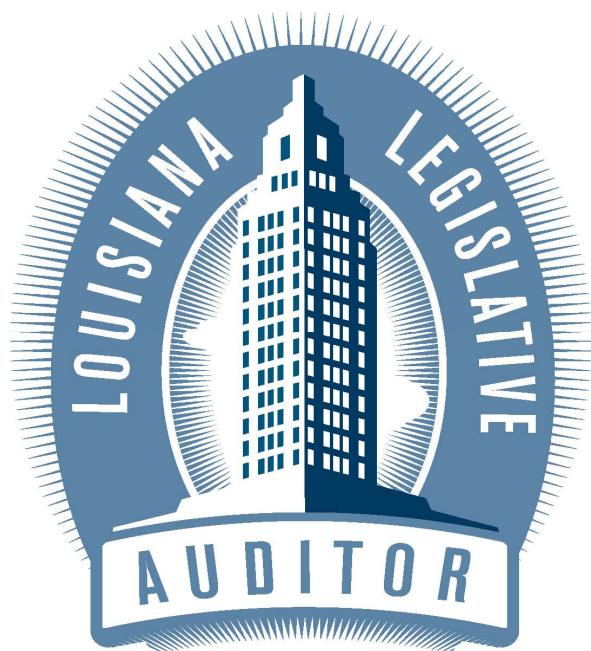


CITY OF OAKDALE



INVESTIGATIVE AUDIT
ISSUED JANUARY 12, 2022

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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 is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor and online at www.llla.la.gov.

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LOUISIANA LEGISLATIVE AUDITOR
MICHAEL J. "MIKE" WAGUESPACK, CPA

January 12, 2022

**HONORABLE GENE PAUL, MAYOR,
AND MEMBERS OF THE OAKDALE CITY COUNCIL**
City of Oakdale, Louisiana

We are providing this report for your information and use. This investigative audit was performed in accordance with Louisiana Revised Statutes 24:513, *et seq.* to determine the validity of complaints we received.

The procedures we performed primarily consisted of making inquiries and examining selected financial records and other documents and do not constitute an examination or review in accordance with generally accepted auditing or attestation standards. Consequently, we provide no opinion, attestation or other form of assurance with respect to the information upon which our work was based.

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 33rd Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Michael J. "Mike" Waguespack, CPA
Legislative Auditor

MJW/ch

OAKDALE 2022

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EXECUTIVE SUMMARY

Former City Clerk Used Electronic Transfers to Divert City Funds to Herself

Former City of Oakdale (City) Clerk Melissa Schaefer manipulated Automated Clearing House (ACH) transfers to pay herself \$769,136 more than her authorized salary from January 1, 2014 to March 17, 2021. By improperly transferring and receiving City funds she was not entitled to receive, Ms. Schaefer may have violated state law.

Former City Clerk Used City Checks to Divert City Funds to Herself

Ms. Schaefer signed and received 93 City Checks totaling \$59,945 from January 1, 2014 to March 17, 2021. City records show she was not entitled to receive \$13,378 of the payments. By authorizing and receiving City funds she was not entitled to, Ms. Schaefer may have violated state law.

Former City Clerk Used City Funds to Pay Two Credit Card Accounts

City funds were used to make 63 payments totaling \$115,304 to two credit card accounts of Ms. Schaefer from August 26, 2014 to December 30, 2019. The City does not have any documentation to show she was entitled to receive the benefit of the payments, or that the purchases were made to benefit the City. By using City funds she was not entitled to, Ms. Schaefer may have violated state law.

BACKGROUND AND METHODOLOGY

The City of Oakdale, Louisiana (Oakdale or City) is located in Allen Parish and has a population of 6,692 (2020 Census). The City operates under the provisions of the Lawrason Act and has a mayor-council form of government. The City's mayor and five elected council members^A serve four-year terms. The City provides sewer and water utilities, police and fire protection, and general administrative services.

Melissa "Lisa" Schaefer began working for Oakdale as City Clerk on October 17, 2002, and continued in that capacity until her death on March 11, 2021. Her City Clerk duties included preparing budgets, reconciling City records to bank statements, signing checks, and coordinating with the City's auditor during Oakdale's annual audits. Ms. Schaefer also oversaw other clerical functions, such as accounts payable and payroll, and sometimes performed other clerical employees' assigned duties during their absence.

We initiated this audit after receiving a complaint from the City's auditor regarding improper transfers to Ms. Schaefer's personal bank account. The procedures performed during this audit included:

1. interviewing City employees and officials;
2. interviewing others, as appropriate;
3. examining select City documents and records;
4. gathering and examining external parties' documents and records; and
5. reviewing applicable state laws and regulations.

^A One of the City's five elected council members is an at-large position.

FINDINGS AND RECOMMENDATIONS

Former City Clerk Used Electronic Transfers to Divert City Funds to Herself

Former City Clerk Melissa “Lisa” Schaefer manipulated Automated Clearing House (ACH) transfers to pay herself \$769,136 more than her authorized salary from January 1, 2014 to March 17, 2021. By improperly transferring and receiving City funds she was not entitled to receive, Ms. Schaefer may have violated state law.^{1,2,3,4}

Ms. Schaefer was the City Clerk from October 17, 2002 until her death on March 11, 2021. As City Clerk, she was assigned responsibility for the City’s finances including, but not limited to, budget preparation, monthly bank reconciliations, check signing, entering electronic transfers for payroll and benefits, and coordinating the City’s annual audit. Ms. Schaefer also supervised other clerical offices, including accounts payable and payroll, and sometimes performed other clerical employees’ assigned duties during their absence.

The City paid its employees every two weeks through the ACH network.^B ACH is an electronic funds transfer system that moves money between bank accounts. A common use of ACH payments is to transfer payroll from an employer’s bank account to an employee’s bank account. Here, money was transferred from the City’s bank account (i.e., its general fund) and deposited into the City employees’ bank accounts.

The City’s former payroll and accounts payable clerk told us she ran the payroll every two weeks and provided a payroll report to Ms. Schaefer to make the ACH transfers to employee bank accounts.

The ACH process requires the user (Ms. Schaefer) to log in to the City’s bank’s webpage using a login ID and password, select the ACH link, and input a number provided by a hand-held token. The hand-held token provides random numbers that are valid for a short period of time to prevent unauthorized access. Therefore, to gain access to the ACH portal on the bank’s website, a City employee must have the login credentials for the City’s bank account and a bank-issued token.

The user is also required to enter a routing number, bank account number, and the dollar amount of net payroll for each employee to initiate the ACH transfers for employee payroll. The user must then enter a number from a second token to authorize the ACH transaction. The two tokens are meant to be assigned to different employees to provide assurance that only properly authorized payments are issued.

Mayor Gene Paul told us that he did not approve payroll or sign checks. He also told us that he did not know electronic tokens were used for ACH transfers or that Ms. Schaefer had

^B ACH transfers from an employer’s bank account to employee bank accounts for payroll are commonly referred to as “direct deposit”. Most City employees receive their payroll disbursement via direct deposit.

possession of both tokens until after her death. The current and former city council members that signed City checks told us Ms. Schaefer informed them about the tokens and helped them set it up, but she kept possession of both tokens, and they never used the tokens. After interviewing the Mayor and other City employees, it appears that no one reviewed the ACH transfers Ms. Schaefer entered.

The City's and Ms. Schaefer's bank records show Ms. Schaefer was paid \$944,178 from January 1, 2014^C to March 17, 2021, although her authorized payroll was only \$205,254 during that time. The City used ACH transfers to pay its employees in most cases; however, there were some physical checks for approved payroll. Ms. Schaefer received \$175,042 for payroll through the ACH payment method and \$30,212 in the form of physical checks.^D

The City did not have any vendor invoices to explain the reason for the remaining \$769,136. A summary of the ACH payments and her authorized payroll are shown in the table below.

Date	ACH Transfers to Ms. Schaefer	Payroll by ACH to Ms. Schaefer	Total Amount in Excess Payroll Earned via ACH Payments
January - December 2014	\$52,118	\$13,238	\$38,880
January - December 2015	73,737	24,265	49,472
January - December 2016	101,579	27,146	74,433
January - December 2017	120,826	24,730	96,096
January - December 2018	134,259	27,006	107,253
January - December 2019	190,566	25,811	164,755
January - December 2020	244,017	26,895	217,122
January - March 2021	27,076	5,951	21,125
Total	\$944,178	\$175,042	\$769,136

The City's electronic accounting records included a typed description for 41 ACH transactions totaling \$233,173 that Ms. Schaefer received. In most cases, the description indicated it was a reimbursement and included one or more invoice numbers. We compared the payments with invoice numbers to Ms. Schaefer's bank account and could not find where she made a purchase for those amounts. The Mayor told us Ms. Schaefer requested approval from him before making purchases for the City with her personal funds. He recalled Ms. Schaefer using her personal credit card to make maybe two large purchases for the City.

^C Bank records were not available prior to January 1, 2014.

^D Ms. Schaefer received 25 checks totaling \$30,212 where the date and amount matched the payroll report. These checks are discussed in the next finding. In some cases, Ms. Schaefer also received ACH transfers when payroll was disbursed, but the amounts she received did not match the City's payroll report.

Since Ms. Schaefer had control of both electronic tokens, was the only employee involved entering and approving ACH payments, and received City funds she was not entitled to, she may have violated state law.^{1,2,3,4}

Former City Clerk Used City Checks to Divert City Funds to Herself

Ms. Schaefer signed and received 93 City Checks totaling \$59,945 from January 1, 2014 to March 17, 2021. City records show she was not entitled to receive \$13,378 of the payments. By authorizing and receiving City funds she was not entitled to, Ms. Schaefer may have violated state law.^{1,2,3,4}

The City's former accounts payable and payroll clerk told us she entered the City's vendor invoices into the accounting system and provided a report of unpaid invoices to Ms. Schaefer once per week. Ms. Schaefer reviewed the list and told the accounts payable clerk which invoices the City had funds available to pay. The accounts payable clerk printed the checks and provided the checks and the invoices for the Mayor to approve. After the Mayor initialed the invoice, Ms. Schaefer and a council member signed the check. The accounts payable clerk also told us that Ms. Schaefer was her backup and could prepare payments in the accounting system, and had access to the City's blank checks. According to the Mayor, Ms. Schaefer was also responsible for bank reconciliations.

The City's and Ms. Schaefer's bank statements show 93 City checks payable to Ms. Schaefer, totaling \$59,945, were deposited to Ms. Schaefer's bank account from January 2014 to March 2021. Ms. Schaefer and a council member appear to have signed all of the City's checks that were payable to Ms. Schaefer. The two council members that could sign City checks during this period told us that every check they signed had an invoice or other documentation to explain the purpose of the payment.

City payroll and bank records show 25 of these payments, totaling \$30,213, were for Ms. Schaefer's approved payroll. In addition, the City's vendor invoice files included 29 invoices, totaling \$16,354, where Ms. Schaefer purchased items for the City and was reimbursed. The purchases were for travel expenses, such as hotel rooms, maintenance supplies for various City departments, office decorations and supplies, and new equipment. The City's vendor files had no invoices for the remaining 39 checks to Ms. Schaefer, totaling \$13,378.

The Mayor and the former accounts payable clerk told us that Ms. Schaefer often bought items for the City when the City did not have cash to purchase the items. Once these items were ordered, Ms. Schaefer submitted a reimbursement request and received a City check. The Mayor said he was not aware Ms. Schaefer was reimbursed for so many purchases; however, his approval initials were on 28 of the 29 invoices we found in the City's records.

Since Ms. Schaefer authorized City checks payable to her and deposited those checks to her bank account without supporting documentation, she may have violated state law.^{1,2,3,4}

Former City Clerk Used City Funds to Pay Two Credit Card Accounts

City funds were used to make 63 payments totaling \$115,304 to two credit card accounts of Ms. Schaefer from August 26, 2014 to December 30, 2019. The City does not have any documentation to show she was entitled to receive the benefit of the payments or that the purchases were made to benefit the City. By using City funds she was not entitled to, Ms. Schaefer may have violated state law.^{1,2,3,4}

The City's bank statements and Ms. Schaefer's credit card statements show \$115,304 of City funds were used to pay two of Ms. Schaefer's credit card accounts from August 26, 2014 to December 30, 2019. As mentioned in the previous finding, Ms. Schaefer occasionally made purchases for the City with her personal funds. The Mayor told us Ms. Schaefer did make some purchases for the City and that he approved the reimbursement payments.

The City's records do not include Ms. Schaefer's credit card statements or invoices for these payments to her credit card accounts. When any payment is made for goods or services, a receipt or invoice should be provided to explain when and what was purchased. A reimbursement should not be made unless appropriate documents are provided to the City.

The records from Ms. Schaefer's credit card accounts show the payment method was "Mobile Payments," "WEB," or "Internet ACH Personal & Corporate," which suggests Ms. Schaefer initiated the payment outside the City's normal payment practices. The City's bank statements show these payments as "CAPITAL ONE MOBILE PMT" or "CAPITAL ONE ONLINE PMT."

This type of activity could be detected by management review of the City's bank statements or during the monthly bank reconciliation process. However, Ms. Schaefer was responsible for reconciling the City's records to the bank statements, and no other employees reviewed the bank statements. Since Ms. Schaefer received the benefit of these payments and the City has no records regarding these payments, she may have violated state law.^{1,2,3,4}

Recommendations

We recommend the City consult with its legal counsel to determine the appropriate actions to take, including recovery of excessive payments. In addition, the City should:

1. Train employees responsible for ACH transactions to ensure they understand how payments are entered and that the amounts agree to payroll reports or other properly authorized invoices;
2. Assign the two ACH tokens to different employees to prepare and approve the ACH transactions;
3. Store the ACH tokens in different locations that can be physically locked;
4. Select an employee who cannot enter or authorize ACH or check payments to reconcile the City's accounting records to the bank statements on a monthly basis;
5. Ensure the employee that reconciles the City's bank statements to its accounting records cannot post entries to the accounting system or authorize payments;
6. Establish a policy regarding reimbursements to employees;
7. Prohibit employees from using their personal funds to make routine purchases; and
8. Require an appropriate invoice or other documentation prior to authorizing City payments.

LEGAL PROVISIONS

¹ **Louisiana Revised Statute (La. R.S.) 14:67(A)** states, “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 14:134(A)** states, in part, “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; ...”

³ **La. R.S. 42:1461(A)** states, in part, “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, ... 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.”

⁴ **La. R.S. 14:73.5(A)** states, “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.”

APPENDIX A

Management's Response



City of Oakdale

Mayor Gene Paul
P.O. Box 728
333 E. 6th Avenue
Oakdale, Louisiana 71463
Phone: 318-335-3629 • Fax: 318-335-3638



December 29, 2021

**Mr. Michael J. "Mike" Waguespack, CPA
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397**

**Re: City of Oakdale, Louisiana
Draft Investigative Audit Report**

Dear Mr. Waguespack:

After reviewing the draft of the Investigative Audit Report issued on December 22, 2021, the City of Oakdale accepts the findings set forth in the audit report in its entirety.

The City of Oakdale intends to follow the recommendations of the Legislative Auditor set forth on page seven of the Investigative Audit Report, and has taken the following actions to ensure such an incident cannot occur in the future. Those actions are as follows:

- 1. Employees responsible for ACH transactions and reviewing reports and invoices have received training from the financial institution that issued the ACH tokens.**
- 2. ACH tokens have been assigned to different employees, namely the City Clerk and the Administrative Assistant, who must approve all ACH transactions separately. Reports on all ACH transactions are prepared and reviewed for verification prior to payment.**
- 3. All ACH tokens are stored and physically locked at separate locations by each respective token holder.**
- 4. The City has hired a bookkeeper to reconcile the City's accounting records to bank statements on a monthly basis. The bookkeeper is not an ACH token holder and cannot authorize ACH or check payments by the City of Oakdale.**

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Mr. Michael J. "Mike" Waguespack
December 29, 2021

- 5. The bookkeeper that reconciles the City's bank statements to its accounting records cannot post entries to the accounting system or authorize payments.**
- 6. All reimbursements to employees must be approved by the Mayor personally prior to reimbursement. The approval must be evidenced by the Mayor's initials on the invoice.**
- 7. Employees are not allowed to make routine purchases for the City with their personal funds.**
- 8. All invoices and other documentation must be approved personally by the Mayor before payment is authorized regardless of the amount.**

The City of Oakdale has filed claims on surety bonds and has collected the following sums to recover excess payments: \$35,000.00 on September 1, 2021; \$50,000.00 on September 1, 2021; and \$20,000.00 on August 30, 2021; totaling \$105,000.00.

The City fully intends to pursue all causes of action available to recover the remaining monies, and legal counsel has been instructed to take appropriate actions to do so.

With kindest regards I remain

Very sincerely yours,

CITY OF OAKDALE



Gene Paul, Mayor