

CITY OF BOGALUSA



INVESTIGATIVE AUDIT
ISSUED JUNE 8, 2016

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

June 8, 2016

**THE HONORABLE WENDY O'QUIN-PERRETTE, MAYOR
AND THE MEMBERS OF THE CITY COUNCIL
CITY OF BOGALUSA**
Bogalusa, Louisiana

We have audited certain transactions of the City of Bogalusa. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the validity of allegations we received.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*.

The accompanying report presents our findings and recommendations as well as management's response. This is a public report. Copies of this report have been delivered to the District Attorney for the 22nd Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

BOGALUSA 2016

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EXECUTIVE SUMMARY

Cash Payments Not Deposited

City of Bogalusa (City) records indicate that from September 16, 2015 to February 12, 2016, cash payments for ad valorem (property) taxes and utility services totaling \$5,612 were received but not deposited into the City's bank accounts. Although three City employees were responsible for collecting payments during this period, former Water Clerk Jodi Herrington was primarily responsible for receiving, recording, and processing 89% (\$5,006) of the missing funds. These records further indicate that Ms. Herrington altered City records to conceal property tax payments collected but not deposited. By failing to deposit all property tax funds collected and by altering City records to conceal property tax amounts not deposited, Ms. Herrington may have violated state law.

BACKGROUND AND METHODOLOGY

The City of Bogalusa (City) is located in Washington Parish and has a population of 12,232 (2010 Census). The City was incorporated on July 4, 1914, and is governed by the provisions of a home rule charter adopted October 22, 1977. The City operates under a “mayor-council” form of government that consists of an elected mayor heading the executive branch and an elected council representing the legislative branch. The City provides utility, public safety (police), streets, sanitation, and general administrative services to residents and businesses.

On February 29, 2016, the Louisiana Legislative Auditor (LLA) received a misappropriation notice from the City regarding a possible theft of public funds. The notice indicated that on five occasions from September 16, 2015 to January 26, 2016, City employees discovered cash shortages in the City’s utility collections totaling \$1,526. As a result, two City employees were placed on paid administrative leave pending the City’s investigation into this matter. During this investigation, City officials discovered that several ad valorem property tax payments appeared to have been received but not deposited. The City Police Department later turned the investigation over to the Louisiana State Police, who requested LLA to review the City’s utility and ad valorem property tax records to determine if cash payments were received but not deposited.

The procedures performed during this audit included:

- (1) interviewing City employees;
- (2) interviewing other persons as appropriate;
- (3) examining selected City documents and records;
- (4) gathering and examining external parties’ documents and records; and
- (5) reviewing applicable state laws and regulations.

FINDING AND RECOMMENDATIONS

Cash Payments Not Deposited

City of Bogalusa (City) records indicate that from September 16, 2015 to February 12, 2016, cash payments for ad valorem (property) taxes and utility services totaling \$5,612 were received but not deposited into the City's bank accounts. Although three City employees were responsible for collecting payments during this period, former Water Clerk Jodi Herrington was primarily responsible for receiving, recording, and processing 89% (\$5,006) of the missing funds. These records further indicate that Ms. Herrington altered City records to conceal property tax payments collected but not deposited. By failing to deposit all property tax funds collected and by altering City records to conceal property tax amounts not deposited, Ms. Herrington may have violated state law.^{1,2,3,4,5}

During our audit period, the City had three clerks/cashiers — Jodi Herrington, Monique Moses, and Pamela Armstrong — who were primarily responsible for collecting property tax and utility payments. Payroll Clerk Angela Hines and Accounts Payable Clerk Patty Wells collected payments when needed. Ms. Herrington was hired on November 16, 2015, to fill the Water Clerk position formerly occupied by Ms. Hines. When clerks received payments, they would take the detachable remittance stub^A from the taxpayer's bill (when provided by the taxpayer) and enter the payment into the City's computerized property tax or utility system. The systems were accessed by each clerk with unique usernames and passwords and automatically generated two receipt copies, one for the payer and one for the City's records. The clerks then put the payment (cash, check, or credit card receipt) into the appropriate drawer (separate drawers were kept for property tax and utility payments) and attached the payment remittance stub (if provided by the taxpayer) to the City's copy of the receipt for their file.

In the afternoon, the clerks counted their collections individually and agreed the funds collected to the system generated collection reports. Once reconciled, the funds and collection reports were placed in bags (one for property taxes and one for utilities) and locked in the City's vault overnight. The following morning, City Clerk Lillie Brown opened the vault and allowed each clerk to retrieve her bags. Ms. Moses then obtained the bags from each clerk, printed a comprehensive report from the system showing all collections, reconciled the collections to the report generated from the system, and gave the report and funds to Ms. Brown for deposit. Ms. Brown counted the funds, reviewed the supporting documentation, prepared deposit slips, and transported the funds to the bank.

^A The City uses a third party to generate and mail the City's property tax notices, which are due on December 31st of each year. Each property tax notice contains a detachable payment remittance stub that the taxpayer is instructed to include with his/her tax payment.

Ad Valorem Tax Payments Not Deposited

We examined transactions from the City's property tax system and compared the payments recorded to funds deposited into the City's bank accounts. These records indicate that from December 15, 2015 to February 12, 2016, Ms. Herrington received 30 cash payments for property taxes totaling \$4,086 that were not deposited into the City's bank accounts. Although these payments were initially entered into the property tax system, records indicate that Ms. Herrington canceled the payments from the computer system prior to reconciling her drawer and turning her funds over to the Town Clerk for deposit. We located receipts for all 30 of the canceled payments that were not deposited. Each receipt indicates that a cash payment was collected by Ms. Herrington. Additionally, we found that the payment remittance stub was attached to 21 (or 70%) of the receipts, indicating that the taxpayers brought their original tax notices into City Hall to accompany their payments.

For example, City records indicate that Ms. Herrington recorded a \$129 cash payment to a taxpayer's account at 9:19 a.m. on December 16, 2015. We obtained the receipt and payment remittance stub for this payment indicating that Ms. Herrington issued the receipt. We also spoke with this taxpayer who confirmed that Ms. Herrington collected his cash payment. City records indicate that Ms. Herrington canceled the payment on the same day at 10:52 a.m. When Ms. Herrington remitted her daily collections for deposit, the \$129 cash payment was not included. There were no subsequent payments recorded to the taxpayer's account.

Ms. Herrington stated that she was not certain how payments she collected would have been canceled in the system and the funds not deposited. She agreed that she had likely collected the cash payments but denied taking any of the missing funds. She stated it was possible that when she stepped away from her workstation, another City employee could have used her computer and system accesses to cancel the payments and then remove the cash from her drawer. We spoke to all of the other clerks who received payments during the audit period. Each of these clerks stated that they worked from their own drawers and used their own system usernames and passwords. In addition, neither of the two clerks with workstations near Ms. Herrington's workstation noted any instances in which another City employee went into Ms. Herrington's drawer.

It should be noted that since the payments received by Ms. Herrington were canceled in the computer system, these taxpayers later received notices indicating that their property taxes were delinquent. According to City employees, some taxpayers called or visited City Hall to explain that they had paid their property taxes in cash and should not be delinquent. After determining that the payments had been paid and the accounts should not be delinquent, City management instructed the City's property tax system developer to correct these accounts in the system. In order to correct these accounts, the developer deleted the payment cancellations entered by Ms. Herrington as well as any subsequent interest and penalty transactions recorded to the customers' accounts.

Utility Payments Not Deposited

City records indicate that on five separate occasions from September 16, 2015 to January 26, 2016, there were cash shortages from the City's utility collections totaling \$1,526. Although we were able to complete a full reconciliation of all property tax collections, we were unable to do so for utility collections due to deficiencies in City record keeping, cash controls, and system reporting processes. These deficiencies prevented auditors from determining with any degree of accuracy if all utility payments collected were recorded in the utility system and deposited in the City's bank account. As such, we are only reporting on the shortages noted by City employees. Prior to beginning our audit, the City identified the following utility cash shortages:

| Clerk(s) Cash Drawer(s) | Date | Amount |
|---|------------|-------------------|
| Monique Moses/Pam Armstrong/A Esquive | 9/16/2015 | \$306.04 |
| Undetermined | 12/1/2015 | 300.00 |
| Jodi Herrington | 12/10/2015 | 300.00 |
| Jodi Herrington | 1/20/2016 | 300.00 |
| Jodi Herrington | 1/26/2016 | 320.00 |
| Total Cash Shortages for Utility Collections | | \$1,526.04 |

Based on the City's collection practices, the clerks would have reconciled the funds in their drawers to a system report of transactions entered into the computer system. The funds and system report would have been placed into sealed bags and stored inside the vault. At a later time (generally the next business day), the sealed bags were removed from the vault by the collecting clerks and later provided to either Ms. Moses or Ms. Brown to reconcile the funds to a system report detailing all transactions entered into the system. The discrepancies noted in the table above were discovered during this second reconciliation process. However, because there was no independent verification of the funds initially placed into the bags and because the bags changed hands and storage locations several times, the City could not determine the point at which these funds went missing during the reconciliation process.

According to City employees, the first shortage was due to all clerks being off by small amounts and was considered to likely be a computer error. The next shortage (December 1, 2015) was not identified until all of the funds from each of the sealed bags were commingled during the second reconciliation process. Because the funds were commingled and not counted separately, the source (the clerk who collected the funds) of the shortage could not be determined. The last three shortages totaling \$920, which occurred from December 10, 2015 to January 26, 2016, were identified during the second reconciliation as funds that were collected by Ms. Herrington.

Ms. Herrington stated that her collections were accounted for when she counted the cash drawers. Ms. Herrington further stated that inadequate controls over vault access and keys could have allowed other City employees to remove cash from her collection bags. It should be noted that the shortage from January 26, 2016, was detected prior to the bags being placed in the vault. According to City employees, Ms. Herrington reconciled her drawer and Ms. Hines verified the

cash count prior to Ms. Herrington leaving City Hall for a personal errand. City employees also stated that Ms. Brown then counted Ms. Herrington's drawer and discovered the \$320 shortage. Ms. Herrington and Ms. Hines, who verified Ms. Herrington's cash count, were placed on administrative leave with pay on February 19, 2016, pending a formal investigation into the shortages. Both Ms. Herrington and Ms. Hines denied taking any of the missing funds. Ms. Herrington resigned one week later on February 26, 2016.

Conclusion

City records indicate that from September 16, 2015 to February 12, 2016, cash payments for ad valorem (property) taxes and utility services totaling \$5,612 were received but were not deposited into the City's bank accounts. Although three City employees were responsible for collecting payments during this period, Ms. Herrington was primarily responsible for receiving, recording, and processing 89% (\$5,006) of the missing funds. These records further indicate that Ms. Herrington altered City records to conceal property tax payments collected but not deposited. By failing to deposit all property tax funds collected and by altering City records to conceal property tax amounts not deposited, Ms. Herrington may have violated state law.^{1,2,3,4,5}

Recommendations

We recommend that the City consult with legal counsel to determine the appropriate legal actions to be taken, including recovery of the missing funds and/or restitution. We also recommend that management develop and implement procedures to ensure that all payments collected by the City are accounted for and deposited daily. City management should:

- (1) require that all funds collected be adequately documented, accurately recorded, and deposited daily in accordance with state law;
- (2) review and compare the daily total deposits to the total receipts on a regular basis and immediately investigate any differences;
- (3) ensure that all employees are properly trained on cash handling policies and procedures;
- (4) require a monthly reconciliation of customer accounts receivable balances. Each month, the total of customer accounts balances in the property tax and utility systems (subsidiary ledger) should be reconciled with the corresponding accounts receivable balance in the General Ledger. Any differences should be immediately investigated and resolved. The monthly reconciliation of these two independent records is essential for a proper system of controls over customer accounts;
- (5) require that each clerk maintain their own separate cash drawer and prohibit them from working out of each other's drawer;
- (6) prohibit employees from working under each other's usernames and passwords within the electronic systems;

- (7) require management approval and appropriate supporting documentation to void or cancel payments; and
- (8) prohibit employees and independent contractors from deleting data from the City's computer systems.

LEGAL PROVISIONS

¹ **Louisiana Revised Statute (La. R.S.) 14:67 (A)** provides that, “Theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations. An intent to deprive the other permanently of whatever may be the subject of the misappropriation or taking is essential.”

² **La. R.S. 14:73.5 (A)** provides that, “Computer fraud is the accessing or causing to be accessed of any computer, computer system, computer network, or any part thereof with the intent to: (1) Defraud; or (2) Obtain money, property, or services by means of false or fraudulent conduct, practices, or representations, or through the fraudulent alteration, deletion, or insertion of programs or data.”

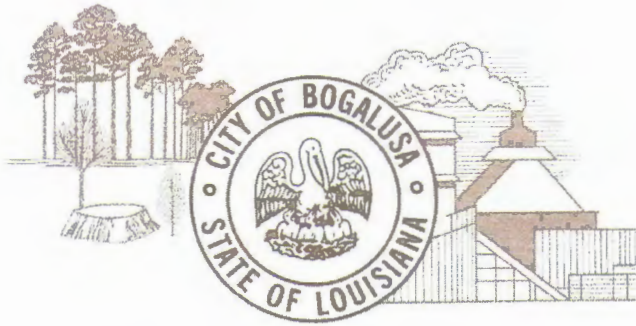
³ **La. R.S. 14:133 (A)** provides that, “Filing false public records is the filing or depositing for record in any public office or with any public official, or the maintaining as required by law, regulation, or rule, with knowledge of its falsity, of any of the following: (1) Any forged document. (2) Any wrongfully altered document. (3) Any document containing a false statement or false representation of a material fact.”

⁴ **La. R.S. 14:134 (A)** provides that, “Malfeasance in office is committed when any public officer or public employee shall: (1) Intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; or (2) Intentionally perform any such duty in an unlawful manner; or (3) Knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him, or to perform any such duty in an unlawful manner.”

⁵ **La. R.S. 42:1461 (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 district, court of limited jurisdiction, or other political subdivision or district, or the office of any sheriff, district attorney, coroner, or clerk of court, 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 the public entity in which they hold office or are employed.”

APPENDIX A

Management's Response



CITY OF BOGALUSA

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Wendy O'Quin-Perrette
Mayor

Stacy M. Smith, CPA
Director of Administration

Judy Gray
Director of Personnel

James B. Hall, Jr.
Director of Public Works

Richard Moody
Fire Chief

Joe Culppepper
Police Chief

May 31, 2016

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: City of Bogalusa Investigative Audit Report

Dear Mr. Purpera:

First of all, I would like to express my gratitude to the Legislative Auditor Office for assisting the City of Bogalusa with this investigation. Ms. Dees and Ms. Jones were invaluable in investigating and validating our suspicions of missing utility and ad valorem payments. Their time and attention devoted to this matter is greatly appreciated. For this, the City thanks you tremendously.

Prior to the start of your investigation, two employees were put on administrative leave related to the missing payments. Ms. Herrington resigned from the City one week after being put on leave. Once we received your draft report, we asked Ms. Hines to return to work, as we believe she was not responsible for any of the missing funds.

In regards to the recommendations made in your report, our responses are detailed below.

1. Require that all funds collected be adequately documented, accurately recorded, and deposited daily in accordance with state law

The City does document and record all funds collected. Deposits are made daily.

2. Review and compare the daily total deposits to the total receipts on a regular basis and immediately investigate and differences

An Equal Opportunity Employer

The cashiers balance their cash drawers every day and any differences are investigated immediately.

3. Ensure that all employees are properly trained on cash handling policies and procedures

All employees are trained on cash handling policies and procedures.

4. Require a monthly reconciliation of customer accounts receivable balances

We agree that the accounts receivable per the financial accounting program and the utility and tax programs should be performed on a monthly basis. We are currently researching other utility and tax programs that may help facilitate this.

5. Require that each clerk maintain their own separate cash drawer and prohibit them from working out of each other's drawers

All cashiers have keys to their drawers and put their deposits in their individual locked bags. Our policy prohibits them from working out of one another's drawers.

6. Prohibit employees from working under each other's usernames and passwords within the electronic systems

All employees have their own usernames and passwords. Our policy prohibits individuals from working under other's usernames and passwords.

7. Require management approval and appropriate supporting documentation to void or cancel payments

Our policy has always been that management needs to approve all voids and cancellation; however, this policy was not always followed. Now, all voids and cancellations in the tax software require management approval. We are currently working with the utility software company to add this feature to the utility system.

8. Prohibit employees and independent contractors from deleting data from the City's computer system

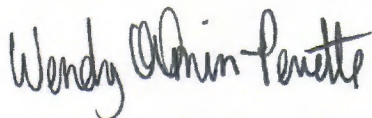
Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
May 31, 2016
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This is a major issue with our tax program. As stated previously, we are researching other tax programs.

Our goals for the City include being fiscally responsible. This includes safeguarding all the City's interests. We will continue to work with the Louisiana State Police to resolve this issue. We regret that any of the City's funds were misappropriated; however, we are also thankful that the misappropriation was caught and action was quickly taken to prevent any further losses to the City.

Again, thank you for your assistance.

Sincerely,

A handwritten signature in black ink that reads "Wendy O'Quin-Perrette". The signature is written in a cursive, flowing style.

Wendy O'Quin-Perrette, Mayor
City of Bogalusa, LA