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February 5, 1999

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The Honorable Anne S. Wycoff, Mayor
Village of Sicily Island
Post Office Box 45
Sicily Island, Louisiana 71368

Dear Mayor Wycoff:

As a result of your election as the new mayor of the Village of Sicily Island, you requested that a representative of my office visit the village to provide guidance to the new administration, ensure that financial transactions are being recorded properly, and that appropriate financial records are maintained. A representative of my office visited the village during the week ended January 8, 1999. In addition to providing guidance to the new administration, the following matters were observed that should be addressed early in your administration.

Need for Organization of Village Records

The village records are not filed in an orderly manner. We observed unpaid invoices, paid invoices, and various other village documents scattered about the office. In addition, the items in files were not filed in an orderly manner.

The new administration should inventory all records that should be maintained by the village and file these records in an orderly manner.

Need to Improve Controls Over Receipts and Disbursements

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

- Cash receipts were not deposited intact daily. On January 8, 1999, we observed checks and cash that were received from October 13, 1998, through December 30, 1998, totaling \$1,684. These checks and cash were located in various places around the office (in desk drawers, in the closet, on the counter top, and in the filing cabinet). We also observed customer utility bills that were stamped paid by the town but were not deposited in the town's bank account until two weeks later.

- Incoming checks were not restrictively endorsed upon receipt. The checks received by the previous administration, as noted above, were not restrictively endorsed.
- Receipts were not recorded in a daily cash receipts journal. In addition, customer utility payments received in December were not posted to the customers' accounts receivable records; therefore, bills mailed in January to customers who paid their December bills reported balances due that had already been paid.
- The cash drawers at the village hall and the police department were not balanced daily to the established cash balances.
- The former mayor, former town clerk, and Alderman Timothy Ford signed checks before the checks were completely filled in. We observed four checks from four village checking accounts that were signed either by the former mayor, former town clerk, or Alderman Timothy Ford before they were completed.
- We could not find any evidence that paid invoices we reviewed were approved before payment.
- All paid invoices are not canceled or marked paid to prevent duplicate payment.
- IRS Forms 1099 were not filed for calendar year 1998.
- The village does not have a written procurement policy nor does the village use a purchase order system.

The new administration should (1) deposit cash receipts intact daily anytime receipts exceed \$200; (2) restrictively endorse all checks upon receipt; (3) record all daily cash receipts in a cash receipts journal; (4) balance the cash drawer daily to the established cash balance; (5) prohibit the signing of checks before they are complete and require that checks are signed only after reviewing documentation to support the disbursement; (6) require that invoices are approved before payment; (7) cancel or mark paid all paid invoices; (8) file IRS Forms 1099 for all individuals who did business with the village and received payments of \$600 or more; and (9) adopt a written procurement policy that uses a purchase order system.

General Ledger Not Prepared Timely

The general ledger was not prepared timely. On the date of our visit (January 5, 1999), the general ledger was prepared through September 1998. Preparing a general ledger and reconciling certain account balances in the general ledger to detailed records (i.e., cash, accounts receivable, accounts payable) provides assurance that all transactions are recorded. Without a current general ledger, the village is unable to prepare accurate and timely financial statements and the risk of loss from errors and fraud is increased.

The new administration of the village should implement procedures requiring the timely preparation of the general ledger.

Need for Monthly Financial Statements

Financial statements were not presented to the board monthly. R.S. 33:425 requires the treasurer to keep accurate accounts of all receipts and disbursements and report the finances *of the municipality in writing to the mayor and board of aldermen at each regular meeting.*

The village clerk should prepare and present to the board monthly financial statements that report the operations of the village compared to budgeted amounts.

Bank Statements Should Be Reviewed Timely

Bank statements and related canceled checks for the village were neither reviewed nor reconciled timely to the book balance. R.S. 10:4-406(d)(2) allows the village thirty days to examine bank statements and canceled checks for unauthorized signatures or alterations. On the date of our visit (January 5, 1999), the village's bank statements for October and November 1998 were neither reviewed nor reconciled to the book balances.

The new administration of the village should implement procedures requiring timely preparation, supervisory review, and approval of bank reconciliations.

Failure to Comply With Local Government Budget Act

The village's annual budget for the fiscal year ending June 30, 1999, was not adopted. R.S. 39:1308 requires that all action necessary to adopt and finalize the budget be completed before the start of the fiscal year. In addition to violating Louisiana law, this reduces the effectiveness of the village's budgetary controls over revenues and expenditures and restricts public participation in the budgetary process.

The new administration of the village should ensure that all future village budgets comply with the provisions of Louisiana law and be adopted before the start of the fiscal year.

All Excess Cash Should Be Invested

The village did not invest all excess cash. R.S. 33:2955(A) authorizes and directs the village to invest monies that are determined to be available for investment in prescribed interest-bearing accounts or securities. At December 31, 1998, the village has cash in 13 noninterest-bearing demand deposit accounts totaling \$135,383.

The new administration of the village should invest excess cash in prescribed interest-bearing accounts or securities.

Fixed Asset Records and Procedures Needed

Detailed fixed asset records are not maintained, assets are not tagged, and physical inventories of fixed assets are not conducted. R.S. 24:515(B)(1) 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. The new administration of 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) *prepare a detailed list of fixed assets* (the list should include the date of purchase and the initial cost); (3) take a physical inventory at least annually and follow up on items not found during the physical inventory; and (4) identify [tag] assets that belong to the village and include the tag number on the listing of fixed assets.

Need to Improve Controls Over Utility Accounts and Meter Deposits

Controls over utility accounts and customer meter deposits need to be improved. The control weaknesses are:

- The utility accounts receivable balance in the general ledger is not reconciled monthly with the detailed billing register.
- The customers' meter deposit balances in the general ledger are not reconciled monthly with the detailed listing of customers' meter deposits.

The new administration should (1) reconcile the accounts receivable balance in the general ledger with the detailed billing register monthly; (2) update and balance the detailed listing of customers' meter deposits with the cash account; and (3) reconcile the customers' meter deposit bank accounts with the detailed listing of individual customer deposits monthly.

Insufficient Effort to Collect Delinquent Utility Accounts

The village has not made sufficient efforts to collect delinquent gas, water and sewerage accounts. We were informed that the village has a policy of disconnecting customer utilities if payment is not received; however, the village does not actively try to collect the delinquent account balances.

The new administration of the village should take aggressive action to collect delinquent amounts, including legal action when necessary. In addition, the village's formal cut-off policies and procedures should be reviewed by the new administration to ensure that all delinquent accounts are collected on a timely basis or that service is discontinued.

Payroll Procedures Need Improvement

Our review of payroll revealed:

- Employer's Quarterly Federal Tax Returns (Form 941), Louisiana Withholding Tax Returns, and Louisiana Unemployment Returns were not filed currently.
- The previous administration prepared Forms W-2 (wage and tax statement) for employees for 1998, and issued some of these to employees before ensuring they were correct. Form W-3 (transmittal of Forms W-2 to the Social Security Administration) was not completed, nor were the Forms W-2 reconciled to the Employer's Quarterly Federal Tax Returns (Form 941).
- Individual employee personnel files were not maintained for all employees.
- Form I-9 - "Employment Eligibility Verification" is not maintained for all employees hired after November 6, 1986, as required by the U.S. Department of Justice Immigration and Naturalization Service.
- There is no documentation on file of approved salary/wage amounts paid to employees.
- Employees do not complete time reports. The village clerk records the hours worked by maintenance employees.
- There is no policy regarding earning or taking vacation or sick leave. In addition, there are no records maintained to document whether employees earn or take vacation or sick leave.
- Some employees are paid with checks from several different village accounts, instead of with just one check.

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

1. File the appropriate payroll tax returns timely.
2. Maintain individual employee personnel files that include, at a minimum, (a) an employment application form; (b) approved salary or rate of pay; (c) the Employee's Withholding Allowance Certificate Form W-4 and State of Louisiana Employee Withholding Exemption Certificate Form L-4; (d) approved salary or hourly pay rate increases/decreases; (e) annual performance appraisals; and (f) the completed Form I-9 - U.S. Department of Justice Immigration and Naturalization Service "Employment Eligibility Verification" for all employees hired after November 6, 1986.

3. Require all employees to complete simple time reports to document hours worked. The appropriate supervisor should approve the time reports.
4. Adopt a simple policy regarding the earning and taking of vacation and sick leave.
5. Maintain simple records to account for vacation and sick leave earned and taken by employees.
6. Open a payroll account at the bank and pay all employees from this account (only one check for each employee with a stub that shows the gross wage, withholdings, and net pay).

Sales Tax Returns Should Be Filed Timely

Louisiana sales tax returns were not filed timely. The former village clerk informed us that they were filed through August 1998. Sales tax returns for September, October, November, and December 1998 should be filed as soon as possible and the new administration of the village should develop procedures to ensure that future sales tax returns are filed timely.

Other Sundry Items Needing Attention

Occupational License Tax – Obtain a list of businesses located in the village and determine if the occupational license tax currently due has been paid. A late fee should be charged and collected in addition to the tax for those businesses that are delinquent.

Property Taxes – Monitor the collection of property taxes. Provide a list to the parish sheriff of property taxes unpaid after proper notice has been provided for the sheriff's sale.

Sewer Revenue Bonds – Obtain a copy of the bond resolution for the \$393,800 Sewer Revenue Bonds and obtain the amortization schedule to determine when payments are due. Determine if there are any restrictions or reserve requirements and if there are reserve requirements, ensure that these amounts are in appropriate bank accounts that describe the type of reserve. Monitor these accounts monthly to determine if the cash balances comply with the loan agreement.

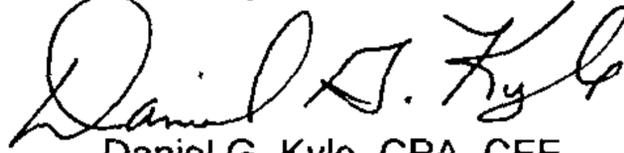
Deferred Compensation Plan – Obtain the agreement with Louisiana Deferred Compensation that provides the requirements the village must meet to participate in this program. Determine if the village passed a resolution or other action authorizing the village to match the employee's contribution. Provide the employees with their options regarding this deferred compensation program.

Traffic Tickets – Prepare written procedures for issuing and processing traffic tickets and misdemeanor summons. Include in the procedures how to account for the issued citations, how to prepare the village's monthly court docket, and how to prepare the village's monthly reporting requirements for the Louisiana Department of Public Safety and Corrections.

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As you begin to resolve each finding, please keep in mind the important role that both you and the board will have in managing the operations of the village. If you have any questions about the review, please contact me or Gary McCrary of my staff at (225) 339-3886.

Sincerely,

A handwritten signature in black ink that reads "Daniel G. Kyle". The signature is written in a cursive style with a large initial "D".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

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