

BAYOU D'ARBONNE LAKE WATERSHED DISTRICT
STATE OF LOUISIANA



FINANCIAL AUDIT SERVICES
PROCEDURAL REPORT
ISSUED MAY 30, 2018

**LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Bayou D'Arbonne Lake Watershed District

May 2018

Audit Control # 80170177

Introduction

The primary purpose of our procedures at the Bayou D'Arbonne Lake Watershed District (District) was to evaluate certain controls that the District uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and overall accountability over public funds.

The District was created under the provisions of Louisiana Revised Statute (R.S.) 38:255 and includes bayous and watersheds located in Lincoln and Union parishes. The District provides for the conservation of soil and water, and the development of the natural resources and wealth of the district for sanitary, agricultural, or recreational purposes to be conducive to public health, utility, or benefit. The board is comprised of seven commissioners appointed by the governor.

Results of Our Procedures

We evaluated the District's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the applicable laws and regulations. Based on the documentation of District's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to cash, franchise fees, parish support, contracts, other nonpayroll expenditures, budget, and other compliance areas.

Follow-up on Prior-year Findings

We reviewed the status of the prior-year findings reported in the Procedural Report dated May 10, 2017. We determined that management has resolved the prior-year finding related to Required Ethics Training Not Completed. The findings relating to Written Contracts Not Obtained and Lack of Written Policies and Procedures have not been resolved and are addressed again in this report.

Current-year Findings

Inadequate Controls over Cash

The District did not have adequate controls over cash during the fiscal year ending December 31, 2017, increasing the risk that errors or fraud could occur and remain undetected. Our procedures revealed the following:

- A check disbursement was processed and cleared the bank for \$4,500 written to the District's lawyer without having any signatures. Also, a check for \$2,300 written to a contractor cleared the bank having only one commissioner's signature. The District has an informal policy, since no written policies exist, that all checks over \$1,000 should be signed by at least two designated commissioners.
- The District did not deposit parish support totaling \$600 received in the mail from Union and Lincoln parishes for the months November 2017 and December 2017 until up to three months after receipt. There were no procedures in place to designate a backup person to obtain checks from the mail for deposit when the District's treasurer is out for an extended period of time.
- The District did not account for parish support, totaling \$450, for the months of August 2017 and September 2017 expected from Union Parish, and for the month of August 2017 expected from Lincoln Parish. The parishes generally mail monthly checks to the District for \$150; however, the District had no procedures to ensure it received all the parish support expected. After the matter was brought to District management's attention, District management requested that the parishes reissue checks, and each parish agreed. As of April 25, 2018, the \$450 was received by the District.

District management should develop and implement written policies and procedures for cash to ensure all monies are accounted for and timely reconciled to what is expected, deposited timely, and checks are properly signed before issued. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 1).

Written Contracts Not Obtained

For the second consecutive year, the District made payments for bookkeeping and board minute transcription services during the fiscal year ended December 31, 2017, totaling \$3,000 without obtaining written contracts for these services. In addition, during the fiscal year the District made payments for financial statement compilation, mowing, channel marker, and pier maintenance services totaling \$15,819 without a written contract. Good internal control and good business practices require that agreements between parties should be in writing, signed and dated, and should provide clarity of actions required by both parties.

Failure to formalize a contract or agreement to include all provisions increases the risk of misunderstandings and/or nonperformance of needed services without any protection for the District, including remedies for default.

The District should develop and implement written procedures for processing contracts to ensure that all contracts or agreements for services are written and signed by appropriate persons, and all relevant terms are included. Management concurred in part and outlined a plan of corrective action. Management noted that the board of commissioners may determine that some services may not require written contracts; however, it will clarify in its policy when contracts are required (see Appendix A, page 2).

Lack of Written Policies and Procedures

For the second consecutive year, the District does not have written policies and procedures for its primary financial and business functions to include those for cash reconciliation, budgeting, revenues and receipts, purchasing, disbursements, contracting, related parties, and ethics. Good internal controls require written policies and procedures to be in place and communicated to all commissioners to guide them in their functions.

The District should develop written policies and procedures for business functions to ensure consistency executing its processes. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 3).

Other Results of Our Procedures

Cash

The District maintains one operating account, which is used for general operations. A bookkeeper is responsible for writing and mailing vendor checks, reconciling the monthly bank statements, and posting deposits and disbursements into the general ledger. Cash balance totaled \$185,898 at December 31, 2017. We performed procedures to reconcile cash transactions to the District's general ledger, evaluated the segregation of duties between bookkeeper and the commissioners, and confirmed the timely preparation of bank account reconciliations. Based on procedures performed, the District did not have adequate controls over cash (see Current-year Findings section).

Franchise Fees

Approximately 87% of the District's revenue collections are franchise fees received from electric companies, including Entergy, Claiborne Electric, and CenterPoint Energy. According to R.S. 38:2558, the District is authorized and permitted to levy and collect from suppliers of electric current, gas, water, butane, or any other utility, a sum not to exceed 5% of gross billings realized by the utility services furnished to any person, corporation, partnership or association of individuals residing within one mile of the high water line of the watershed district's reservoir. We selected franchise fees received in April 2017, May 2017, and August 2017 and traced to

supporting documentation such as board ordinance, remittance advice, and copies of payers' checks. We determined the District collected 2% of the gross electricity services provided in accordance with board ordinance and within limits set by statute.

Parish Support

The District also received parish support from the Lincoln Parish Police Jury and the Union Parish Police Jury totaling \$2,550. We selected monies received in February 2017, April 2017, July 2017, and December 2017, and traced to supporting documentation, including parish government budget information, remittance advice, and copy of police jury checks. Based on procedures performed, checks totaling \$600 were deposited up to three months after receipt and \$450 of parish support was unaccounted for (see Current-year Findings section).

Contracts

The District had written contracts in effect for technical services and legal services for the year ended December 31, 2017, totaling, \$18,344. We selected contract payments made in February and September 2017 and agreed amounts to contract terms, examined invoices, and evaluated compliance with laws and regulations. Based on procedures performed, we found that the District made payments for bookkeeping, transcription services, financial statement compilation, mowing, channel marker, and pier maintenance services, totaling \$18,819 without obtaining written contracts for those services (see Current-year Findings section).

Other Nonpayroll Expenditures

We reviewed the general ledger listing of check disbursement transactions for the year ended December 31, 2017, selected five transactions, and examined invoices for maintenance projects and surety bond insurance, totaling \$4,831. Based on the results of these procedures, the disbursements were for the District's purposes.

Budget

The District annually adopts a budget by majority vote of its board of commissioners. We confirmed the adoption of the District's budget and evaluated variances between budgeted amounts and actual revenues and expenditures for reasonableness. We noted an unfavorable variance of 17% in revenues because the District did not adjust its 2017 budget for the completion of the Tainter Gate Project for which reimbursement was received from DOTD in the 2016 year.

Other Compliance Areas

We evaluated evidence to determine if required ethics training was completed by the Board's commissioners. We determined the Board commissioners completed the required annual ethics training. No exceptions were noted.

We reviewed the board minutes for the fiscal period, and determined that the managing board met (with a quorum) at least monthly, except in December as agreed by the board. No exceptions were identified.

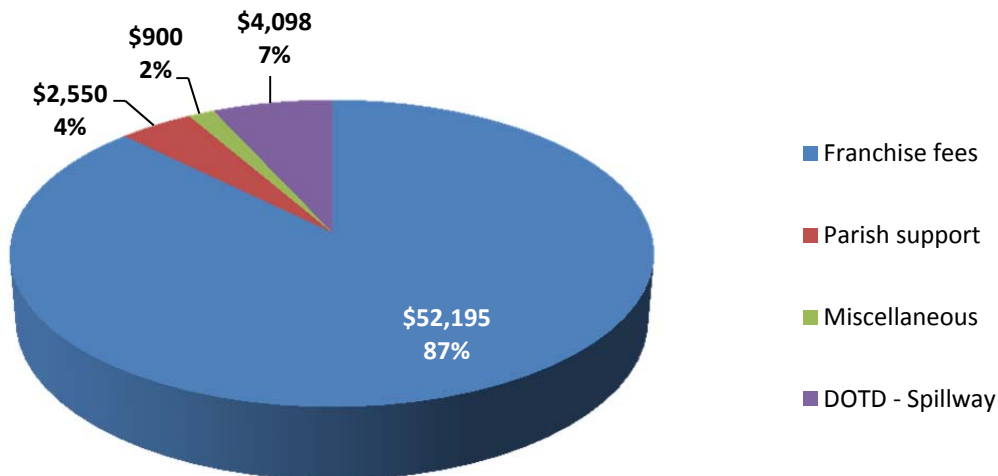
We accessed the “Bayou D’Arbonne Lake Watershed District” online information included in the Division of Administration’s boards and commissions database and determined that the entity submitted board meeting notices and minutes for all meetings during the fiscal period. In addition, we obtained the budget information for the current fiscal period and determined that the information agreed with the budget information contained in the database. No exceptions were noted.

Comparison of Activity between Years

We compared the most current and prior-year financial activity using the District’s general ledger and other system generated reports to identify trends and obtained explanations from management for any significant variances that could potentially indicate areas of risk. Management provided reasonable explanations for all significant variances. The following charts show the District’s fiscal year 2017 cash basis revenues and expenditures through December 31, 2017.

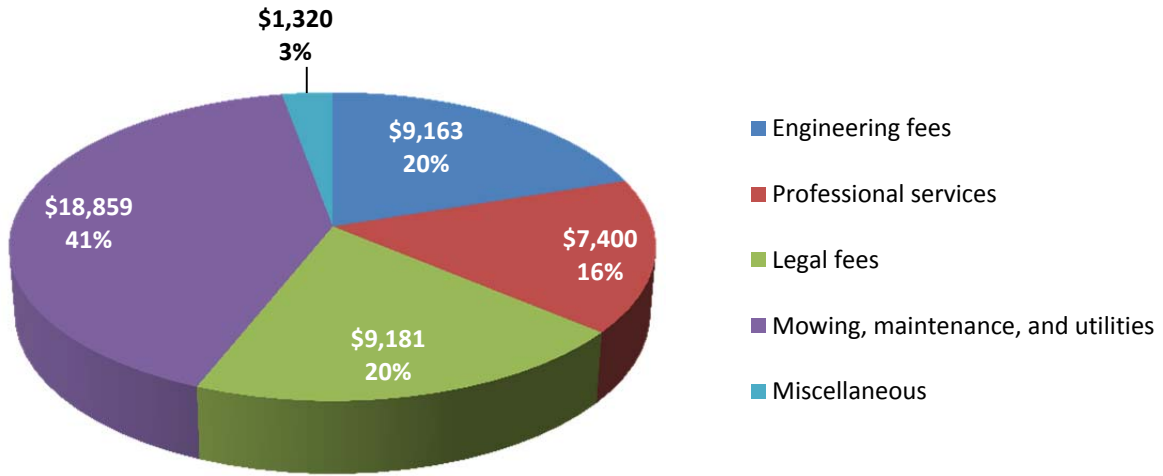
Fiscal Year 2017 Revenues, as of December 31, 2017

Total: \$59,743



Source: District’s general ledger and other system-generated reports

Fiscal Year 2017 Expenditures, as of December 31, 2017
Total: \$45,923



Source: District's general ledger and other system-generated reports

Under Louisiana Revised Statute 24:513, this report is a public document and it has been distributed to appropriate public officials.

Respectfully submitted,

Thomas H. Cole, CPA
First Assistant Legislative Auditor

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BDLWD2017

APPENDIX A: MANAGEMENT'S RESPONSES

BAYOU D'ARBONNE LAKE WATERSHED DISTRICT

May 4, 2018

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

Subject: Response to Reportable Audit Finding
Inadequate Controls over Cash

Dear Mr. Purpera,

This letter is in response to the reportable audit finding for the Bayou D'Arbonne Lake Watershed District. The finding was for "Inadequate Controls over Cash". I concur with the finding. The audit uncovered several issues that should have already been identified and addressed. This finding relates directly to a separate finding for lack of written policies and procedures.

I will personally take responsibility for ensuring that we remedy this issue in 2018. We will plan to draft a set of policies and procedures over the coming months that will define the district's primary financial and business functions, including steps to ensure we have adequate controls over cash. The target completion date will be by November 1, 2018. Please let me know if you would like to discuss further.

Regards,



Trotter Hunt
President, Bayou D'Arbonne Lake Watershed District

Bayou D'Arbonne Lake Watershed District
P.O. Box 696
Farmerville, LA 71241

BAYOU D'ARBONNE LAKE WATERSHED DISTRICT

May 4, 2018

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

Subject: Response to Reportable Audit Finding
Written Contracts Not Obtained

Dear Mr. Purpera,

This letter is in response to the reportable audit finding for the Bayou D'Arbonne Lake Watershed District. The finding was for "Written Contracts Not Obtained". I agree, in part, with this finding (more detail below). This finding relates directly to a separate finding for lack of written policies and procedures.

We need to update our policies and procedures to clarify when contracts are and are not required. For some of the smaller dollar items identified (pier maintenance, for example), the commission members may agree that written contracts are not required. For at least one of the larger dollar items identified (channel markers) a written contract was signed but the original copy could not be produced. In any case, we do need to take the following actions:

1. Clarify in our policies and procedures when a contract is required.
2. Draft and sign contracts or agreements when necessary
3. Clarify the filing system for finalized contracts

I will personally take responsibility for ensuring that we remedy this issue in 2018. We will plan to draft a set of policies and procedures over the coming months that will define the district's primary financial and business functions, including contracts. The target completion date will be by November 1, 2018. Also, by this November 1 deadline we will make sure that all of our 2018 contracts are in place and filed appropriately.

Please let me know if you would like to discuss further.

Regards,



Trotter Hunt
President, Bayou D'Arbonne Lake Watershed District

Bayou D'Arbonne Lake Watershed District
P.O. Box 696
Farmerville, LA 71241

BAYOU D'ARBONNE LAKE WATERSHED DISTRICT

April 27, 2018

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

Subject: Response to Reportable Audit Finding
Lack of Written Policies and Procedures

Dear Mr. Purpera,

This letter is in response to the reportable audit finding for the Bayou D'Arbonne Lake Watershed District. The finding was for a lack of written policies and procedures. I concur with the finding. There was an effort last year to assemble and push for board approval of written policies and procedures for its primary financial and business functions. However, this effort was never completed.

I will personally take responsibility for ensuring that we remedy this issue in 2018. We will plan to draft a set of policies and procedures over the coming months that will define the district's primary financial and business functions to include the following:

- Cash reconciliation
- Budgeting
- Revenues & receipts
- Purchasing
- Disbursements
- Contracting
- Related parties
- Ethics

The target completion date will be by November 1, 2018. Please let me know if you would like to discuss further.

Regards,



Trotter Hunt
President, Bayou D'Arbonne Lake Watershed District

Bayou D'Arbonne Lake Watershed District
P.O. Box 696
Farmerville, LA 71241

APPENDIX B: SCOPE AND METHODOLOGY

We conducted certain procedures at the Bayou D'Arbonne Lake Watershed District (District) for the fiscal year ended December 31, 2017. Our objective was to evaluate certain internal controls the District uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and overall accountability over public funds. The scope of our procedures, which are summarized below, was significantly less than an audit conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit or review the District's Annual Fiscal Report, and accordingly, we do not express an opinion on that report. The District's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

- We evaluated the District's operations and system of internal control through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to the District.
- Based on the documentation of the District's controls and our understanding of related laws and regulations, we performed procedures on selected controls and transactions relating to cash, franchise fees, parish support, contracts, other nonpayroll expenditures, budget, and other compliance areas.
- We compared the most current and prior-year financial activity using the District's general ledger and obtained explanations from the District's management for any significant variances.

The purpose of this report is solely to describe the scope of our work at the District and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be and should not be used for any other purpose.