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06694 000 Internal Control Review Agreed upon procedures report 1200.01

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REPORT OF INDEPENDENT ACCOUNTANTS ON APPLYING AGREED UPON PROCEDURES

Mr. Jerry L Jones
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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8/19/09

At your request, we have applied the procedures described below concerning internal controls over cash receipts in your office as of and for the seven month period ending July 31, 2008.

It is understood that this report is solely for your information. We did not audit or review the financial statements, and accordingly, do not express an opinion or any form of assurance on them. This report is not to be referred to for any purpose or distributed to anyone who is not a member of management of the Ouachita Parish District Attorney's office or the Louisiana Legislative Auditor. Our procedures consisted primarily of the following:

1. Interview selected personnel to obtain an understanding of the existing system of internal control.
2. Review supporting documents related to funds received.
3. Evaluate employee responsibilities in relation to segregation of duties as it relates to funds received.
4. Perform walk-throughs and observations of existing procedures.
5. Develop findings and recommendations for improvement.
6. Prepare agreed upon procedures report.

Mr. Jerry L Jones
District Attorney
4th Judicial District
Page 2

Background:

In July, 2008, District Attorney management began an internal investigation regarding the theft of approximately \$25,000 of funds from the District Attorney Check Recovery Program relating to fees collected but not deposited by an employee of the District Attorney's office. The District Attorney's office initially contracted the City of Monroe Police Department to investigate the matter. Subsequent to the police investigation, the District Attorney's office contacted the Louisiana Attorney General's office to refer the matter for investigation by their office. The Louisiana Attorney General's office is in the process of investigating this matter.

As a result of this alleged fraud, the District Attorney's office contacted us to review the internal control system relating to cash receipts for their office in order to prevent matters as discussed above from recurring.

The following items are brought to your attention as a result of the performance of the above listed procedures. Our review consisted of reviewing the cash receipts process and accounting procedures performed thereon in the following areas:

District Attorney Diversion Program

District Attorney NSF Check Recovery Program

District Attorney (Sheriff) Misdemeanor Program

DISTRICT ATTORNEY DIVERSION PROGRAM

Our review of the procedures in effect for accountability of cash receipts in this program appears to be appropriate in the circumstances.

Recommendation:

We recommend that a step by step procedure manual be developed to provide guidance to existing employees and a training method for new employees. Documentation of policies and procedures is an important facet of internal control.

Mr. Jerry L Jones
District Attorney
4th Judicial District
Page 3

Management should consider obtaining fidelity bond coverage for all employees who handle cash receipts. This coverage could be obtained from your current insurance carrier and is generally inexpensive.

Management response:

We concur with this recommendation and have begun developing a step by step procedures manual. Additionally, we are in the process of obtaining fidelity bond coverage for all employees who handle cash receipts.

DISTRICT ATTORNEY NSF CHECK RECOVERY PROGRAM

Our review indicated that currently cash receipts are not accounted for on a numerical basis. This is a critical control that should be implemented. The end of day processing function performed could be the mechanism to account for all receipts. All receipts should be deposited on a timely basis.

Recommendation:

Our review indicated that there are several methods in which cash accountability could be achieved. The following methods are submitted for your considerations:

A cash register and printer could be purchased to insure that all receipts are recorded. A cost benefit analysis would need to be conducted to insure that the equipment needed would be within budgetary limits of the District Attorney's Office.

Another method to consider would be a modification to the input in the software system to allow money order information to be limited to the last four or five digits of the money order in order to allow reference numbers to be included in the end of day reporting process.

Another method to consider is to develop a universal receipt for all transactions instead of the current two receipt system. Currently, one receipt is used by the District Attorney's Office and a different receipt is used by the District Attorney's Office for Sheriff Department funds.

Mr. Jerry L Jones
District Attorney
4th Judicial District
Page 4

At present funds collected during the day are not being locked in a secure location. There are multiple employees that have access to the collection drawer and therefore it is critical that some form of lockbox system be implemented to insure that funds are not manipulated.

It is highly recommended that all funds are deposited intact daily. Disbursement to the Sheriff and vendors should be done by check for items collected on their behalf.

There is currently no method in place to determine the total amount of outstanding NSF checks on hand to be collected. Additionally, there is no effective reconciliation process to insure that all funds collected are properly posted to the various vendor accounts. It is recommended that management solicit input from the IT department to determine if the software is capable of providing a total outstanding balance by individual. If not, management may need to consider the possibility of taking an inventory of all NSF checks on hand and begin a monthly reconciliation process. This is a critical internal control element that needs to be addressed. Additionally, management needs to make a determination as to which files have prescribed and discontinue the collection process.

It is also recommended that a step by step procedure manual be developed to provide guidance to existing employees and act as a training tool for new employees. Management should consider obtaining fidelity bond coverage for all employees who handle cash receipts. This coverage can be obtained from your current insurance carrier and is generally inexpensive.

Management response:

Management has obtained a lock box for all funds collected to prevent collected funds from being manipulated and two employees are required to be present to count funds at the end of the day.

Management has modified the software to allow additional data to be included in daily reports in order to insure that all information is correctly input and all funds collected are accounted for. Additionally, a universal receipt has been developed to allow all transactions to be reported simultaneously between the District Attorney's office and the Sheriff's department.

Mr. Jerry L Jones
District Attorney
4th Judicial District
Page 5

All funds are now deposited daily intact and checks are issued to the Sheriff and other vendors for items collected on their behalf.

Management has begun working with the IT department in order to determine the status of all outstanding NSF checks on hand to be collected. A reconciliation process is also being developed to maintain an accurate accounting of the NSF items.

We have begun developing a step by step procedure manual in order to assist current employees and train new employees.

Additionally, management is in the process of obtaining fidelity bond coverage for all employees who handle cash receipts.

DISTRICT ATTORNEY (SHERIFF) MISDEMEANOR PROGRAM

Currently, the sheriff department disposition slips are not accounted for numerically, nor are voided disposition slips retained. This is a weakness in the internal control over cash receipts within this department. Management should consider attaching a copy of the disposition slip to the supporting documentation for each receipt. Additionally, all voided disposition slips should be retained for accountability purposes.

It was noted that there appears to be significant backlog of mail in receipts. Currently, there are several part time employees in this department who assist in both window and mail in collections. Management may want to consider adding additional personnel in order to expedite the processing of mail in receipts. Of course the cost benefit of adding such personnel would need to be considered by management.

An additional observation noted in this department is that primarily all funds are collected and remitted to the Sheriff's office. The District Attorney's office provides all personnel, benefits and operating costs for this department but receives no reimbursement for such costs. Management should consider preparing a cost analysis of the aggregate costs incurred by the District Attorney's office and provide the calculation to the Sheriff's department for consideration of developing a fee schedule for serving the customers of the Sheriff's department.

Mr. Jerry L Jones
District Attorney
4th Judicial District
Page 6

Additionally, management should execute some form of joint services agreement between the two departments.

As discussed in the other sections, management should develop a step by step procedure manual for this department to provide guidance to existing employees and a training tool for new employees.

Management response:

Management now accounts for all disposition slips numerically including voided slips. A copy of the disposition slip is being attached to supporting documentation for each receipt.

Management is researching the cost/benefit of adding additional personnel to reduce the processing time for mail in receipts.

Management will consider preparing a cost analysis of the aggregate costs for assisting the Sheriff's Department. Management is in the process of contacting the Ouachita Parish Police Jury regarding a joint service agreement.

As discussed in previous sections, management is in the process of developing a step by step procedure manual to provide guidance to current employees and aid as a training tool for new employees.

CASH RECEIPTS – SEGREGATION OF DUTIES

We noted that there was a lack of segregation of duties within the cash receipts area. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts are being handled by more than one member of your personnel:

- This procedure is a good control, but it is critical that all funds received are handled by more than one employee.

Mr. Jerry L Jones
District Attorney
4th Judicial District
Page 7

- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis.
- Then someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.

Management response:

Management will consider the cost/benefit of adding additional personnel to improve internal control over cash receipts. Also, management will review the duties of existing personnel to determine if duties can be modified to improve controls in this area.

PERSONNEL FILES

Management should require the following items to be included in each person's personnel file:

- Copy of job application, if applicable
- Completed IRS Form W-4
- Completed LA Form L-4
- Completed US Form I-9
- Copy of background check
- Copy of annual employee evaluation, if applicable

We highly recommend background and reference checks on all new employees.

We recommend that all files contain all required documentation. Management may want to consider reviewing each personnel file to determine that all files are complete.

Mr. Jerry L Jones
District Attorney
4th Judicial District
Page 8

Additionally, it is recommended that a form be developed to document any disciplinary actions on employees. The form should provide complete details for any actions taken or required. Also, documentation should indicate who was in attendance at the employee meeting. Documentation is critical in limiting subsequent litigation from terminated employees.

Management response:

All personnel files have been reviewed and contain the required documentation indicated above.

Additionally, a new procedure has been implemented to perform background checks on all new hires.

Also, a form is being developed to document any disciplinary actions related to employees and related guidance regarding the disciplinary process.

MANDATORY VACATION TIME

It is recommended that all key employees be required to take at least one week of vacation on an annual basis. Sometimes replacement personnel will detect errors or irregularities in their particular areas. By requiring mandatory vacation time, cross trained individuals can perform the duties of personnel on vacation.

Management response:

Management will consider adopting this recommendation in 2009.

EDP CONTROLS

Currently, data is backed up daily but is not stored off-site in a secure area.

It is highly recommended that back up disks for data, be saved daily with multiple days saved and be stored off-site in a secure area.

Management response:

Now all data is backed up on a daily basis and is stored in a secure location off site.

REPORTING MECHANISMS FOR FRAUD, ABUSE, AND MISCONDUCT

Even though the District Attorney's office is a governmental organization, it is also a significant business enterprise that requires assets to be safeguarded and accounted for. During our procedures it was disclosed that the District Attorney's office practices do not include any type of mechanism for employees to report suspected fraud or abuse. In the Association of Certified Fraud Examiners' "2007 Report to the Nation on Occupational Fraud and Abuse" the most frequently cited method of fraud detection was tips, which accounted for approximately 40% of all cases studied. Also interesting to note is that approximately 60% of the tips were from employees. In light of this, we suggest that the District Attorney's office implement an effective reporting mechanism for fraud, abuse, and misconduct. Internal reporting channels, such as managers' open-door policies and surveys, have been found to be effective. Hotline services have been found to perform better for anonymous tips and certain other types of suspected misconduct such as sexual harassment. We strongly suggest that the establishment of a reporting mechanism for fraud, abuse, and misconduct would be of great benefit to the District Attorney's office.

Management response:

Management has always maintained an open door policy to all employees to report irregularities or other suggestions. Management will emphasize this policy to all employees in order to keep them aware of the procedure.

SURVEILLANCE PROCEDURES

Management has recently implemented a video surveillance system in all areas where funds are collected. This is a very good method of providing management with the ability to monitor employee activities regarding funds collection and accountability.

However, while the surveillance procedures are good, they are not effective unless they are adequately monitored on a timely basis. Upon discussion with the IT department, it was determined that the hard disk capacity for the system is approximately thirty days. It is therefore recommended that all data be backed up on outside disk within thirty days and be retained indefinitely.

Mr. Jerry L Jones
District Attorney
4th Judicial District
Page 10

Management response:

Management has contacted the IT Department and has implemented a procedure to back up all surveillance data every thirty days and is retaining the backups indefinitely.

Because the procedures noted above do not constitute an audit made in accordance with auditing standards generally accepted in the United States of America, we do not express an opinion on any of the items or accounts referred to above. This report relates solely to the items specified above and does not extend to any of the financial statements of Ouachita Parish District Attorney's office as of the date of this report.

We wish to express our sincere appreciation to the personnel who assisted us in our work, specifically Ms. Sissy Kennedy and Ms. Vera Davis and for the courtesy and cooperation afforded us during the performance of these procedures.

Ms Eloy Quirk & Busch

Lake Charles, Louisiana
January 2, 2009