

CITY OF MONROE



COMPLIANCE AUDIT
ISSUED DECEMBER 16, 2009

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

December 16, 2009

**HONORABLE JAMES E. MAYO, MAYOR,
AND MEMBERS OF THE COUNCIL
CITY OF MONROE**
Monroe, Louisiana

We have audited certain transactions of the City of Monroe (City) Taxation and Revenue Division. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the credibility of certain allegations.

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*; therefore, we are not offering an opinion on the City's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's response. This correspondence is intended primarily for the information and use of management of the City. Copies of this report have been delivered to the District Attorney for the Fourth Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA
Temporary Legislative Auditor

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The City of Monroe, Louisiana (City) operates under a Home Rule Charter approved by the voters in 1979. The charter provides for an executive branch of government headed by a mayor and a legislative branch of government consisting of five council members. The City's major operations include police and fire protection, garbage and trash collection, economic development, parks and recreation, other cultural activities, and general administration services.

The City's Taxation and Revenue Division (division) serves as the central revenue collecting center for the City. The division receives payments for occupational licenses and fees, property taxes, utility services, hotel taxes, and community development block grant loan payments. The division also collects sales taxes for the political subdivisions of Ouachita Parish.

On May 18, 2009, Patrick Onyemechara, former division director, was placed on administrative leave for possible gross negligence of his duties. On May 20, 2009, City officials discovered numerous checks made payable to the City in Mr. Onyemechara's office that had not been deposited. City officials immediately contacted their external auditors, the Monroe Police Department, and the Honorable Jerry Jones, District Attorney for the Fourth Judicial District of Louisiana. On May 21, 2009, Mr. Jones requested assistance from the Louisiana Legislative Auditor (LLA) in determining if revenues received by the division were properly received, recorded, and deposited. Mr. Onyemechara was subsequently arrested by state and local law enforcement agencies on May 28, 2009, and formally charged with 27 counts of felony theft on July 17, 2009.

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Background

The City of Monroe (City) Taxation and Revenue Division (division) has four cashier stations and one cashier supervisor. Cashiers accept cash, checks, and money orders and receive all payments either by mail or from the remitter in person. All payments received (utility, sales tax, property tax, hotel-motel tax, community development block grant, grass cutting, and occupational licenses) are processed through the same computer system and registers by the cashiers. Once a payment is received, the cashier inputs the amount paid as well as the payment type into the computer to generate a receipt. Cash received is placed in the cashier's drawer and checks are held (organized by type of payment) on top of the cashier's workstation. The computer system tracks all payments received and is able to generate system totals for the cashier at any point during the day.

At the close of business, all cashiers balance their drawers. They count and separate (by type of payment) all cash received, add up the amount of checks received by type of payment, and verify these amounts with the computer system totals. Once checks are verified, a calculator printout is attached to the checks and they are placed on a desk in the cashier supervisor's office. Once cash is verified it is placed in a deposit bag which is stored in the vault overnight. Every morning the cashier supervisor runs a report from the computer system showing the amounts of cash and checks each cashier should have received the prior day. The cashier supervisor then counts the cash and checks and verifies that these amounts equal the computer system printout totals. The cashier supervisor then prepares deposit slips and places the slips with the corresponding cash and checks in the appropriate bank deposit bags. The bags are then sealed and the cashier supervisor and another employee bring them to the banks.

We examined the division's collections for the period May 1, 2007, through May 29, 2009. City records indicate that the division collected revenues totaling \$356,575,030 during this period, which included revenues attributable to the City's general fund as well as sales and use taxes collected on behalf of the other political subdivisions in Ouachita Parish. Although amounts deposited were equal to recorded amounts, an analysis of these records indicates that several checks received were not processed through the register system and were substituted for cash collections.

Checks Substituted for Cash

We examined the division's total collections, total deposits, and available error logs for the period May 1, 2007, through May 29, 2009. These records indicate that cash totaling \$245,291 was received by cashiers but substituted for checks. Although detailed deposit records were not available to determine the source of the substituted checks, available records indicate that at least 35 checks totaling \$142,301 were made payable to the City. Since these checks payable to the City were substituted for cash collections, total deposits were less than total collections by at least \$142,301. Available records, including check stubs and error logs indicating that checks were substituted for recorded cash collections, indicate that Patrick Onyemechara, former division director, either received the 35 checks and/or substituted them for cash. Because the division did not maintain a complete set of error logs and detailed deposit

records were not available, we could not determine the source of all checks cashed nor the total number and amount of checks cashed by Mr. Onyemechara.

According to division personnel, it was customary for employees to cash personal checks in amounts less than \$102 from the cash drawers. As a result of these transactions, cash deposits would be less than actual cash collections and deposits of checks would be greater than the actual amount of checks collected. In general, these transactions were recorded by the cashiers on error logs indicating the person who gave the cashier the check, the amount, and the date. The log would then be used to document differences between cash collected and cash deposited. During our review of division records, it appeared that the division did not maintain a complete set of error logs. The error logs provided to LLA representatives appeared incomplete as they did not always have the name of the person cashing the check or proper dates to determine when the checks were substituted for cash collections.

Because a complete set of error logs was not available, we compared daily collection totals for cash and checks to daily deposit totals for cash and checks for the period May 1, 2007, through May 29, 2009. According to these records, cash totaling \$245,291 was received by cashiers but substituted for checks. This amount included checks totaling \$5,555 which were less than \$102 and appear to have been personal checks cashed by employees. In addition, there were 75 occasions totaling \$239,736 in which the amount of cash deposited was less than actual cash collections and the discrepancy was greater than \$102 (maximum amount of personal checks cashed by division employees). Because detailed deposit records were not available, we could not determine the source of all checks that were substituted for cash. As a result, we could not determine the total amount of missing funds. However, based on the amounts of cash missing for certain days as well as corresponding error log entries and limited deposit detail, we were able to identify 35 checks totaling \$142,301 that were issued to the City and substituted for recorded cash collections. Since checks payable to the City were substituted for recorded cash collections, total deposits were less than total collections by at least \$142,301.

The checks identified as payable to the City appear to have been payments for sales taxes, delinquent sales taxes, taxes for events held at the Monroe Civic Center, and a tax rebate check from the Louisiana Department of Revenue. Several of the check stubs for these checks were found in Mr. Onyemechara's office. These amounts were then matched to error log entries which correspond to days in which there was a shortage of cash collections. Error logs maintained during this period indicate that on 37 occasions, Mr. Onyemechara cashed checks totaling \$121,688. According to division's sales tax specialist, certain checks (made payable to the City) received by mail and marked "attention Patrick" were directed to Mr. Onyemechara instead of being provided to a cashier to be processed through the register system. Division employees further stated that Mr. Onyemechara later brought the checks to them to be placed in their register and he was given cash.

For example, on October 17, 2008, register totals indicate that the division received and processed revenues totaling \$1,048,276.56 which included \$15,897.23 in cash and \$1,032,379.33 in checks. However, bank records for the following day indicate total deposits consisting of cash totaling \$3,868.23 and checks totaling \$1,044,408.33 (a \$12,029 decrease of cash and increase in checks).

Summary of Register Transactions for October 17, 2008

	<u>Cash</u>	<u>Checks</u>	<u>Total</u>
Register Transactions	\$15,897.23	\$1,032,379.33	\$1,048,276.56
Amounts Deposited	3,868.23	1,044,408.33	1,048,276.56
Difference	12,029.00	12,029.00	NONE

Detailed deposit records obtained by the Louisiana State Police indicate that the collections deposited on October 20, 2008, (10/17/08 collections) included a \$12,029.00 tax rebate check dated September 29, 2008, to the City of Monroe Taxation and Revenue Dept. from the State of Louisiana. The check stub for this check was found in Mr. Onyemechara's desk on May 21, 2009, during a search of his office by representatives of the Louisiana State Police and the Monroe Police Department. In addition, an error log entry for this date indicates that Mr. Onyemechara cashed the check. Because this check was not processed through the system and was substituted for cash collections that were processed into the system, total funds deposited were less than total payments received by \$12,029.

Alpha Slack, assistant cashier supervisor, stated that Mr. Onyemechara had requested that she cash checks made payable to the City. Error logs indicate that from May 15, 2008, to October 17, 2008, Ms. Slack cashed three checks totaling \$17,371. These error log entries indicate that each of the checks was cashed by Mr. Onyemechara. Ms. Slack explained that Mr. Onyemechara would ask her to show him the system screen showing the amount of cash in her drawer. After seeing what was in her drawer, he went back to his office and got a check for her to cash. Ms. Slack added that these checks would not be encoded by the register like every other check.

Marier Key, cashier supervisor, indicated that she was aware that Mr. Onyemechara went to the cashiers to cash checks and added that he began coming to her to cash checks. Ms. Key explained that Mr. Onyemechara brought her checks payable to the City for sales taxes and that she gave him the amount in cash. Ms. Key stated that Mr. Onyemechara left with the cash, but she never knew if the cash made it back into the system. She indicated that Mr. Onyemechara told her that he wanted to deposit the checks to make sure they were going to clear the bank. We spoke with several cashiers, none of whom indicated that Mr. Onyemechara ever brought them cash to enter into the system for deposit.

Mr. Onyemechara stated that he does not handle cash and has never taken cash. He did explain one incident in which he cashed a check from a customer who was known to write bad checks. He stated that he did this to try to get the check processed quicker when the funds were available and that this only happened once. When asked about numerous entries on error logs indicating that he had cashed several checks, Mr. Onyemechara stated that he did not know what the transactions could be for and that he did not receive cash from these transactions.

Controls Over Revenues/Receipts

Controls over revenues collected at the division need to be strengthened. During our review, we noted several deficiencies in the collections process including failure to make daily deposits, lack of control over cash drawers, voided transactions with no written explanation, incoming mail which appears to have been diverted to the division director, and a failure to pursue delinquent sales tax accounts.

Daily Deposits - The division did not deposit funds daily (when practical) as required by Louisiana Revised Statute (R.S.) 39:1212. During a search of Mr. Onyemechara's office on May 21, 2009, City officials discovered numerous checks made payable to the City. In addition, sales tax revenues from special events held at the Civic Center were not immediately deposited. According to division employees, revenues from special events were either mailed to the division office or delivered by civic center personnel. These funds would be placed inside the vault and held there until Mr. Onyemechara made one large deposit.

Cash Drawer - Although each of the cashiers collecting cash (and other methods of payment) uses his/her own cash register, the drawers are never locked and the cashiers often leave their drawers without logging off of the system. To provide accountability and controls over cash, management should require each drawer to be maintained under lock at all times. In addition, management should require that each cashier log off of the register system prior to leaving the station and then log back onto the system upon their return.

Voiding Transactions - The division does not have an established process for the approval of voided transactions. Transactions are generally voided if a cashier makes an error processing the amount, account number, or type of payment received. When an error is noticed, the cashier would notify the cashier supervisor or the assistant supervisor to have the transaction voided from the system. Although this function appears to have been handled by appropriate personnel, transactions appear to have been voided without any documentation to support why the transaction was voided. We recommend that management adopt written policies and procedures for voiding transactions to include maintaining an error log detailing voided transactions.

Incoming Mail - The division does not have written policies and procedures for handling checks received by mail. According to practice, checks received by mail are provided to the cashiers to be processed into the register system and ultimately for deposit into the appropriate City bank account. During our review, LLA representatives were informed that certain checks received by mail were given to Mr. Onyemechara instead of being given to the cashiers for proper processing. All checks received by mail should be logged, restrictively endorsed, and then given to the cashiers for entry into the accounting system.

Delinquent Accounts - The division serves as the central revenue collecting center for the City. The division also collects sales taxes for the political subdivisions of Ouachita Parish. During our review of the division's collection processes, we were informed that

delinquent notices for failure to pay sales and use taxes had not been sent out in over six months. As a result, the City and the other political subdivisions in the parish may not be receiving revenues needed to support their operations. The division should adopt written policies and procedures for identifying and collecting delinquent sales taxes.

We recommend that City management:

- (1) comply with state law and make daily deposits of public funds whether cash or check;
- (2) discontinue the practice of cashing checks;
- (3) require that all funds collected are adequately recorded;
- (4) check the daily total deposits to the total receipts (cash and checks) on a regular basis;
- (5) implement written policies and procedures relating to the collection, deposit, and recordation of receipts;
- (6) require that all cash drawers be maintained under lock at all times;
- (7) require cashiers to log off of the system when they step away from the cash drawers;
- (8) implement written policies and procedures relating to voided transactions;
- (9) implement written policies and procedures for handling payments received by mail to ensure that all checks received by mail are logged, restrictively endorsed, recorded in the computer system, and deposited into the appropriate City bank account;
- (10) implement written policies and procedures for identifying and collecting delinquent sales taxes;
- (11) maintain adequate public records; and
- (12) seek restitution from the appropriate parties for amounts not deposited.

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The Louisiana Legislative Auditor received an allegation regarding sales tax collections received by the City's Taxation and Revenue Division. The procedures performed during this audit consisted of:

- (1) interviewing employees of the City;
- (2) interviewing other persons as appropriate;
- (3) examining selected documents and records of the City;
- (4) gathering documents from external parties;
- (5) reviewing City policies; and
- (6) reviewing applicable state laws and regulations.

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Management's Response



OFFICE OF THE MAYOR

JAMES E. MAYO
MAYOR

December 8, 2009

318-329-2310
POST OFFICE BOX 123
MONROE, LOUISIANA 71210

Daryl Purpera
Temporary Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera:

The City of Monroe offers this letter as our response to the compliance report issued on the City's Taxation and Revenue Department.

The City has already complied with several of the recommendations. Specifically, items 1. Monies collected are being deposited daily; 2. Employees are not allowed to cash personal checks through the registers; 3. All funds collected are properly recorded; and 4. Daily deposit totals are verified to the daily total receipts and checked regularly by management. In addition, in reference to items 6 and 7, cashiers now have individual locking cash drawers and registers are no longer shared. With implementation of the recommendations above, maintaining adequate public records is the result and fulfills item 11.

Concerning item 12, the City has made an initial claim with the insurance company concerning the losses at Tax and Revenue. Final police reports and documentation will be submitted for restitution.

The remaining recommendations, items 5 and 8-10, concern written policies and procedures. The City of Monroe has operating policies and procedures for the Tax and Revenue Department. However, *written* documentation of many of these is lacking. This will be rectified in the next few months. The Department of Administration is undertaking the task of documenting all departments' policies and procedures.

The City deeply regrets the situation that occurred at the Department of Taxation and Revenue, but is committed to bringing integrity, transparency, and accountability back to the department.

Regards,

A handwritten signature in black ink that reads "James E. Mayo". The signature is written in a cursive style.

James E. Mayo
Mayor

Response from Mr. Patrick Onyemechara

In a letter dated November 24, 2009, we asked Mr. Onyemechara to respond, in writing to this report; Mr. Onyemechara chose not to respond.