Report.

Please review these responses and let us know if your office needs any further assistance.

Sincerely,



Mayor Clayton M. Denton Sr.



Alderman Timothy Johnson



Alderman Allen L. Johnson



Alderman Aaron Bradley Sr.



Princess LaCaze, Clerk

SAFETY AND REHABILITATION GRANT

Finding number 11) paragraph 2, page 6

The village failed to maintain adequate controls over the receipt and disbursement of funds.

REMARKS

This finding was also stipulated in a detailed audit by the Grant agency, Louisiana Housing and Finance Agency, which stated, "A review of the Village's financial records revealed serious record keeping problems. The village has failed to maintain adequate controls over the receipt and disbursement of funds for the Small Cities Health and Safety Rehabilitation Grant."

The Louisiana Housing and Finance Agency also gave a "Corrective Action Required" to the Village which stated, "The village must have adequate internal controls in place for this grant to ensure that the funds are properly accounted for, expended in accordance with the grant agreement, and the state laws and regulations are in compliance."

The Village has answered all of the findings in the Louisiana Housing and Finance Agency audit Report. The response to this finding was as follows: "The village will ensure such compliance. All grant income will be set into a separate non-interest bearing account and a signature card will be made out for two village signatures on each check, such as the present Mayor and Town Clerk. The contractor will have to submit valid invoices, and the unit will have to be inspected by a qualified inspector in order for funds to be released. All copies of inspections, checks, bank statements will be kept at the village office."

Finding Number 12) paragraph 3, page number 6

Documentation required by the State Recipient Agreement (agreement) was missing from the individual project files. The project files did not contain the following items:

- * Proof of ownership, lead based paint certification signed by the homeowner, portions of the home project summary application, confirmation of income eligibility.
- * Proof of compensation insurance, public liability and property damage insurance.
- * A notice to proceed, a notice of acceptance of work or a clear lien certificate.

REMARKS

These findings were also stipulated in the Louisiana Housing and Finance Agency Audit Report, each were written up in separate findings and each were answered by the Village of Natchez in

separate responses. The first finding by Louisiana Housing and Finance Agency Audit Report referred to was, "several of the documents required by Article III, Section 3 12 of the "Agreement" are missing from the individual project files including proof of ownership, lead based paint certification signed by the homeowner, portions of the income eligibility as well as other program requirements."

The Louisiana Housing and Finance Agency Corrective Action required by the Village to clear this finding was, "the individual project files must be completed and a copy of the entire file submitted to this Agency for approval."

The Village of Natchez did respond to the Louisiana Housing and Finance Agency by correcting the individual files into an acceptable order and sending the agency a complete copy of the home project summaries, copies of lead based paint certifications, proof of ownership and income verification for the Agencies approval, as of yet the Village of Natchez has not received verification of the agencies approval, but anticipates approval.

A separate finding was written by the Louisiana Housing and Finance Agency Audit Report addressing the issue of Insurance Requirements. The finding stated, "Some of the project files contained proof of compensation insurance, or public liability and property damage insurance."

The Louisiana Housing and Finance Agencies Audit Report "Corrective Action Required", was as follows, "The Village must obtain proof of insurance from the contractor, incorporate into the files and provide this Agency with a copy."

The Village of Natchez responded to this finding, "The contractors did not have any insurance, this grant was done under prior administration, which told the contractors it did not need insurance requirements. The present administrator does know that this insurance is required and promises that when the remaining houses are bid out, all bid laws and insurance requirements will be followed and forwarded immediately to your office."

The last finding on this matter was addressed in the Louisiana Housing and Finance Agency Audit Report, stating, "None of the files contained a notice of proceed, a notice of acceptance of work, or clear lien certificate."

Corrective Action Required to clear this finding, "The village must incorporate this information into the individual files."

The Village responded, "the village cannot obtain a notice to proceed, a notice of acceptance of work, or clear lien certificate, because this was never done by the prior administration and these documents cannot be done, by law, after

the fact. The new administration for the Village of Natchez promises that these actions will never occur again in future grant programs."

Finding Number (3), paragraph 4, page 8.

The project files did not contain complete write-ups of the work to be performed for each house. The village must submit a corrected work write-up for each house meeting the requirements of Article III, Section 3.6 of the agreement.

RECOMMEND

The Village of Natchez hired a qualified inspector, who went to all the units and assessed each on a one-to-one basis. Complete work write-ups were made on three of the units, with these work write-ups, these three units can be brought up to Section 8 Housing Quality Standards. The remaining houses were inspected only for work that was performed by the two contractors, but no formal work write-ups were conducted, because these units are considered ineligible units, due to the fact they are "Conflict of Interest" units. Copies of the Three eligible units work write-ups were forwarded to the Louisiana Housing and Finance Agency for review.

Finding Number (4), paragraph 5, page 8.

Disbursements totaling \$12,787 for three houses were determined to be ineligible due to "conflict of interest". These houses are owned by relatives of the former mayor (Pearlie Hamilton) and are ineligible to participate in the program under the "conflict of interest" provisions of Appendix 14, Section 18 of the agreement. The village has been instructed to reimburse these funds to LHPA under the provisions of Article VII, Section 8.21(f) of the agreement.

RECOMMEND

The Village of Natchez can not give a corrective action, because this is a finding that will take some detail to solve. A plan of action has been discussed, which is to pursue action to recover grant funds disbursed for ineligible houses, meeting the "conflict of interest", which was done by prior administration. In the State Recipient Agreement, signed by prior administration, it clearly states, "No persons described in paragraph c of this section who exercises any functions or responsibilities with respect to activities assisted with HOME funds or who are in a position to participate in a decision making process or gain inside information with regard to these activities, may obtain a financial interest or benefit from a HOME assisted activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family ties or Business ties, during their tenure or for one year thereafter."

Persons covered: The conflict of interest provisions in paragraph (b) of this section apply to any person who is an employee, agent, consultant, officer, or elected official or appointed official of the participating jurisdiction, state recipient, or subrecipient, which are receiving HOME funds.

At this time, it has been handed over to the Village Attorney. The village's mayor has been authorized to pursue necessary law suits concerning any wrong doings in connection with this grant, under Resolution 4, passed by the village on March 3, 1996. The village is anxiously awaiting for a response from the Louisiana Housing and Finance Agency Audit Report, before pursuing any lawsuits on these matters.

Finding Number 5, Paragraph 5, page 5.

The three remaining houses inspected did not meet minimum Housing Quality Standards. The village was required to submit a plan of action to the LHPA to bring these houses up to minimum Housing Quality Standards. If these three houses cannot be brought up to Minimum Housing Quality Standards, the village will be required to remit funds totaling \$35,950 to LHPA.

RESPONSE

A qualified inspector, has determined that these three houses can be brought up to Section 8 Housing Quality Standards and has written the deficiencies in a detailed work write-up for each unit in question. A detailed sheet has been prepared on the work that each contractor did and did not do on each project that was assigned to him, with this the village has two options, retrieving the funds that the village feels is owed by the contractors, or to have the two contractor's finish unknown work and bring these three houses up to Section 8 Housing quality Standards. The village is now in the process of working with these two contractors, and the village's attorney to see what would be the simpler task.

Finding Number (6), paragraph 7, page 5.

The village did not have a Fair Housing Ordinance or Section 8 plan.

RESPONSE

The village has obtained both of these plans and have forwarded them both to the Louisiana Housing and Finance Agency for approval.

Finding Number (7), paragraph 8, page 5.

There was no documentation that the contracts for the renovations were advertised for bids.

RESPONSE

The village responded to this finding directly to LHPA. In its response the village stated, "The village cannot provide (1) Proof of advertisement because there is no such

documentation. The ex-mayor solicited by word of mouth and only solicited two contractors, these two contractors were the only ones to bid and were the only contractors to perform construction." The prior administration did not follow the correct procurement procedures. The present administration has been informed of all procurement procedures and does promise to follow these procedures from now on.

Finding Number (8), paragraph 8, page 2.

There was no documentation to substantiate the amounts paid to contractors for renovations. Misbursement to LHPA of funds spent on ineligible projects is required under Article VIII, Section 8.3(d) of the agreement.

RESPONSE

All checks have been located for the HOME grant and a comprehensive bookkeeping system has been made. All bank statements have been located and all transactions made with the grant funds can be easily followed. All of these documents have been sent to the Louisiana Housing and Finance Agency for consideration.

Finding Number (9), paragraph 9, page 3.

The village signed and submitted an "Affordable Housing Certification" for all six projects which certified that rehabilitation was complete and that the certifications were misrepresented and that funds were disbursed to the village prior to completion of rehabilitation to Housing Quality Standards.

RESPONSE

The Village answered this finding to the Louisiana Housing and Finance Agency, who in their audit report asked the village to provide the agency with an explanation why this certification was misrepresented. Response to the LHPA request was as follows, "The present administration did not mean to misrepresent the certification, most of this grant was conducted by the prior mayor, who instructed the present administration on what to do. This is why the present mayor asked the Louisiana Housing and Finance Agency to come assess the situation, because they were afraid something was wrong. The new administration promises never to attempt a grant without the knowledge of someone who knows how to administrate such a grant."

Finding Number (10), paragraph 11, page 3.

A payment certification voucher totaling \$71,008 was signed and submitted to LHPA for payment by the former mayor (Purdie Hamilton) after her term expired. Mr. Hamilton's term as mayor expired on June 29, 1994, however, the Payment Certification voucher was signed on July 29, 1994. On August 18, 1994, a check for \$53,825 was disbursed to the Village of Wauchope in care of Mr. Hamilton. This check was sent to Mr. Hamilton's

personal residence and was not obtained by the village until August 23, 1994. The balance of the grant (\$21,575) was disbursed directly to the village on April 12, 1995.

RESPONSE

The village responded to the Louisiana Housing and Finance Agency finding, who again, required the village to provide the agency with a complete explanation why this misrepresentation occurred. The explanation was as follows: "The village did not know at the time that the ex-mayor had the check for \$23,825.98 in her possession, the present administration through an attorney had to get the ex-mayor to hand over this check. At the time the present mayor had no idea of the whole situation, this again is why the present mayor asked for guidance. The village received the check for \$21,575.00 and the funds were disbursed to the contractors. The present mayor had lots of questions and was taken the advice from the wrong people, until he then received the guidance he needed, but it was too late, the damage had already occurred." As far as the present administration is concerned the misrepresentation occurred because of the prior administration.

Finding Number 11, paragraph 12, page 9.

The village did not have a Displacement and Relocation Plan as required by Appendix 18, Section C of the agreement.

RESPONSE

The village has since obtained a Anti-Displacement and Relocation Policy, this policy was sent to the LHA for review.

Finding Number 1121, paragraph 13, page 9.

The village did not have a Section 504 Plan to comply with the requirements of the Rehabilitation Act of 1973.

RESPONSE

The village is in the process of evaluating their village office for Section 504 Plan. The village has adopted a 504 Assurance policy, but it has not had a 504 inspection, or written a 504 Transition Plan, but these items are in the process and will soon be adopted and kept with the other village policies and procedures.

Finding Number 1121, paragraph 14, page 9

The village did not have a citizen participation plan or complaint procedure.

RESPONSE

The village has adopted these policies and have forwarded them to the Louisiana Housing and Finance Agency for their review.

BILL OF INFORMATION--INTERFERENCE IN OFFICE

The village has read this finding and does agree with the legislative auditor, that the village has made serious mistakes in adequate control in management. This does not change the fact that the present police chief has discovered several unlawful acts on his own accord, but it does bring light to the situation and the corrective action that the village must take to ensure that this does not happen again.

Listed below are the pending charges against the police chief and the solutions or corrective actions the village intends to take to try to stop these unauthorized situations.

1. Issued or cancelled traffic tickets written by the police chief.

RESPONSE

The village intends to establish control on all tickets turned in by either the police chief or assistant police chief. The village will request that the police chief and assistant chief turn in all tickets at the end of the day. Once they are turned in these tickets will be locked into a locked file cabinet.

2. Violated LSA-R.S.-74:47 (theft) by making out check No. 2339 on the village of Natchez account for \$950.00 and cashing the check on or about April 20, 1998. The mayor gave the signed blank check to the police chief to purchase gasoline for the village's police vehicle.

RESPONSE

The village will never issue a signed blank check to anyone. While waiting for the court date no money will be recaptured, but after the court date, and the village finds out what the court determines it would like to see the money returned to the village's general fund immediately.

3. Violated LSA-R.S. 14:67 (theft) by cashing Check No. 1978 on the Village of Natchez account in the amount of \$111 on or about June 1, 1998. The check was made payable jointly to Chris Anderson and the Village of Natchez Sewerage and represented the amount of the police chief's salary withheld by the village to pay the balance of his delinquent sewer bill.

RESPONSE

The Village of Natchez again, is waiting for the determination of the courts, before they pursue this matter and acquire the money back.

4. Made or attempted to make unauthorized purchases of a shotgun, gasoline and a radio.

RESPONSE:

The village intends to have a proper purchase order system with the approval of the mayor, and if more costly items are needed they must be approved by the mayor and the board of aldermen in an open public meeting.

5. Violated village ordinances on numerous occasions by failing to submit weekly reports of shift work to the village; failing to devise and implement a weekly work schedule for himself and his employees; failing to maintain mileage logs on the municipal limits of the Village of Waukegan for reasons unrelated to his official duties.

RESPONSE:

The village will once again advise the police chief of the importance of the village ordinances and require him to submit weekly work schedule, and mileage logs. If the police chief continues to disobey the local ordinance and is found to have violated any laws, or misuse of town equipment then all will be turned over to the District Attorney's Office for further charges. The village, under Louisiana State law has very little control over the Police Chief, due to the fact that the Police Chief is an Elected Official. This is why, the village adopted Ordinance 7 of 1996, which stipulates the attempt of proscribing additional duties to the Police Chief and policemen and the regulation of the use of police vehicles. The ordinance also describes in great detail, the weekly reports, the mileage logs, seized property, attendance in court, and community service stipulations.

LACK OF CONTROL OVER RECEIPTS

The Village of Waukegan has reviewed this section of the Legislative Audit and again agrees with its findings and has implemented corrective actions to help with a better control system. Listed below are the findings and the corrective action responses.

FINDING

The numerical sequences of receipts is not accounted for and the receipts issued are not reconciled to the amount deposited. Our tests of cash receipt numbers 1226-1234 were missing.

RESPONSE:

All receipt books are to stay in the village office and at the end of each day will be locked into a fire cabinet.

FINDING

In addition, our audit disclosed that the mayor received cash totaling \$985 for payment of 5 traffic citations; however, the cash was not deposited into the village's bank account. The mayor told us he received cash totaling \$983 for payment of 4 tickets and placed the cash and tickets in an envelope containing cash and tickets subsequently disappeared. For the other ticket totaling \$82, the mayor could not recall what

happened to the cash he received. (See finding- inadequate control over Citations (Tickets))

RESPONSE

The mayor has agreed to pay back the sum of \$963.00, and whenever money is received from anything in the village it will be locked up in a safe place.

FINDING

Daily deposits of receipts are not made. The village clerk informed us that because the nearest branch of the village's fiscal agent bank is located more than 10 miles outside the village, daily deposits are not always made. In addition, the clerk informed us that she sometimes keeps the village's daily receipts at her home overnight. Failure to make daily deposits subjects village funds to increased risk of loss.

RESPONSE

The village agrees that they will start making daily deposits of the village funds to ensure of safety of those funds and to ensure compliance.

FINDING

Receipts are not deposited intact. Our review of the cash receipts for the period disclosed that the village clerk cashed three personal checks totaling \$130 from the sewer and traffic citations collections.

RESPONSE

The cashing of any personal checks will never be performed with village funds again.

FINDING

There is inadequate control over unused prenumbered receipt books. Receipt books were stored in an unlocked filing cabinet.

RESPONSE

All future receipt books will be held in a locked filing cabinet.

FINDING

All checks received through the mail or over-the-counter are not restrictively endorsed upon receipt. Checks should be endorsed "For deposit only-Village of Natchez" or similar endorsement.

RESPONSE

The village does and has been stamping the checks with the correct endorsement and will continue to do same.

FINDING

Our audit disclosed that a customer's check for delinquent sewer service was made payable to "Clay Mike Davis" (mayor) for \$116. A receipt dated January 25, 1998, was issued for this payment

from the mayor's receipt book; however, the check was deposited in the mayor's personal bank account. The mayor subsequently remitted the \$136 to the village and the funds were deposited in the village's sewer account on February 26, 1996.

RESPONSE

The village will not receive personal checks for payment of any bills. It will have to be made out for payment of the bill and will have to be paid at the village office.

FINDING

The mayor and the village clerk collected receipts; however, neither is bonded.

RESPONSE

The village is now in the process of checking the cost of a surety bond for both the mayor and the village clerk.

INADEQUATE CONTROL OVER CITATIONS (TICKETS)

FINDING

There is no log maintained for unissued (blank) citation books received from the printing company.

RESPONSE

The village is not responsible for the citation books, but will urge again ask the police chief to keep a log on these ticket books.

FINDING

The village is not accounting for all citations issued and their final disposition. Our audit determined that 23 of 195 citations selected for testing could not be located.

RESPONSE

The village will enforce the accountability for all citations issued and their final disposition. The village is aware of the missing citations and will devise changes for a better control of this situation.

FINDING

There is no centralized collection place for the payment of citations. Fines and traffic tickets were paid either at the village or directly to the mayor outside the village hall. The mayor collected cash totaling \$868 for payment of five traffic tickets that was not deposited into the village's bank account.

RESPONSE

The village will cease the collection of citations and bills outside the village hall. When tickets or bills are collected it will be done at the village office and the funds will be looked up until the end of the day, when the funds will be deposited into the correct accounts.

FINDING

Two tickets were dismissed by the mayor due to failure of the police chief to be present at the mayor's court.

RECOMMEND

The village's police chief will again be advised of his responsibility to attend court sessions.

LACK OF CONTROLS OVER DISBURSEMENTS**FINDING**

Four disbursements totaling \$2,328 paid for grass cutting were not supported by adequate documentation. Two of these disbursements (totaling \$580) were paid to McKinley Hoover, a former village police chief. The other two disbursements (totaling \$1,828) were paid to Joe Potowski, the village clerk's father (see Finding-Payments to Family of village clerk). There was no support of these disbursements other than notations on the check stubs that the checks were for grass cutting. We were informed by the mayor and village clerk that the payments were for grass cutting at the village's recreational area (park) and sewer facility.

RECOMMEND

Checks will not be made out for any source until an official invoice is submitted to the office for approval. A copy of the signed invoice will be kept at the office along with copies of the check made for that invoice. At the end of the year these invoices will be pulled out of the file to determine if anyone made over \$500. If there has, then the individual will be sent a 1099 Tax Form.

FINDING

Three disbursements totaling \$300 were made to Andrew Wallien. There was no support for these disbursements. We were informed by the mayor that Mr. Wallien was paid a monthly fee of \$100 as the village attorney; however, there was no written agreement between the village and Mr. Wallien.

RECOMMEND

Again, the village will not let this kind of situation arise, before payment for any professional service there will have to have a written contract in the office file and adequate invoices for work performed. Mr. Wallien no longer is in the employment of the village, the new firm, who was hired through Resolution 3 of 1986, will conduct all services by a piece meal basis.

FINDING

Two disbursements totaling \$5,280 were made to a contractor, Freddie Feodor. There was no support for these payments; however, we determined these payments were partial payments on contracts to renovate houses under the village's LWPA Safety and Rehabilitation Grant.

RESPONSE

The village as stated above, will not make payments until an invoice is submitted and signed for approval.

FINDING

One disbursement of \$175 was paid to the clerk's mother, Ina Potamoni. There was no support for this disbursement other than a notation on the check stub that the disbursement was for an air conditioning unit for the village office (see finding Payments to Family of Village Clerk).

RESPONSE

The village will no longer buy or purchase items from any family member in connection with the village clerk or mayor. When items are purchased it will be by a proper purchase order and a proper invoice system approved by the mayor and the board of aldermen.

FINDING

One disbursement for \$145 payable to "cash" was endorsed and cashed by the village clerk. There was no support for this disbursement other than a notation on the check stub that the disbursement was for lights, heaters, fans, and a motor. The village clerk informed us these items were purchased from her husband, Mike Lomasz.

RESPONSE

Again, this action will not occur again, if items are bought for the village, it will have the proper documentation and the check will not be made out for cash, it will be made out to a proper retailer for the items purchased.

FINDING

One disbursement for \$750 was made payable to the village police chief, Chris Anderson. There was no support for this disbursement; however, the mayor informed us that the police chief was given a signed blank check to purchase gasoline for the village's police car. The police chief allegedly made the check payable to himself, endorsed, and cashed the check.

RESPONSE

The village will never give an individual or business a signed blank check. Because the village can not afford a check protector it will completely fill in all the required information before signing a check.

FINDING

One disbursement for \$143, payable to Caplan's Men's Store, was made from the account statement without supporting invoices. We were informed by the mayor that this was for two police uniforms.

RESPONSE

The Village will set up a purchase order system, which will have to be approved before the actual purchase is completed. The village did have the adequate purchase order and invoice for this transaction.

FINDING

There is a lack of segregation of duties due to only one employee (the village clerk) performing all disbursement functions. The village clerk has custody of the unused checks, prepares the checks, mails the checks to the vendors, and reconciles the bank accounts. Although an adequate system of internal control is not feasible due to only one employee, board involvement could strengthen controls.

RESPONSE

The village realizes that this is a problem, but due to the fact that the village is so small, it is the only solution. The village has determined that it should have the aldermen at the end of each month compare checks with bank statements and invoices to assure of accuracy.

ACCOUNTING RECORDS NOT MAINTAINED

The village has not maintained adequate accounting records.

RESPONSE

The village has decided to have an adequate accounting system. The village has decided to follow up on two account systems, the Cash basis system, which stipulates that revenues not be recorded until the cash is received, and expenditures are not recorded until cash is disbursed. The bank account will be reconciled to the general ledger at the end of each month, to provide for some assurance that all transactions are recorded, and that they are recorded at the proper dollar amount. The other alternative is the Accrual basis, which records transactions when the underlying event takes place, rather than when the cash is received. This system might be good for the Sewer, to record revenues when the sewer customer requires the service, rather than when the sewer customer pays his or her bill. A cash receipts journal and a cash disbursement journal will be kept. A general Journal will be done.

FAILURE TO MAINTAIN FIXED ASSET RECORDS

RESPONSE

The village is now in the process of doing a complete inventory of all village assets and are recording them in a proper accounting system. Once the inventory is completed, the assets will be tagged.

PAYMENTS TO FAMILY OF VILLAGE CLERK

RESPONSE

The village realizes where this event could violate the code

of ethics, but it was advised by the village's auditor that it would not be a problem. The village has asked several other people to do the mowing of grass, but the others were either not interested or did not have the equipment necessary to complete the job. The village will continue having the relatives mow the grass until it can find a solution to the problem. If necessary, the village will submit a proper waiver for this situation.

BONUS PAID IN VIOLATION OF STATE LAW

The village paid a bonus to an employee in violation of state law.

RESPONSE

The village did not know that it was a violation of a state law. Because, it is a violation the village promises never to pay bonus to employees.

FAILURE TO COMPLY WITH LOCAL GOVERNMENT BUDGET ACT

The village did not comply with the budget requirements set forth in LSA-R.S. 39:1301-1314 (Louisiana Local Government Budget Act),

RESPONSE

The village promises that it will prepare a proposed budget for the General Fund and include a budget message and a proposed budget adoption instrument for the mayor's authority to make budgetary amendments. Once this is completed and adopted it will be located at the village hall.

REPORTING RETURNS TO INTERNAL REVENUE SERVICE

The Village of Metairie did not file informational tax returns (Form 999) required by the Internal Revenue Service (IRS).

RESPONSE

The village promises from now on it will properly record all the correct tax forms into the internal revenue service. The village had already been informed that it is to send out 1000's to any individual that owes more than \$500.00.

RECORDS OF VILLAGE ORDINANCES

Records of adopted ordinances have not been maintained in accordance with Louisiana law.

RESPONSE

The village has comprised a record of all ordinances and have located these ordinances into a locked filing cabinet.

REPORTS ON TRAFFIC VIOLATIONS NOT PREPARED

The Village of Metairie did not submit reports to the Department of Public Safety and Corrections, Public Safety (Office of State Police), listing every case in which a person was charged with a violation of any law regulating the operation of motor vehicles

on highways.

RESPONSE

The village promises that now it is aware of this situation, it will file the reports with the appropriate authority and will contact the authority to determine what should be done regarding reports not filed.

FAILURE TO OBTAIN SURETY BONDS

The village has not obtained fidelity bonds for those employees and officials who handle village funds.

RESPONSE

The village is checking into the cost of surety bonds at this time and if the village can afford same, it will do so immediately.

Attachment II

Legal Provisions

LEGISLATIVE AUDITOR

VILLAGE OF HATCHEZ
Hatchez, Louisiana

LEGAL PROVISIONS

The following legal citations are referred to in the findings and recommendations section of this report.

Article 7, Section 14(A) of the Louisiana Constitution of 1974 provides that the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation.

LSA-R.S. 14:87 (theft) defines theft as the misappropriation or taking of anything of value which belongs to another, either without the consent of the owner or the misappropriation or taking, or by means of fraudulent conduct, practices, or representations. An intent to deprive the owner permanently of whatever may be the subject of the misappropriation or taking is essential.

LSA-R.S. 24:515 (fixed assets) requires that the village maintain records of all land, buildings, improvements other than buildings, equipment, and any other general fixed assets which were purchased or otherwise acquired, and for which such entity is accountable.

LSA-R.S. 33:386 requires the clerk to execute a bond to the municipality in such an amount and with such surety and conditions as may be prescribed by ordinance.

LSA-R.S. 33:369(C) requires that every court in this state shall keep a full report of every case in which a person is charged with violation of any law of this state or of any municipality or parish governing authority lawfully established for regulating the operation of motor vehicles on highways. If such person is convicted, or his bail is forfeited, or other final disposition be made, an abstract of the report, except for parking convictions, shall be sent to the Department of Public Safety and Corrections, Public Safety Services not later than 30 days after the date of such person's conviction or forfeiture, or other final disposition of his case.

LSA-R.S. 33:369(D) requires the abstract to be made on forms prepared by the Department of Public Safety and Corrections, Public Safety Services and may include all necessary information as to the parties in the case, the nature of the offense, the date of hearing, the plea, the judgment, the amount of fine and forfeiture, or the final disposition. When the nature of the offense is specified as speeding, the abstract shall also include a statement of the miles per hour in excess of the speed limit that the person charged was alleged to have been traveling. Every such abstract shall be certified by the judge or the clerk of such court as a true abstract of the records of the court.

LEGISLATIVE ACTION

VILLAGE OF NATCHEZ

Natchez, Louisiana

Legal Provisions

Page 2

LSA-R.S. 33:299.2(D) and **(E)** require that the chief administrative officer retain a receipt of each book issued, require that all traffic officers return to him a copy of every traffic citation issued, and maintain a record of the disposition of the charge by the court.

LSA-R.S. 33:466(D) requires that the village clerk keep a book of ordinances in which the clerk shall file the original of every ordinance which has been adopted immediately after its passage with reference to the book and page of the board's minutes where it was adopted.

LSA-R.S. 33:422 requires the village clerk to keep a book in which he shall enter and preserve accounts of each particular fund.

LSA-R.S. 33:442 provides that the mayor shall keep a regular docket and shall keep a perfect record of all cases filed. **LSA-R.S. 33:393(C)** provides that every court in the State of Louisiana shall keep a full report of every case in which a person is charged with violation of any law of this state or of any municipal or parish governing authority lawfully established for regulating the operation of motor vehicles on highways. Additionally, it provides that if such person is convicted, or his bail is forfeited, or other final disposition be made, an abstract of the report shall be sent by the court to the commissioner not later than thirty days after such disposition.

LSA-R.S. 33:462 provides in part that all expenditures of money by the village shall be in pursuance of a specific appropriation made by order and in no other manner. This appropriation must be approved by the board of aldermen.

LSA-R.S. 38:1213 requires that all funds of local depositing authorities shall be deposited daily whenever practicable, in the fiscal agency provided for, upon the terms and conditions, and in the manner set forth in Title 38, Chapter 7.

LSA-R.S. 38:1381-1314 (Louisiana Local Government Budget Act) requires each political subdivision to prepare a comprehensive budget for the ensuing fiscal year for the general fund and each special revenue fund.

LSA-R.S. 42:1152(B) provides that no public servant shall participate in a transaction involving the governmental entity in which, to his actual knowledge, a member of his immediate family has a substantial economic interest.

LSA-R.S. 42:1464(A) provides that officials, whether elected or appointed and whether compensated or not, and employees of any public entity, which for purposes of this Section shall mean and include any department, division, office, board, agency, commission, or other organizational unit of any of the three branches of state government or of any parish, municipality, school board, or parish, by the act of accepting such office or employment assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property or other thing of value belonging to or under the custody or control of

LEGISLATIVE ADDRESS

VILLAGE OF MATCHEZ

Matchez, Louisiana

Legal Provisions

Page 3

the public entity in which they hold office or are employed. Furthermore, LSA-R.S. 40:1461(C) provides that the breach of an obligation established under this Section shall give rise to an action in favor of the public entity for the recovery of any such funds, property or other things of value and for any other damages resulting from the breach.