

TOWN OF FRANKLINTON



INVESTIGATIVE AUDIT
OCTOBER 8, 2014

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ROGER W. HARRIS, J.D., CCEP

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

October 8, 2014

**THE HONORABLE WAYNE FLEMING, MAYOR,
AND MEMBERS OF THE BOARD OF ALDERMEN
TOWN OF FRANKLINTON**
Franklinton, Louisiana

We have audited certain transactions of the Town of Franklinton. 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

FRANKLINTON 2014

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EXECUTIVE SUMMARY

Utility Payments Not Deposited

Town of Franklinton (Town) records indicate that utility payments totaling at least \$22,929 were received but not recorded in the Town's utility system or deposited into the Town's bank account from January 1, 2013 through February 14, 2014. Former Town utility clerks Carmen Freeman and Caprice Dawson were responsible for collecting, recording, and remitting utility payments for deposit. By failing to record and deposit cash collections, Ms. Freeman and Ms. Dawson may have violated state law.

BACKGROUND AND METHODOLOGY

The Town of Franklinton (Town) is located in Washington Parish and has a population of 3,857 (Year 2010 Census). The Town was incorporated under the provisions of the Lawrason Act and has a mayor-board of aldermen form of government. The Town provides utility, public safety (police), streets, sanitation, and general administrative services.

In March 2014, the Town's external auditor discovered utility payments made to the Town which were not recorded. After further investigation, the two clerks responsible for receiving utility payments were terminated for failure to comply with the Town's policies and procedures regarding collection, posting, and processing of payments received from customers. On March 26, 2014, the Town's external auditor notified the Louisiana Legislative Auditor (LLA) of a possible misappropriation of Town utility collections. The LLA was asked to review available records to determine the amount of cash collected by the Town but not deposited into the Town's 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 Franklinton (Town) records indicate that utility payments totaling at least \$22,929 were received but not recorded in the Town's utility system or deposited into the Town's bank account from January 1, 2013 through February 14, 2014. Former Town utility clerks Carmen Freeman and Caprice Dawson were responsible for collecting, recording, and remitting utility payments for deposit. By failing to record and deposit cash collections, Ms. Freeman and Ms. Dawson may have violated state law.¹

During the period covered by our audit, former Town utility clerks Carmen Freeman and Caprice Dawson were responsible for entering customer water and gas usage into the Town's computerized utility system software (utility system), printing and mailing customer utility bills, and collecting and recording utility payments received into the utility system. On a daily basis, each clerk completed a daily receipts worksheet detailing the amount of collections received and printed a report detailing the collections recorded in the utility system. These reports and the corresponding funds were then remitted to the Town's administrative assistant, who was responsible for counting the funds, reconciling the amounts to the reports, and preparing the funds for deposit. On March 18, 2014, Ms. Freeman and Ms. Dawson informed Town officials that they had "borrowed" cash receipts collected from Town utility customers. Both employees were terminated immediately.

Utility Payments Not Deposited

Records obtained from the Town and Town utility customers indicate that the Town collected at least 232 utility payments totaling \$22,929 that were not deposited into the Town's bank accounts from January 1, 2013 through February 14, 2014. Customers provided the Town with documentation^A that indicated the Town received these payments. However, a review of the Town's utility system indicates that these payments were either not recorded to customer accounts or were recorded to customer accounts but later voided. Although most of the documentation provided by customers does not indicate who collected each of these payments, only Ms. Freeman and Ms. Dawson were responsible for collecting, recording, and remitting utility payments to the administrative assistant for deposit in the Town's bank account.

Of the receipts provided by customers for whom the payments were not deposited, 62 receipts totaling \$6,842 were initialed by Ms. Dawson and four receipts totaling \$535 were initialed by Ms. Freeman. In addition, we found that 12 of the receipts totaling \$1,644 collected by Ms. Dawson were recorded in the utility system as cash payments, but later voided. Although these payments do not appear on each of the customers' account histories, the utility system's voided payment report indicates that each payment was recorded by Ms. Dawson and then voided by Ms. Dawson on the same day. It appears that Ms. Dawson received and recorded these cash payments, but later voided the transactions and failed to remit the cash for deposit.

^A Documentation provided by Town utility customers included handwritten receipts issued by utility clerks and utility billing statements stamped "Paid".

Voiding payments that were not deposited allowed the daily collection reports to reconcile to the amount of funds remitted to the administrative assistant for deposit. Records from the utility system indicate that Ms. Dawson and Ms. Freeman voided cash payments totaling \$29,388 and \$8,846 respectively during our audit period. Because there was no documentation to support voided transactions, it could not be determined if these amounts were voided to correct errors or to conceal payments that were not deposited.

We reviewed the account histories for 60 customers whose payments were neither recorded nor deposited and found that these customers' average account balances (i.e., the amount Town records indicated were owed for utility services) were \$579 as of October 30, 2013. We spoke with 31 of these customers who advised that they regularly paid their utility bills in cash to Ms. Dawson and/or Ms. Freeman. In addition, we compared the billing statements provided by these customers to their account histories and found that the billing statements mailed to many of these customers did not match the amounts billed by the utility system. The billing statements reflected that the customers were charged more (anywhere from \$5 to \$60 per month) than the amounts billed by the utility system, suggesting that the billing statements sent to certain customers were altered outside of the utility system (after the billing cycle was completed). For example, one customer provided a billing statement which included charges totaling \$224 for the month of November 2013; however, according to the utility system, the customer was actually charged \$174.

Ms. Freeman stated that she borrowed cash payments from the Town by removing cash from her drawer and tearing up the corresponding receipts. Ms. Freeman stated that after she recorded her transactions (not including the receipts that were destroyed) in the utility system, her daily reports from the utility system would match the amount of cash in her drawer. Ms. Freeman stated that she remembered which customers she "borrowed" from and would later replace these amounts in her cash drawer, write a receipt, and record the amount to the customer's account. Ms. Freeman estimated that she "borrowed" a total of \$15,000 from Town utility collections and that she repaid \$9,000.

When asked about altered bills being sent to customers, Ms. Freeman stated that many customers were allowed to enter into payment plans. She stated that both she and Ms. Dawson altered utility billing statements by adding to the amounts billed to customers, sometimes without the customers' knowledge, in order for the customers to "catch up" on outstanding balances. In addition, Ms. Freeman stated that she and Ms. Dawson each removed customers that they "dealt with" (had on payment plans) from the Town's monthly disconnect list, which prevented customers with high account balances from having their services disconnected. Ms. Freeman also stated that the Town adjusted customer balances in the utility system at the end of the fiscal year to write off penalties incorrectly charged in the system.

Ms. Dawson stated that she did not take cash receipts and did not borrow money from any customers. She stated that she told Town officials that she had borrowed money from customers because she was shown receipts with her initials that were not recorded to the customers' accounts. Ms. Dawson stated that she felt like she had been "backed into a corner" and had to admit to borrowing money from customers. Ms. Dawson explained that at the end of each day she entered all of her collections into the computer and matched her receipts to the cash and checks she had collected. Ms. Dawson stated that she did not know how to void transactions

and could not explain how the amounts billed to customers were different from the amounts charged by the utility system.

By failing to record and deposit cash collections, destroying public records, and improperly voiding transactions from the Town's utility system, Ms. Freeman and Ms. Dawson may have violated state law.¹

Recommendations

We recommend the Town of Franklinton seek recovery of \$22,929 of missing utility collections by Ms. Freeman and Ms. Dawson. We also recommend that the Town's management develop and implement policies and procedures to ensure that payments collected by the Town are accounted for and deposited daily. 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 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 utility system (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) develop and implement written policies and procedures on utility billing adjustments, including requiring mayor approval (in writing) of all adjustments to customer accounts;
- (6) require management to develop written policies and procedures detailing the requirements, approval process, and the appropriate documentation to be maintained for customer payment plans;
- (7) require that utility services to past-due customers are consistently shut off in accordance with policy. Furthermore, aggressive action should be taken, including legal action when necessary, to collect all delinquent balances; and
- (8) 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)** 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.”

La. R.S. 14:68 (A) provides, in part, that “Unauthorized use of a movable is the intentional taking or use of a movable which belongs to another, either without the other’s consent, or by means of fraudulent conduct, practices or representations, but without any intention to deprive the other of the movable permanently.”

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.”

La. R.S. 14:132 (B) provides that “Second degree injuring public records is the intentional removal, mutilation, destruction, alteration, falsification, or concealment of any record, document, or other thing, defined as a public record pursuant to R.S. 44:1 et seq. and required to be preserved in any public office or by any person or public officer pursuant to R.S. 44:36.”

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.”

APPENDIX A

Management's Response

TOWN OF FRANKLINTON
301 Eleventh Avenue
Franklinton, Louisiana 70438
985-839-3569
Fax: 985-839-3552

M. Wayne Fleming, Mayor

Aldermen:
T.J. Butler, Jr.
John L. Daniel
Richard Dillon
Brad Orman
Heath Spears

September 18, 2014

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

Re: Investigative Audit Report

Dear Mr. Purpera:

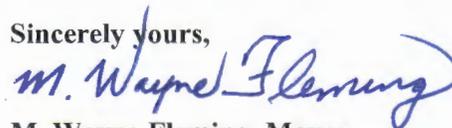
In response to your letter dated September 11, 2014 regarding the Investigative Audit Report on the Town of Franklinton, let me first thank you for the assistance your office provided during this very trying time. We feel that Jonathan Hodson and Amy Dees did an excellent job of investigating our suspicions of utility payments not being posted to customer's accounts and not being deposited in the Town's bank account.

Ms. Freeman and Ms. Dawson were placed on administrative leave on March 18, 2014, after both employees admitted to "borrowing funds" from customer utility payments. By a unanimous vote of the Board of Aldermen both clerks were officially discharged from their duties at the town's Regular Meeting held on March 25, 2014. At this point, your office was notified of the irregularities and we requested your assistance with investigating our findings.

The Town of Franklinton has worked very closely with our Auditor, Minda Raybourn to correct balances on customer accounts that were affected. Two new utility clerks have been hired and both have been properly trained on cash handling policies and procedures.

As per your recommendations, the Town of Franklinton will aggressively seek to recover the missing utility collections by Ms. Freeman and Ms. Dawson. As also recommended, the Town of Franklinton has implemented tighter internal controls and separation of duties to insure that all customer billings and payments are properly collected, documented, posted to their accounts and deposited in the Town bank account.

It is with our deepest regret that our customers were affected by the action of these employees and we are diligently striving to regain the confidence and trust of our citizens. We sincerely appreciate the assistance and advise we have received from your office.

Sincerely yours,

M. Wayne Fleming, Mayor
TOWN OF FRANKLINTON, LA.

Carmen Freeman
Franklinton, La 70438

To Whom It May Concern:

First I would like to thank the Legislative Auditor, the Town of Franklinton, City Attorney and the Town CPA's for all that you have done in this situation. I appreciated each and every one of you. I would like to apologize for my mistake, I am truly sorry.

I have enjoyed my job with the Town of Franklinton for the past 20 years; I have grown to love the people of the Town of Franklinton and my co-workers. I take responsibility for my mistake, and asked that you forgive me.

I have been thru a lot in the past few years with a sick husband and trying to take care of him and work and myself. I borrowed money to help with bills and was paying it back when I got money and that is not an excuse. I was raised better than that.

I would like to let the citizens of the Town know I didn't mean to hurt anyone and ask for their forgiveness. I loved my customers and have learned a lot from them over the years.

I have let down so many people and it breaks my heart. I am truly sorry. Not only did I lose my husband, I lost my job and disappointed a lot of people.

I hope that the mistake I made doesn't reflect on the person I am. Again I thank each and every one of you and asked that you forgive me.

Sincerely:

Carmen Freeman
Carmen Freeman