

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Village of Bonita  
Bonita, Louisiana

September 17, 1997



*Audit Resolution Report*

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

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**VILLAGE OF BONITA**  
Bonita, Louisiana

Audit Resolution Report  
Dated August 27, 1997

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

September 17, 1997

**3. Finding:****Sales Tax Liability to State Not Recorded Properly****Response:**

The Village's revenue from sales tax collection and the liability to the State for sales tax collected on water sales are noted. We believe this suits our needs. We are, however, in the process of reviewing our accounting procedures and will include this in our review.

**4. Finding:****Need to Improve Controls over Receipts and Disbursements****4.1**

Deposit cash receipts (except daily anytime receipts exceed \$200)

**Response:**

We agree in principal with this recommendation, but we cannot comply. We do not have a bank in town. The Village Clerk and the Water Billing Clerk are each part-time employees without available time to make daily deposits to an out of town bank. In any event, proper segregation of duties call for a person not involved in cash receipts (the Water Billing Clerk) or bank reconciliation (the Village Clerk) make bank deposits. The person who regularly makes the deposits is the Mayor. The Mayor's position is essentially a volunteer one and he is unwilling to make more frequent trips to the bank.

**4.2**

Restrictively endorse all checks upon receipt

**Response:**

We agree and have implemented procedures to comply.

**4.3**

Require supporting documentation for all disbursements prior to payment

**Response:**

We concur with this finding and will make every effort to obtain and retain supporting documentation for each expenditure.

4.4

Cancel or mark paid all paid invoices

#### Response:

We are reviewing this recommendation and our current procedures to identify areas of internal control that can be improved.

4.5

Require that all bank statements be received unopened by the Mayor for this review

#### Response:

We agree in principle, but cannot comply. The Mayor will review unopened bank statements occasionally, but certainly not all and not every month. The Mayor's position is part-time and essentially a volunteer one. The current Mayor is in Horsham during the day, most days. This is, however, not a requirement to serve as Mayor and in fact, all the Mayors for the previous 15 years held jobs out of town. The current Mayor is unwilling to expand the duties of the position, if doing so would preclude otherwise qualified citizens from serving as Mayor in the future.

### 5. Finding:

Fixed Asset Records and Procedures Need Improvement

#### Response:

We agree. However some historical background is required to adequately comment on our current situation. Prior to year-end 6/30/95 the Village did not maintain fixed assets records at all. They were maintained by the Village's auditing firm, Hill, Inciso & Company and they did not maintain detailed records. The mayor reconstructed the detailed records from Hill, Inciso workpapers going back over 15 years. The reconstruction of the detailed records revealed that many items listed were no longer in existence. In the case of General Fund assets especially (where no depreciation is recorded) the values overstate reality. The Mayor has sought advice from Hill, Inciso and Gary McCarty on how to remove or revalue such assets without distorting the current period's income statement.

We are flying blind in regards to fixed assets and the related depreciation. The State of Louisiana, Division of Administration, Office of Community Development has recently deferred (until Program Year 2008) their requirement that depreciation be funded. They claim that such a set-aside is required by generally accepted accounting principles, GAAP. This, of course, is not a requirement of GAAP, at least a law as publicly traded companies subject to GAAP is concerned. Otherwise such firms' income statements and income statements prepared with non-cash expenses would be identical. Any assistance you can provide as to what GAAP requirements are for municipalities, how to remove assets without distortion and the proper accounting for donated assets would be appreciated.

#### 6. Finding

##### Need to Improve Controls over Utility Accounts and Meter Deposits

###### Response:

1. We do not believe that requiring all customers to have water meters can be justified from a cost-benefit standpoint. We do not meter water to churches. Per a conversation with a representative of the Jones-McGinty water system, which does meter churches, the only time churches get an or near the minimum is during vacation bible school or retreats. Spending \$42 for a meter that has a payback period of over 10 years is an expenditure that we choose not to make.

2. Reconciling water consumed to water pumped sounds nice, but is impractical. We monitor the usage to pumped figures each month and investigated wide variances from the norm. Every water system I am aware of loses water to leakage. Reconciliation is simply not possible in the way that you would reconcile a bank account...

3.4 The detailed listing of customers' meter deposits and the balance in the demand deposit and CD is reconciled. The difference is accounted for by funds borrowed during the flood of 1991. As surplus funds are generated we will pay this money back. We expect to use some of the funds noted in finding # 8 for this purpose.

#### 7. Finding

##### Payroll Procedures Need to be Improved

###### Response:

We agree and have already started to improve payroll procedures. We purchased an upgrade to our accounting software which includes a payroll module. This will be implemented during the first payroll period in calendar year 1998. It will include a automated mechanism to monitor vacation and sick leave earned and taken.

Requiring that all employees have time sheets approved by the "appropriate supervisor" ignores the fact that only in the case of the police does a department have more than one person in it. Thus we are back to the problem outlined in Finding #4. Certain organizations are too small to accommodate all the controls achievable in larger organizations.

### **I. Finding**

#### **Excess Cash Not Invested**

##### **Response**

We agree with this finding. However, most of what was identified as excess cash has only recently become available. But we will make every effort to identify excess cash and invest it, if that seems the most fiscally responsible course of action. Currently our demand deposit accounts have no minimum balances and no fees are charged on any of them. Some of these accounts we regularly draw down to \$10. We will have to get with our banker and make sure that in our quest for investment income we will not be incurring bank fees that would offset the income.

Sincerely,



Michael J. Lytk, Mayor  
Village of Ironia

cc: Gary L. McCarty, CPA, Office of the Legislative Auditor

Village of Bonita  
Bonita, Louisiana

CONTENTS

	Page
Legislative Auditor's Transmittal Letter	2
Background and Methodology	3
Conclusions	4
Findings and Recommendations	6
	Attachment
Management's Responses	i





DANIEL A. KYE, III, CPA, CFE  
LEGISLATIVE AUDITOR

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August 27, 1997

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

Transmitted herewith is our report on the examination of the Village of Bonita (village). Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine whether the village has taken appropriate action in response to findings cited in the report and management letter dated January 30, 1997, issued by Hill, Irwin & Company, Certified Public Accountants.

The accompanying report includes unresolved audit findings. We will continue to monitor those audit findings until the findings are resolved by management.

Copies of this report have been delivered to the mayor and members of the Village of Bonita and other authorities as required by state law.

Respectfully submitted,

Daniel D. Kye, CPA, CFE  
Legislative Auditor

DDK:DLM:scb

08/27/97

LEGISLATIVE AUDITOR

VILLAGE OF BOMTA  
Bomta, Louisiana

**BACKGROUND AND METHODOLOGY**

Hill, Isaacs & Company, Certified Public Accountants, issued an attestation report and accompanying management letter dated January 30, 1987, on applying speed-up/en procedures relating to representations made by the board for the year ended June 30, 1986. The attestation report and management letter included numerous internal control deficiencies and violations of state laws and regulations.

We visited the village to determine whether appropriate action was taken to correct the matters included in the report and management letter. Our procedures consisted of the following: (1) examining selected village records; (2) interviewing certain employees of the village; (3) reviewing applicable Louisiana laws, Louisiana Board of Ethics' rulings, and Attorney General opinions; and (4) making inquiries to the extent we considered necessary to achieve our purpose.

## LEGISLATIVE AUDITOR

### VILLAGE OF BONITA Bonita, Louisiana

#### CONCLUSIONS

Based on the results of the procedures performed during our visit to the village, we conclude that management of the village has taken the following steps to resolve the findings contained in the Hill, Irwin & Company report and accompanying management letter dated January 30, 1997:

1. The employee's water/sewer bill that was delinquent is now current. The employee's meter is read monthly, he receives a monthly bill from the village, and, he makes timely monthly remittances to the village for his water/sewerage usage.
2. The mayor does not conduct his personal business at the village hall. He has an office at his home where he conducts his private accounting practice.
3. The village's June 30, 1997, completed financial statements and reports should be completed and issued before December 31, 1997. The engagement agreement between the village and the independent certified public accountant was approved by the Legislative Auditor on June 27, 1997.
4. The membership fee (\$25) paid to Sam's Wholesale Club to enable the village to purchase items (computer paper and janitorial supplies) at a reduced cost benefits the village; therefore, this disbursement is a lawful expenditure.
5. Coding cash transactions to "miscellaneous" and "unsegregated" is now limited. The mayor is making an effort to code all cash transactions to the most appropriate account.
6. Board minutes are signed by the mayor and village clerk.
7. All village taxes are used for the intended purposes.
8. Sewer rates were increased to reduce the amount of Enterprise Fund operating losses and deficit. However, the Enterprise Fund operating losses and deficit will continue because depreciation expense is not being fully funded.
9. Deposits in excess of the required amounts are being made to the bond reserve and contingency accounts.
10. Board minutes we reviewed were transcribed accurately.
11. Village procedures for delinquent water/sewer customer accounts are being followed.
12. Backup copies of the village's computer files are stored off premises.

Village of Bonita  
Bonita, Louisiana  
Conclusions (Concluded)

Management of the village did not address the following findings included in the Hill, Incina & Company report and accompanying management letter dated January 30, 1997:

1. The village's annual budget was not adopted timely.
2. Supporting documentation for all disbursements is not maintained.
3. Official proceedings of board meetings are not published in the official journal.
4. The village's water rates tax liability to the state is not recorded properly in the village's accounting records.

As we resolved the findings contained in the Hill, Incina & Company report and management letter, the following matters came to our attention:

1. Controls and procedures over receipts and disbursements need to be improved.
2. Fixed asset records are not current, assets are not tagged, and physical inventories are not conducted.
3. Controls over utility accounts and meter deposits need to be improved.
4. Payroll procedures need to be improved.
5. Excess cash is not invested.

The Findings and Recommendations section of this report provides details for our conclusions for the findings not addressed by management of the village and the additional matters that came to our attention during our follow-up review.

LEGISLATIVE AUDITOR

VILLAGE OF BONITA,  
Bonita, Louisiana

FINDINGS AND RECOMMENDATIONS

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**Failure to Comply With Local  
Government Budget Act**

The village's annual budget for the fiscal year ending June 30, 1988, was not adopted timely as required by Louisiana law. Louisiana Revised Statute (R.S.) 39:1308 requires that all action necessary to adopt and finalize the budget be completed before the start of the fiscal year. As of July 11, 1987, the budget for the fiscal year ending June 30, 1988, was not adopted.

All action necessary to adopt and finalize the fiscal year 1988 budget should be completed immediately. All future village budgets should comply with the provisions of Louisiana law and be adopted before the start of the fiscal year.

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**Failure to Publish Minutes**

Proceedings of the board meetings are not published as required by Louisiana law. R.S. 43:143 requires that the proceedings of the board meetings be published in the official journal of the village. The mayor stated that funds are not available to publish the minutes, but the minutes are conspicuously posted at the Village Hall.

In the future, the proceedings of the board meetings should be published in the village's official journal, as required by Louisiana law.

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**Sales Tax Liability to  
State Not Recorded Properly**

The village's water sales tax liability to the state is not recorded properly in the village's accounting records. The amounts collected by the village from water customers for the state sales tax and the amount that the village remits to the state is recorded in revenue accounts instead of a liability account. As a result, water revenue is overstated and sales tax revenue is understated.

The sales tax liability and related payment to the state should be properly recorded in the village's accounting records in the future.

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Village of Bonita  
 Bonita, Louisiana  
 Findings and Recommendations (Continued)

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**Need to Improve Controls Over Receipts and Disbursements**

Controls over receipts and disbursements need to be improved. The control weaknesses are:

- Deposits are not made timely. Deposits are made once a week and sometimes twice a week if a significant amount of cash is received. There was \$4,220 in cash and checks in the cash drawer on the date of our visit. This represented collections received over several days.
- Incoming checks are not selectively retained upon receipt.
- Two disbursements we reviewed did not have supporting documentation.
- All paid invoices are not cancelled or marked paid to prevent duplicate payment.
- Bank statements and related canceled checks are not reviewed by the mayor.

Management of the village should (1) deposit cash receipts (net daily anytime receipts exceed \$200), (2) selectively endorse all checks upon receipt, (3) require supporting documentation for all disbursements before payment, (4) cancel or mark paid all paid invoices, and (5) require that all bank statements be received unopened by the mayor for his review.

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**Fixed Asset Records and Procedures Need Improvement**

Detailed fixed asset records are not current, assets are not tagged, and physical inventories of fixed assets are not conducted. Good internal controls over fixed assets require that (1) detailed fixed asset records be current; (2) every asset include a tag identifying it with a number that can be cross-referenced to the detailed fixed asset records; and (3) a physical inventory be conducted at least on an annual basis.

A review of the detailed fixed asset records revealed that several fixed asset items listed no longer existed (lawnmowers, a weed-eater, and a car phone). Fixed assets are not tagged; therefore, identifying asset tags to the detailed fixed asset listing was not always possible. In addition, the descriptions for some assets on the detailed fixed asset listing were too general to locate the asset.

The village should (1) adopt a written policy to define assets that will be inventoried, including the minimum value for inclusion on the list of fixed assets; (2) take a physical inventory at least annually and follow up on items not found during the physical inventory; and (3) identify (tag) assets that belong to the village and include the tag number on the listing of fixed assets.

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Village of Bonita  
 Bonita, Louisiana  
 Findings and Recommendations (Continued)

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**Need to Improve Controls Over Utility  
 Accounts and Meter Deposits**

All water customers do not have water meters and the meter deposit amount has not been reconciled with the detailed listing of customers' meter deposits. Metering all customer water usage and comparing this usage to the water consumed from the village's master water meter helps to ensure that customer billings are accurate and that all customers are billed. In addition, for those customers paying a flat rate, management of the village can better determine the amount of flat rate that should be charged these customers.

Management of the village has a fiduciary responsibility to reconcile the meter deposit bank account with the detailed listing of customers' meter deposits. At July 11, 1997, the cash balance in the meter deposit bank account totals \$7,186, and the detailed listing of customers' meter deposits totals \$10,581, a difference of \$3,495.

Management of the village should (1) require that all water customers have water meters; (2) reconcile customer water usage to the water consumed from the village's master water meter each month and account for any significant differences; (3) update and balance the detailed listing of customers' meter deposits with the cash account; and (4) reconcile the meter deposit bank account with the detailed listing of individual customer deposits on a monthly basis.

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**Payroll Procedures Need Improvement**

Payroll procedures need to be improved. Our review of payroll and personnel records revealed:

- There is no documentation of the approved salary/wage amounts paid to employees.
- Employees do not complete time reports.
- There are no records maintained to document whether employees earn or take vacation, leave or sick leave.

Although the village has only five employees, with minimal effort, management of the village can significantly improve controls over payroll. There is no need for complex policies, procedures or forms. Management of the village should:

## LEGISLATIVE REPORT

### Village of Bonita

Bonita, Louisiana

#### Findings and Recommendations (Concluded)

1. Include in the individual employee personnel files the approved salary or rate of pay amount.
2. Require all employees to complete simple time reports to document hours worked. The time reports should be approved by the appropriate supervisor.
3. Maintain simple records to account for vacation and sick leave earned and taken by employees.

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#### Excess Cash Not Invested

The village did not invest excess cash. R.S. 33:2956 authorizes and directs the village to invest monies that are determined to be available for investment in prescribed interest-bearing accounts or securities. Furthermore, good business practice requires the village to invest monies in excess of immediate cash needs.

At June 30, 1997, the village has cash totaling \$68,609. Of this amount, \$25,775 was in non-interest-bearing demand deposit accounts and \$42,834 was in interest-bearing accounts.

Management of the village should develop and adopt an investment policy where excess cash is invested in prescribed interest-bearing accounts or securities.

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**Attachment I**  
**Management's Responses**

**Village of Bonita**  
**P. O. Box 378**  
**Bonita, Louisiana 71223**  
**September 10, 1997**

Mr. Daniel G. Kyle, Legislative Auditor  
Legislative Audit Advisory Council  
State of Louisiana  
P. O. Box 94397  
Baton Rouge, LA 70804-0397

Dear Mr. Kyle:

Our comments to the Findings and Recommendations contained in the preliminary draft of the Audit Resolution Report recently completed by Mr. Gary L. McCarty of your office are included in this response.

1. Finding:

Failure to Comply with Local Government Budget Act

Response:

We agree that the budget was not adopted by July 1, 1997. By way of explanation, the budget was prepared and ready for approval at the June 3, 1997 Council meeting. Not all Council members were present and the Council decided to wait until all could be present to approve the budget. Unfortunately at the next Council meeting, July 1, 1997, there was not a quorum present and no action could be taken. At the following meeting, August 5, 1997, the budget was approved.

2. Finding:

Failure to Publish Minutes

Response:

We concur with this finding and will comply as funds become available. In the interim, official proceedings are conspicuously posted in a window of the Village Hall. As an aside, this requirement is particularly onerous on small municipalities. In our instance it would be cheaper to mail each voter a copy of the minutes, than it would to publish the minutes in the paper.