

TOWN OF PEARL RIVER



INVESTIGATIVE AUDIT
JANUARY 6, 2016

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

DIRECTOR OF INVESTIGATIVE AUDIT
ROGER W. HARRIS, J.D., CCEP

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 6, 2016

**THE HONORABLE DAVID MCQUEEN, MAYOR
AND MEMBERS OF THE BOARD OF ALDERMEN
TOWN OF PEARL RIVER**
Pearl River, Louisiana

We have audited certain transactions of the Town of Pearl River. 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

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EXECUTIVE SUMMARY

Utility Payments Not Deposited

Town of Pearl River (Town) records indicate that utility payment transactions totaling \$26,730 were recorded in the Town's utility system but not deposited into the Town's bank account from January 1, 2014 through August 31, 2015. Former Utility Clerk Crystal Folsie acknowledged taking cash collections for personal use and recording credits to the utility system to conceal amounts not deposited. By taking cash from utility collections and improperly recording credits to the utility system to conceal amounts collected but not deposited, Ms. Folsie may have violated state law.

BACKGROUND AND METHODOLOGY

The Town of Pearl River (Town) is located in St. Tammany Parish and has a population of 2,506 (2010 Census). The Town was incorporated under the provisions of the Lawrason Act in 1906 and has a mayor-board of aldermen form of government. The Town's mayor and five aldermen are elected at-large and serve four-year terms. Mayor David McQueen first took office on January 1, 2015, and is currently serving his first term.

On September 29, 2015, the Louisiana Legislative Auditor (LLA) received correspondence from Mayor McQueen advising of alleged "criminal activity" by a Town employee. During the month of September, Town employees attempted to deposit utility fund collections but discovered that the amount of collections entered into the computerized utility system were greater than the amount of cash in the drawer. The Town's chief of police and the St. Tammany Parish Sheriff's office were notified.

The St. Tammany Parish Sheriff's Office conducted an investigation and questioned Utility Clerk Crystal Folsie regarding the shortage of funds from utility collections. Ms. Folsie acknowledged taking utility collections for her personal use and was terminated on September 16, 2015. The St. Tammany Parish Sheriff's office requested that LLA review Town records and compare payments entered into the Town's computerized utility system to utility collections deposited in the Town's bank accounts. The procedures performed during this audit included:

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

FINDING AND RECOMMENDATIONS

Utility Payments Not Deposited

Town of Pearl River (Town) records indicate that utility payment transactions totaling \$26,730 were recorded in the Town's utility system but not deposited into the Town's bank account from January 1, 2014 through August 31, 2015. Former Utility Clerk Crystal Folsie acknowledged taking cash collections for personal use and recording credits to the utility system to conceal amounts not deposited. By taking cash from utility collections and improperly recording credits to the utility system to conceal amounts collected but not deposited, Ms. Folsie may have violated state law.¹

The Town did not have written policies and procedures relating to utility collections. During the period covered by our audit, former Town Utility Clerk Crystal Folsie was responsible for collecting utility payments and recording payments into the Town's computerized utility system (utility system). Ms. Folsie was also responsible for counting funds, preparing deposits, and depositing funds into the Town's bank account. During this period, no reconciliation procedures were performed to ensure that all utility payments collected were recorded in the Town's utility system and deposited in the Town's utility bank account. In September 2015, while Ms. Folsie was on leave, Town employees attempting to deposit utility collections discovered that the amount of collections entered into the utility system were greater than the amount of cash in the drawer. During an investigation into the missing funds, detectives from the St. Tammany Parish Sheriff's Office questioned Ms. Folsie, who acknowledged taking cash collections and recording credits to customer utility accounts to conceal the amounts not deposited. Ms. Folsie was terminated on September 16, 2015.

During our audit, we examined payment transaction reports generated from the Town's utility system and compared the amounts recorded to customer accounts to the amounts deposited into the Town's bank account. Payment transaction reports reflect payments and non-cash adjustments, such as credits, that reduced the amounts owed by each customer. These records indicate that from January 1, 2014 to August 31, 2015, utility payments and credits totaling \$740,615 were recorded to customer accounts; however, for the same period, the Town's bank records reflect that only \$713,885 was deposited, leaving a shortage of \$26,730. This amount included \$17,218 in payments recorded in the Town's utility system that were not deposited and 306 credits totaling \$9,512 recorded in the utility system with no supporting documentation.

Former Town Clerk Jacob De Bram (Mr. De Bram resigned his position in October 2015) stated that Ms. Folsie entered a majority, if not all, of the payments and credits into the utility system. Mr. De Bram added that all credits should have been documented and approved by the mayor and that only one or two credits should have been issued on a monthly basis. Ms. Folsie stated that she took cash from the Town's utility receipts for her personal use and on some occasions recorded the amounts that she took as credits in the utility system. Ms. Folsie estimated that she took between \$4,000 and \$4,500 in cash collections for her personal use.

Ms. Folse stated that some of the credits were entered into the utility system at the request of the former mayor in order to reduce the amounts owed by certain customers. When asked about the remaining funds recorded in the utility system but not deposited, Ms. Folse stated that her cash drawer was always unlocked and accessible to other Town employees before she made deposits.

By taking cash from utility collections and improperly recording credits to the utility system to conceal amounts collected but not deposited, Ms. Folse may have violated state law.¹

Recommendations

We recommend that the Town consult with legal counsel to determine the appropriate legal actions to be taken, including recovery of missing funds. We also recommend that Town management develop and implement policies and procedures to ensure that payments collected by the Town are accounted for and deposited daily in accordance with state law.

Town 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 proper segregation of duties is implemented between payment collection, recording, and depositing funds into the Town's accounts;
- (4) ensure that employees are properly trained on cash handling policies and procedures;
- (5) require a monthly reconciliation of customer accounts receivable balances. Each month, the total of customer accounts balances in the utility system 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;
- (6) require management to approve, in writing, all credits to customer accounts; and
- (7) require that each clerk establish and use a separate user account in the utility system.

LEGAL PROVISIONS

¹ **Louisiana Revised Statute (La. R.S.) 14:67(A)** states, in part, 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.”

La. R.S. 14:73.5 (A) states 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.”

La. R.S. 14:134 (A) states, “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.”

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



TOWN OF PEARL RIVER

39460 Willis Alley ~ Town Hall

P.O. Box 1270

Pearl River, Louisiana 70452

Phone (985) 863-5800

FAX (985) 863-2586

townhall@townofpearlriver.net

BRIDGETT BENNETT

LORA CUTRER

DAVID McGREGOR

KATHRYN WALSH

Aldermen

JOHNNY "JJ" JENNINGS
Chief of Police

JACOB de BRAM
Town Clerk

BRENDA WICHTERICH
Deputy Clerk

DAVID McQUEEN

Mayor

VIRGIL R. PHILLIPS

Mayor Pro Tempore

TIMOTHY MATHISON

Town Attorney

MATHIEU E. DAIGLE

Assistant Town Attorney

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

December 17, 2015

Re: Town of Pearl River Response To Audit Report

Dear Mr. Purpera,

As Mayor of the Town of Pearl River I thank you and your staff for the efforts to assist my Town in moving forward. We are committed to ensuring that the Town properly conduct all aspects of its business through the institution and compliance with best practices. I further thank your office for its offer to help us in this regard.

Immediately upon our discovery of the potentially illegal actions of former Town Utility Clerk we notified the St. Tammany Parish Sheriff's Office which conducted a prompt investigation. The results of that investigation led to the dismissal of the Clerk and the institution of criminal charges. The Town intends to fully pursue those charges and seek restitution.

As to the specific recommendations contained in your report please be advised as follows:

- (1) The Town shall require that all funds collected be adequately documented and accurately recorded by using a three copy receipt book. All funds shall be deposited daily in accordance with State law;
- (2) The Town shall review and compare the daily total deposits to the total receipts on a weekly basis and immediately investigate any differences;
- (3) The Town shall ensure that proper segregation of duties is implemented between payment collection, recording, and depositing funds into the Town's accounts;

AN EQUAL OPPORTUNITY EMPLOYER

- (4) The Town shall ensure that its employees are properly trained on cash handling policies and procedures;
- (5) The Town shall require a monthly reconciliation of customer accounts receivable balances. Each month the total of customer accounts balances in the utility system shall be reconciled with the corresponding accounts receivable balance in the general ledger. Any differences shall be immediately investigated and resolved. The Town understands that monthly reconciliation of those two independent records is essential for a proper system of controls over customer accounts;
- (6) The Town shall cease the practice of customer credits;
- (7) The Town shall require that each clerk establish and use a separate user account in the utility system.

My Administration inherited many practices and procedures implemented by the prior administration and which were in place for a long time. I already began the process of undoing improper practices and procedures and replacing them with best practices. I will continue to do so until such time as this Town is fully compliant.

Thank you again. Should you require anything further please contact me.

Sincerely,



David McQueen, Mayor