



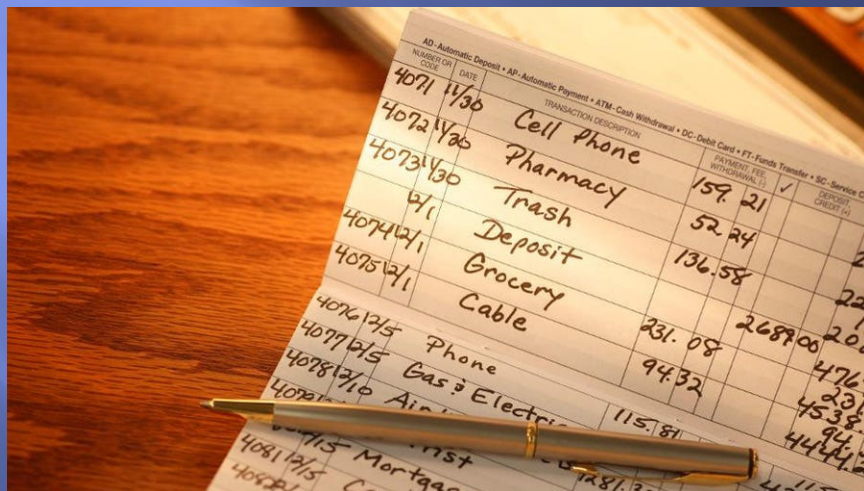
# LOUISIANA LEGISLATIVE AUDITOR

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## My Background

- ▣ B.S. in Accounting from SLU
- ▣ 22+ years with Investigative Audit
  - Began as a staff auditor in June 1997
  - Served as a manager since December 2006
    - ▣ Investigate complaints of fraud, waste, and abuse within state and local government and quasi-public agencies
- ▣ Certified Public Accountant
- ▣ Certified Fraud Examiner

## Protecting Your Bank Balance: Preventing Disbursement Fraud



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## Protecting Your Bank Balance: Preventing Disbursement Fraud

- ❑ Description: This session will give participants an overview of various disbursement fraud schemes and provide strategies to prevent and detect these schemes with limited resources.
- ❑ Objectives: By the end of this session, participants will have a greater awareness of:
  - Common disbursement fraud schemes
  - Red flags associated with disbursement fraud schemes
  - How these schemes can be detected and prevented

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## Topics of Discussion

- ▣ Investigative Audit Services
  - What we do and how we can assist you
  - LLA Hotline, Fraud Reporting Requirements
- ▣ Trends in Fraud
- ▣ The Fraud Triangle
- ▣ Fraud Tree: Asset Misappropriation/Fraudulent Disbursement Schemes
- ▣ Examples of the schemes that we see in state and local government
- ▣ Recommendations and Guidance
- ▣ Conclusion

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## Investigative Audit Services

- ▣ Gather evidence regarding fraudulent or abusive activity affecting governmental entities. Audits are designed to detect and deter the misappropriation of public assets and to reduce future fraud risks.
  - State, Local, and Quasi-Public entities
- ▣ Background Investigations for Appointees to the Louisiana Gaming Control Board and the Louisiana Lottery Corporation
- ▣ Provide information to Legislators

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## IAS Authority for Investigations

- La. R.S. 24:513 (A)(4) (in part)
- ...the legislative auditor may audit or investigate a local auditee only in those instances when:
  - The local auditee has failed after thirty days written notice from the legislative auditor to comply with the provisions of this Section relating to timely audits
  - The local auditee exhibits a record of egregious control deficiencies and failures to comply with laws and regulations.
  - The legislative auditor has received complaints of illegal or irregular acts with respect to the local auditee.
  - In the opinion of the legislative auditor and the Legislative Audit Advisory Council the best interest of the state of Louisiana would be served by his audit of the local auditee.

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## Notification Requirements

- ▣ La. R.S. 24:523 Notification of the legislative auditor and district attorney
- ▣ A. An agency head of an auditee who has actual knowledge of or reasonable cause to believe that there has been a misappropriation of the public funds or assets of his agency shall immediately notify, in writing, the legislative auditor and the district attorney of the parish in which the agency is domiciled of such misappropriation. "Reasonable cause" shall include information obtained as a result of the filing of a police report, an internal audit finding, or other source indicating such a misappropriation of agency funds or assets has occurred. The district attorney, or other prosecutorial agency, notified of such misappropriation may request audit assistance from the legislative auditor with respect to the misappropriation.

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## LLA Fraud Hotline

- ▣ R.S.24:523.1. Notices to be posted
- ▣ A. Every auditee shall post and keep posted in conspicuous places upon its premises a notice, prepared by the legislative auditor and located on his website, setting forth information concerning the reporting of the misappropriation, fraud, waste, or abuse of public funds.
- ▣ B. Every auditee shall also post such notices on the website of the auditee.

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## FIGHT FRAUD, WASTE & ABUSE!

Contact the Louisiana Legislative Auditor (LLA) Hotline if you suspect the misappropriation (theft), fraud, waste or abuse of public funds by anyone.

Information provided to the LLA Hotline may result in an investigation, audit or other review.

When providing information to the LLA Hotline, please include sufficient detail (*describing who, what, where, when, why and how*) to allow us to fully evaluate your information. Although we will consider anonymous information, providing us with your name and telephone number will allow us to contact you with any additional questions that we have. **Your name and telephone number, as well as the status of complaints, are confidential.**



### CONTACTING THE LLA HOTLINE IS EASY:

Toll-free: 1-844-50 FRAUD (503-7283)

Fax: 1-844-40 FRAUD (403-7283)

Online: ReportFraud.La

U.S. Mail: LLA Hotline, P. O. Box 94397, Baton Rouge, LA 70804

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## LLA Fraud Hotline

- ▣ Phone calls, online fraud reports, etc.
- ▣ All activity is routed through IAS management for review and assignment/referral.
  - Potential Frauds – IAS project list
  - Non fraud or IC issues - Referred to another LLA service area (Financial, Recovery, Advisory)
  - Non fraud or IC issues also referred to ICPA for consideration during their annual audit
  - Other (food stamp fraud, agencies with no real oversight function or not required to have an annual audit)

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## ACFE Report to the Nations

2016



2020



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## Comparison of Reports

2016

- ▣ Revenues Lost to Fraud: 5%
- ▣ Median Loss: \$150,000
- ▣ Asset Misappropriation: 83%
- ▣ Median Duration: 18 months
- ▣ Detection Method: Tips 39%
- ▣ Perpetrator: 65% Male
- ▣ Behavioral Red Flag: Living Beyond Means
- ▣ Lack of controls contributed to 29% of cases

2020

- ▣ Revenues Lost to Fraud: 5%
- ▣ Median Loss: \$125,000
- ▣ Asset Misappropriation: 86%
- ▣ Median Duration: 14 months
- ▣ Detection Method: Tips 43%
- ▣ Perpetrator: 73% Male
- ▣ Behavioral Red Flag: Living Beyond Means
- ▣ Lack of controls contributed to nearly 1/3 of cases

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## Who are the fraudsters?



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## The Fraudsters

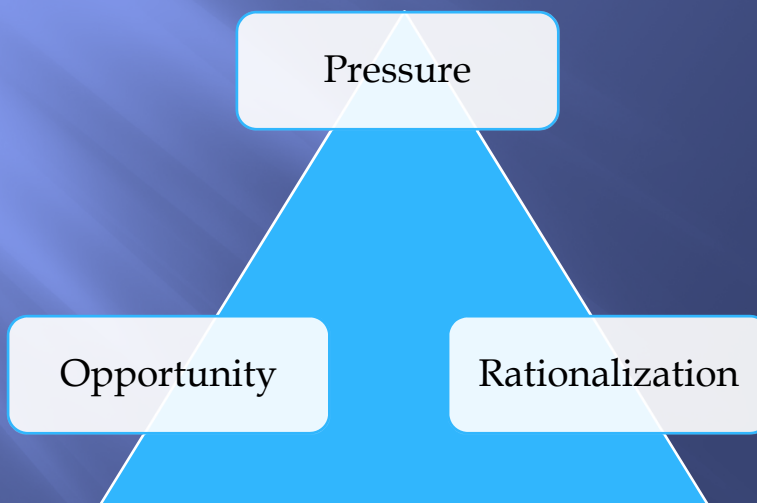
- ▣ Per 2020 ACFE Report to the Nations fraudsters are more likely to be:
  - Male (72%)
  - 36-50 years of age
  - University degree (half)
  - Higher level of authority within the organization
  - Long-term employee

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## Fraud Triangle

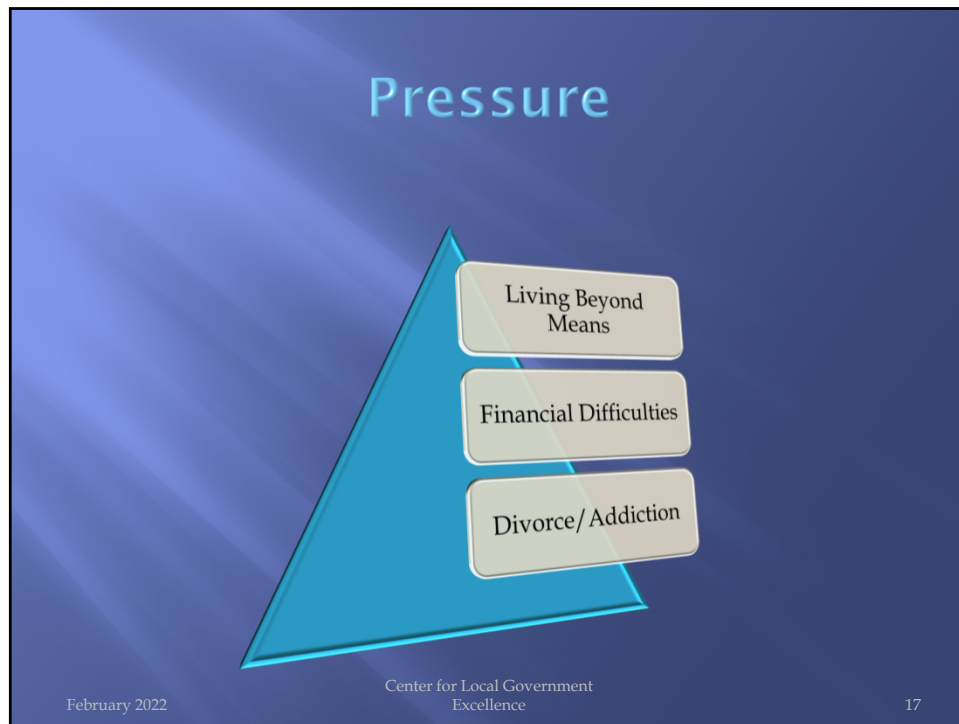


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## Additional Red Flags

- ▣ Control issues/unwilling to share duties
- ▣ Complained about inadequate pay
- ▣ Refusal to take vacations
- ▣ Complained about lack of authority
- ▣ “Wheeler-dealer” attitude
- ▣ Unusually close customer/vendor relationship
  - These are red flags associated with the potential perpetrator

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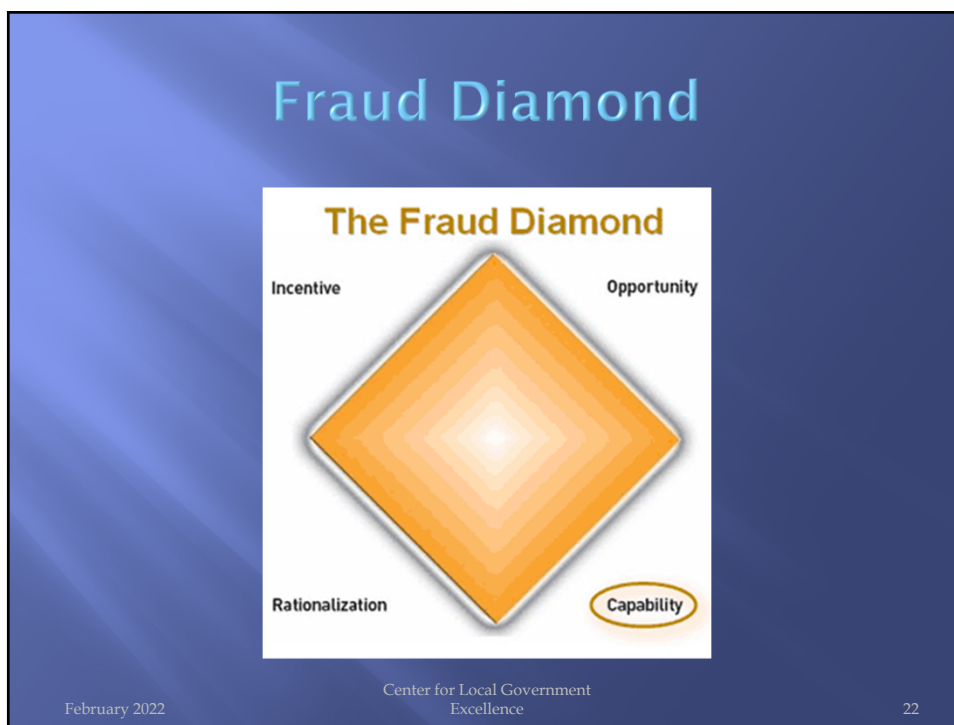
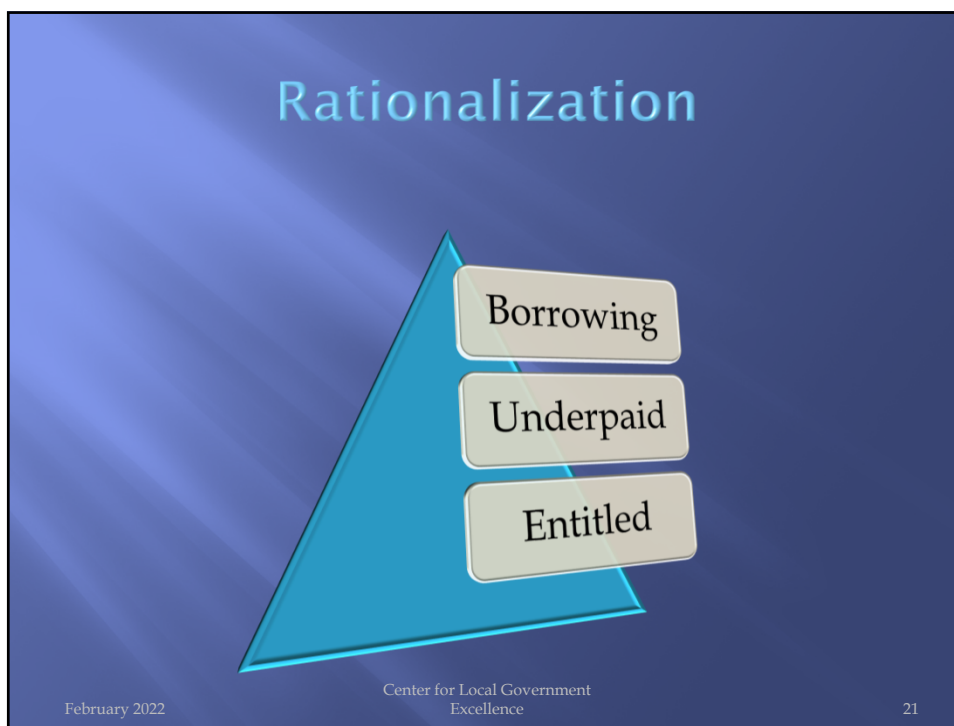
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## Opportunity

- ❑ These are essentially the red flags associated with the environment
  - Lack of controls, no written policies and procedures, lack of management oversight/review, no segregation of duties
- ❑ As overseers of public funds, this is the leg of the triangle that we have to control
- ❑ The internal pressure of individuals and the ways in which they rationalize their actions (for the most part) are out of our control
- ❑ We need to create an environment that increases the perception that the fraudster will be caught. Of course, this is often difficult with limited resources.
- ❑ This is our “Opportunity” to prevent fraud

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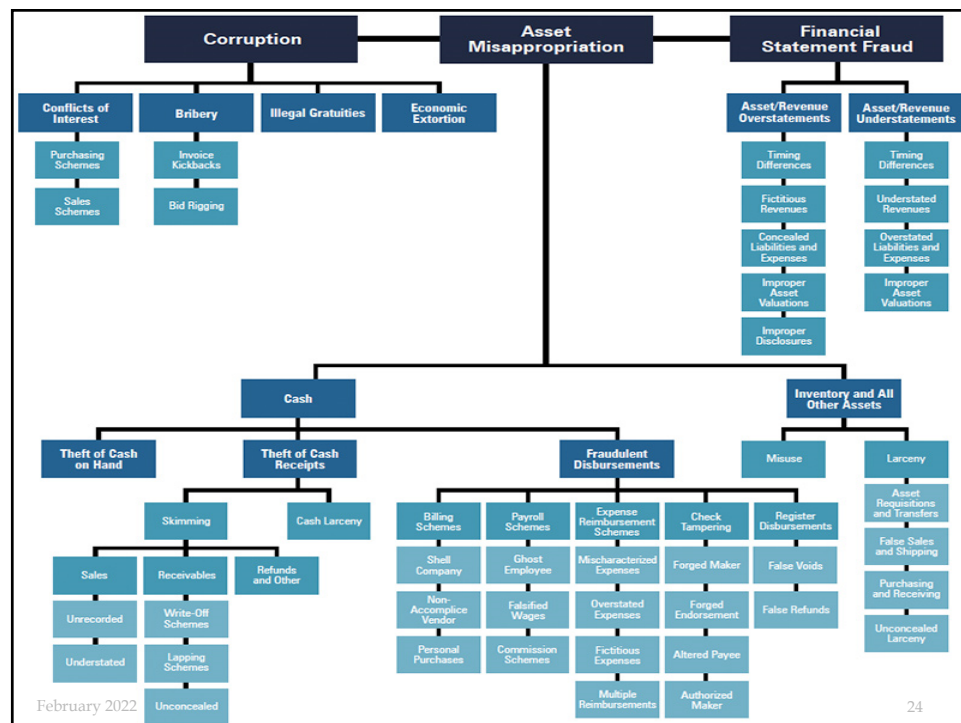


# Fraud Tree

- ❑ Fraudulent Financial Statements
- ❑ Corruption
- ❑ Asset Misappropriation

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## Check Tampering

- ❑ Forged Maker Schemes – involve forging an authorized signature on a company check.
- ❑ Forged Endorsement Schemes – forging the signature endorsement of an intended recipient of a company check.
- ❑ Altered Payee Schemes – changing the payee designation on the check to the perpetrator or an accomplice
- ❑ Authorized Maker Schemes – occurs when employees with signature authority write fraudulent checks for their own benefit.

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## Check Tampering Reorganized

- ❑ Authorized Maker – In most cases, the fraudster is the one with the checkbook and signature authority. There is one control that most agencies do employ: dual signature.
- ❑ In order to complete the schemes they simply forge the second authorizing signature (forged maker) or forge the endorsement (forged endorsement) or checks with multiple endorsements.
- ❑ Check tampering is used to carry out other disbursement schemes:
  - Payroll
  - Reimbursement
  - Billing

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## LLA Findings

- ❑ Housing Authority – Former Director converted \$34,105 of funds to her personal use through unauthorized checks (Billing, Payroll, Expense Reimbursement, and Check Tampering).
- ❑ 47 unauthorized checks over a 7-month period.
- ❑ Majority of checks were forged (forged maker)
  - Extra payroll checks to herself
  - Reimbursement checks for expenses not incurred
  - Checks payable to family members for which no services were performed
  - Checks made payable to petty cash

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- ❑ We reviewed these checks with the Board Chair and the Board member whose names were forged on the checks. They both stated they were not aware of these transactions and they did not authorize them.
- ❑ They stated that the Director frequently requested they sign checks without supporting documentation for the transactions, or requested they sign blank checks because the Director did not have time to write in the payee on the checks.
  - No procurement process
  - No authorization
  - Lack of documentation to support purchases
  - No review/reconciliation of bank statements
  - Board members signed blank checks

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## Payroll Schemes

- ❑ Ghost Employee Schemes – occur when a person not employed by the company is on the payroll.
- ❑ Overpayment Schemes – occur when a company pays an employee based on falsified hours or rates.
- ❑ Commission Schemes – the amount of sales made or the rate of commission is fraudulently inflated.

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## Payroll Schemes Reorganized

- ❑ Duplicate payroll checks
- ❑ Improper payroll disbursements (not entitled to receive)
  - Overtime (policy, ordinance, lack of timesheets)
  - Unused leave payouts (policy, timesheets)
- ❑ Overpayment Schemes – falsified hours/rates
- ❑ Ghost Employee Schemes
- ❑ ~~Commission Schemes~~

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## Payroll Schemes – Duplicate Checks (same pay period)

Checks issued to the same employee from the same fund

- Check #1 - Authorized
- Duplicate Check – Forged maker or authorized by a different signor (issued outside of the system)

Checks issued to the same employee from different funds

- Check #1 – General Fund, authorized
- Duplicate Check – Utility Fund, forged maker or authorized by a different signor

Checks issued to the same employee via different methods

- Check #1 – Authorized
- Duplicate – Unauthorized ACH disbursement

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## Police Chief Paid Improper Overtime Payments

- ❑ Police Chief's compensation set by ordinance; did not complete timesheets.
- ❑ Paid \$21,000 in overtime during a ticket details.
- ❑ Chief told us he was on call 24/7 but actually worked approximately 8 hours/week. Overtime paid was approximately 10 hours/week.
- ❑ We reviewed the overtime hours and found that 78% were worked Monday – Friday between 8 am and 5 pm.

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Date	Day	Time In	Time Out	Daily Total
MAY 16	Sat			
	Sun			
	Mon			
	Tues			
04TH	Weds	12pm	5pm	5
05TH	Thurs	10:30 AM	3:30 PM	5
	Fri			

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## Payroll: Overpayment Schemes

- ❑ Falsified hours/rates
- ❑ La. R.S. 14:138(A)(1) states, "Public payroll fraud is committed when: Any person shall knowingly receive any payment or compensation, or knowingly permit his name to be carried on any employment list or payroll for any payment or compensation from the state, for services not actually rendered by himself, or for services grossly inadequate for the payment or compensation received or to be received according to such employment list or payroll."
  - Surveillance or conflicting records
  - No standard for "services grossly inadequate"



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## Billing Schemes

- ❑ Shell Company Schemes – when an employee submits invoices for payment from a fictitious company controlled by the employee.
- ❑ Non-Accomplice Vendor Pay and Return Schemes – an employee arranges for overpayment of a vendor invoice and pockets the overpayment amount when it is returned to the company.
- ❑ Personal Purchase Schemes – occur when an employee submits an invoice for personal purchases to the company for payment, or when an employee uses a company credit card for personal purchases.

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## Billing Schemes Reorganized

- ❑ Shell Company – public employees use companies/individuals, real or fake, to provide goods/services to their own agencies at inflated prices and divert the proceeds to themselves
  - Shell company (real or fake)
  - Family members
  - Family members' shell companies (real or fake)
  - Other individuals (accomplice/non accomplice)
- ❑ Personal Purchases
  - Credit card purchases
  - ACH disbursements for personal expenses
- ❑ ~~Non-Accomplice Vendor Pay and Return Schemes~~

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## Expense Schemes

- ❑ Mischaracterized Expense – occurs when an employee requests reimbursement for a personal expense, claiming the expense to be business related.
- ❑ Overstated Expense – an employee overstates the cost of actual expenses and seeks reimbursement.
- ❑ Fictitious Expense – an employee invents a purchase and seeks reimbursement for it.
- ❑ Multiple Reimbursement – an employee submits a single expense for reimbursement multiple times.

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## Disbursement Schemes

Project	Amount	Duration	Scheme
Hospital Service District	\$2,029,504	5+ Years	6 year period. Management services not provided. Inflated lease payments on equipment. Contractor split proceeds with HA.
Hospital Service District	\$2,998,637	5+ Years	5 year period. Insurance agent billed for policies not provided and split proceeds with HA.
Hospital Service District	\$96,369	5+ Years	Personal credit card purchases Improper mileage reimbursements Improper travel advances
Municipality	\$898,000	7 Years	Unauthorized ACH transfers, unauthorized checks and payment of personal expenses.
Fire Protection District	\$128,000	3.5 Years	Board member/volunteer issued checks to himself and family members for maintenance and improvement projects.
Sheriff's Department	\$109,000	3 Years	3 year period. Deputy used the Sheriff's signature stamp to sign unauthorized checks for personal use.

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## Fire District

- ❑ Former Fire Protection District Board member used his position to improperly direct public funds totaling \$128,083 to himself and his family members. The majority of these payments were for maintenance and improvement jobs at District properties with little to no verification of necessity, completeness, competitive pricing, and/or authorization. The Board member acknowledged issuing checks to himself and his family members without authorization, signing board members' names to checks without authorization, and creating invoices for services that were not performed.
  - Received a complaint from the Board Treasurer.\*\*\*

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## Fire District

- ▣ Former Board member maintained a manual checkbook (did not have signature authority)
  - No financial policies and procedures
  - No controls
  - Finances controlled by Board member
  - Monthly disbursements (checks\* that needed to be signed) and bank reconciliation provided to full board each month by the board member:

▣ Beginning Bank Balance	\$XX,XXX
▣ Less expenses	<u>\$X,XXX</u>
▣ Amount left in the bank	<u>\$X,XXX</u>

▣

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## \$20K Outdoor Kitchen



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## Outdoor kitchen

- ▣ Work was performed by friends and family members of Board member
- ▣ Board member assisted and was paid as well
- ▣ Needed a roof to keep the BBQ pit out of the rain
- ▣ Needed a sidewall so wind wouldn't blow the fire out
- ▣ BBQ Pit was necessary because the Board member also billed the District for on-site catering services (services that were supposed to have been provided by volunteers)
- ▣ Less than half of these payments went before the Board

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- ▣ Outdoor kitchen/BBQ pit was not necessary for the District's operations
- ▣ Now onto work that was performed for excessive amounts
  - \$1,125 for a handicap access ramp
  - Check issued to a false vendor (T&J Handywork)
  - Check not approved by the Board
  - Check signed by a Board member in blank
  - Check endorsed by Board member and his son

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## Fire District



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## \$110



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\$230

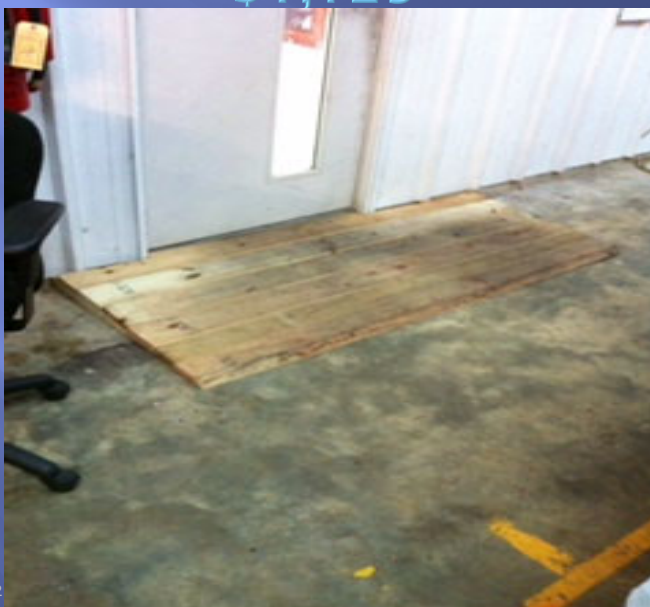


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\$1,125



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## Payments for which no work was performed

- ▣ Paint station interior - \$5,895
- ▣ Heating unit installation - \$5,876
- ▣ Vehicle maintenance - \$5,769
- ▣ Ice machine replacement - \$4,926
- ▣ Station construction (upstairs) - \$1,750
- ▣ Stairwell construction - \$1,148

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I Russell Passum do not endorse checks before depositing them into my bank account. I did not endorse check 962 for \$5,769, on 1/20/14, and did not deposit this check into my account. This transaction did not occur, and I was paid in February for the only work completed during that time of year. I also do not recognize the signatures endorsing this check.

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- ▣ Guilty plea included the following charges:
  - one count of theft over \$25,000
  - 10 counts of forgery
  - six counts of theft over \$500
  - 15 counts of prohibited splitting of profits, fees, or commissions

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## Hospital Service District

- ▣ Two separate schemes that lasted over six years with a total loss of \$4,500,000
  - Insurance agent inflated billings by over \$3,000,000 and split proceeds with the hospital administrator
  - Vendor paid \$1,500,000 for services not provided and split proceeds with hospital administrator

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## Hospital Service District

Initial complaint was the use of public funds to purchase term life insurance policies for employees and commissioners

Purchases included life insurance products and self funded health insurance plan for hospital employees

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## Hospital Service District

- ▣ Initial observations
  - Purchased excessive amounts of unneeded items (term life insurance). Benefits only payable upon death
  - Key man policies
  - Little or no documentation to determine what was actually purchased (could not provide policies)
  - Insurance agent charged the Hospital monthly fees and commissions based on the number of enrollees
  - Hospital administrator was very close to the insurance agent (meals, hunting camp)
  - Hospital administrator was having financial difficulties

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## Hospital Service District

- ▣ Obtained records from insurers and third party administrators (determine what was purchased and at what cost)
- ▣ Obtained personal and business banking records from the insurance agent (what did he actually pay on behalf of MPH)
  - These records were used to determine that the insurance agent overbilled the Hospital in the amount of \$3,000,000

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## Hospital Service District

- ▣ Insurance agent admitted to giving kickbacks to the hospital administrator in order to keep his business with the hospital
  - Cash payments (\$650,000 to \$1,300,000)
  - Payments to HA's daughter in the amount of \$4,000 per month (\$101,000 to \$121,000)
  - Payments for foreign currency (\$50,000 to \$61,756)
  - Payment for hunting trip (\$11,000), 6-8 trips
  - Payments for legal fees for HA's ex-brother in law
  - Allowed HA's brother in law to live at his camp in Arkansas for free

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- ▣ Nuclear Medicine - \$25,000/month
- ▣ Ultrasound - \$12,000/month
  - Vendor contracted to provide equipment and personnel to operate these departments
  - Monthly invoices were vague “Administrative Services”
  - No documentation to support what the vendor had provided

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## Hospital Service District

- ▣ We visited the nuclear department and found that the manager was hospital employee (Phone call to vendor)
- ▣ Vendor provided some equipment for the nuclear department but did not provide any management services
- ▣ Provided no equipment or services for the ultrasound department

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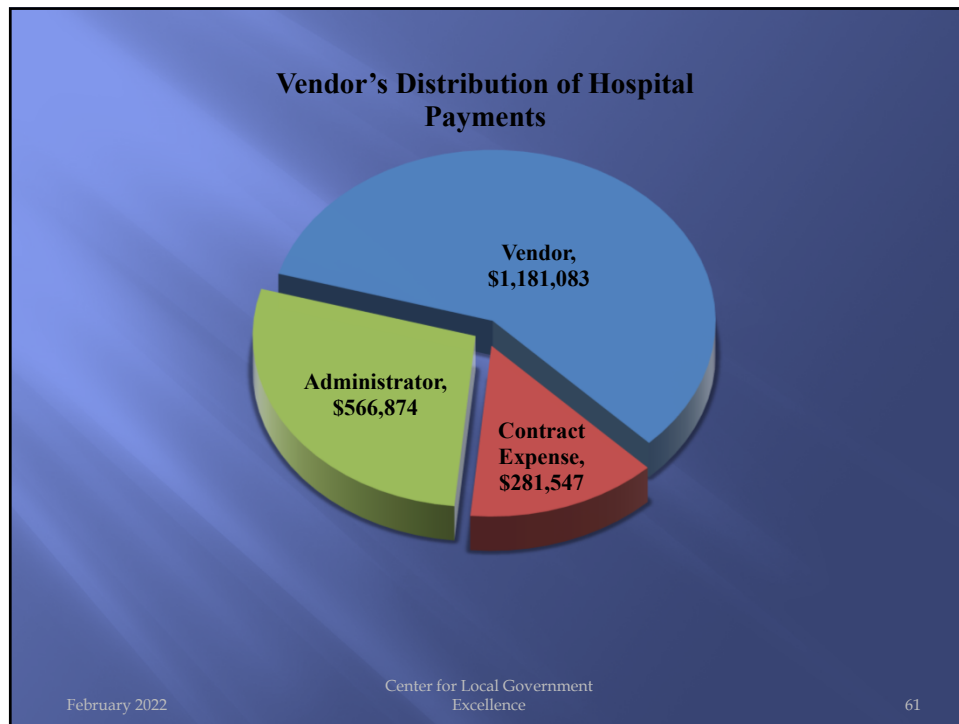
## Hospital Service District

- ▣ Vendor admitted to overbillings
- ▣ Claimed the HA demanded contract proceeds and hired hospital personnel to perform the services
- ▣ Provided personal and business banking records
  - Paid \$2,000,000
  - Actual contract expenses were \$280,000
  - Made deposits directly to HA bank account totaling \$566,000
  - Retained over \$1,000,000

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## Parish Hospital

### Summary of Two Major Billing Schemes

- ❑ Perpetrated over a six year period with out detection at a cost of \$4,500,000
  - Purchased excessive amounts of unneeded items (term life insurance, key man policies, services provided by employees)
  - Little or no documentation to determine what was actually purchased
  - Insurance agent charged the Hospital monthly fees and commissions based on the number of enrollees
  - Hospital administrator was very close to the insurance agent (meals, hunting camp)
  - Hospital administrator was having financial difficulty (spent everything he had on daughters, bad investments, IRS issues)

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## Parish Hospital

### Other Findings

- ❑ Credit cards (\$75,000 in personal expenses)
- ❑ Mileage Reimbursements (\$11,000) – vehicle allowance and used credit card to pay for fuel
- ❑ Travel Advances (\$9,500) – used credit cards for travel expenses
- ❑ Improper Use of Hospital Equipment

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## Parish Hospital: Outcomes

- ❑ Former hospital administrator sentenced to 37 months in prison, ordered to pay \$1,383,874 restitution.
- ❑ Insurance vendor sentenced to 14 months in prison, ordered to pay \$817,000 restitution.
- ❑ Nuclear medicine vendor sentenced to 12 months in prison and ordered to pay \$566,874 restitution.

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## Common Control Deficiencies

- Written policies and procedures did not exist or were inadequate.
- Employee responsibilities and duties were not adequately segregated.
- Checks (checkbook) not maintained in a secure location. One individual maintains custody/control over the manual checkbook.
- Checks signed in blank.
- Lack of detailed invoices or other documentation supporting the business purpose of expenditures.
- No process for approving and reviewing invoices for payment.
- Failure to reconcile bank accounts on a monthly basis.
- Lack of financial information presented to the Board.

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## Recommendations - Payroll

- ❑ Develop detailed written policies and procedure to ensure that all accounting and payroll functions are segregated
- ❑ Require proper review, approval, and reconciliation of all time sheets and payroll disbursement to ensure each payment has a legitimate public purpose and is not duplicated
- ❑ Train employees responsible for ACH transactions to ensure they understand how payments are entered and that the amounts agree to payroll reports
- ❑ Assign tokens to different employees to prepare and approve transactions
- ❑ Store ACH tokens in different locations that can be physically locked
- ❑ Select an employee who cannot enter or authorize ACH or check payments to reconcile the accounting records to the bank statements on a monthly basis
- ❑ Ensure the employee that reconciles the bank statements to its accounting records cannot post entries to the accounting system or authorize payments

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## Recommendations - Billing

- ❑ Develop detailed written policies and procedures to ensure all accounting functions are segregated
- ❑ Remove the custody of blank checks from any employee with authority to approve payments within the accounting system
- ❑ Develop detailed written policies and procedures for reviewing and approving invoices for payment. Require dual signature of checks and prohibit signing checks in blank
- ❑ Require the implementation and monitoring of controls to ensure services are necessary
- ❑ Ensure that all laws pertaining to contracts and public bids are followed
- ❑ Ensure that vendors and professional service providers have valid, written contracts prior to providing services
- ❑ Ensure that contracts and related documentation are maintained in an organized manner and in a central location
- ❑ Ensure that all payments are made in accordance with the terms and conditions of the contract
- ❑ Ensure payments for services meet all contractual requirements prior to payment
- ❑ Require detailed invoices and documentation of the business purpose for all expenditures
- ❑ Require board approval of all contracts over a specified limit

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## Recommendations – Credit Cards

- ❑ Adopt detailed policies and procedures for the use of credit cards
- ❑ Policies should provide guidance for the business use of credit cards and the supporting documentation expected to be maintained
- ❑ Require a listing of all active credit cards and who has the cards at all times
- ❑ Require documentation of the business purpose for the expenditures
- ❑ Require itemized receipts for meals, as well as a list of people attending the meals
- ❑ Timely submission and retention of original receipts
- ❑ Require review of monthly statements for reasonableness and compliance with policy before payment is made. Any exceptions or noncompliance issues should be immediately investigated and resolved
- ❑ Require disciplinary action for noncompliance

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## Strategies to Prevent and Detect Fraudulent Disbursements

- ❑ Written policies and procedures
- ❑ Internal controls
- ❑ Education on proper government operations
- ❑ Split up and rotate duties amongst available personnel/officials
- ❑ Require detailed monthly financial information to be presented at every board meeting
- ❑ Obtain assistance/guidance from local CPAs, LLA, LMA, etc.

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## LLA Resources - FAQs

- |                                   |  |
|-----------------------------------|--|
| ❑ Assessors and Millages          | ❑ Public Contracts                     |
| ❑ Covid-19 Legal Guidance         | ❑ Public Funds                         |
| ❑ Covid-19 Funds                  | ❑ Public Purchasing                    |
| ❑ Covid-19 Audit                  | ❑ Public Records Requests              |
| ❑ Covid-19 AG Guidance            | ❑ Questions from Local Entities & CPAs |
| ❑ Payroll                         | ❑ School Boards                        |
| ❑ Operations of Government        | ❑ Sunshine Laws                        |
| ❑ Political Subdivision Budgeting | ❑ White Papers                         |

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## Public Funds FAQs

- ▣ Audit Law
- ▣ Banking Law
- ▣ Investments
- ▣ Louisiana Procurement Code
- ▣ PTA
- ▣ Public Bid Law
- ▣ School Activity Funds
- ▣ Surplus Moveable Property

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## CLGE Workshop Guides

- |   |   |
|---|---|
| ▣ Basics of Internal Control & Best Practices   | ▣ Introduction to Fraud                 |
| ▣ Open Meeting and Public record                | ▣ Collections: Best Practices           |
| ▣ LGBA  | ▣ Payroll and Personnel: Best Practices |
| ▣ Understanding Government Financial Statements | ▣ Public Bid Law Overview               |
| ▣ Public Bid Law & Donations                    | ▣ Expenditures: Best Practices          |

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## Louisiana Municipal Association

- ▣ Open Meetings Law
- ▣ Public Records
- ▣ Dual Office Holding
- ▣ Model Criminal Code Ordinance
- ▣ The Lawrason Act
- ▣ Mayor's Court
- ▣ Pay Regulations for Fire and Police
- ▣ Municipal handbook
- ▣ Sample Policies and Agreements

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