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**City of Grambling  
Grambling, Louisiana**  
**Basic Financial Statements  
And Independent Auditors' Report  
As of and for the Year Ended December 31, 2007**

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 11/5/08

**City of Grambling  
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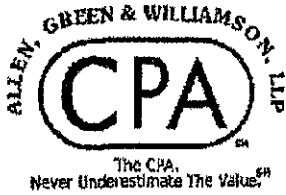
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(Concluded)



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## INDEPENDENT AUDITORS' REPORT

Honorable Martha W. Andrus,  
and Members of the City Council  
City of Grambling  
Grambling, Louisiana

**Basic Financial Statements** We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Grambling, Louisiana, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management.

The City's management declined signing representation letters confirming to the best of their knowledge the financial statements were fairly stated constituting a scope limitation. Also, we were unable to obtain sufficient documentation to complete testing of certain areas of the financial statements.

Because of the scope limitations described above we are unable to express, and do not express, an opinion on the City's financial statements as listed in the table of contents.

The City of Grambling has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

**Supplemental Information** The accompanying supplemental information identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statement. We did not audit the information and we express no opinion on it.

**Other information** Also, the accompanying other information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements of the City. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Allen, Green + Williamson, LLP*

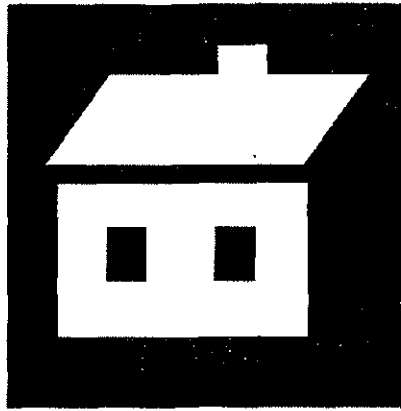
ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana  
October 15, 2008

**BASIC FINANCIAL STATEMENTS:**

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS (GWFS)**

**City of Grambling**



**CITY OF GRAMBLING**  
**STATEMENT OF NET ASSETS**  
December 31, 2007

Statement A

	<b>GOVERNMENTAL ACTIVITIES</b>		<b>BUSINESS-TYPE ACTIVITIES</b>		<b>TOTAL</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 466,226		\$ 164,017		\$ 630,243
Investments	491,383		0		491,383
Receivables, net of allowance of \$13,638	190,665		31,220		221,885
Internal balances	306,717		(306,717)		0
Restricted assets	0		294,119		294,119
Prepaid expenses	4,919		1,362		6,281
Bond issuance costs, net of amortization	26,800		0		26,800
Capital assets, net	<u>2,537,891</u>		<u>1,701,029</u>		<u>4,238,920</u>
<b>TOTAL ASSETS</b>	<u>4,024,601</u>		<u>1,885,030</u>		<u>5,909,631</u>
<b>LIABILITIES</b>					
Accounts payable	13,426		84,002		97,428
Accrued and other liabilities	37,097		4,424		41,521
Interest payable from restricted assets	21,332		61,026		82,358
Customer deposits payable from restricted assets	0		108,514		108,514
Long term liabilities					
Due within one year	107,804		106,681		214,485
Due in more than one year	<u>732,855</u>		<u>1,605,765</u>		<u>2,338,620</u>
<b>TOTAL LIABILITIES</b>	<u>912,514</u>		<u>1,970,412</u>		<u>2,882,926</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,716,101		(7,339)		1,708,762
Restricted for Debt Retirement	141,891		124,579		266,470
Restricted for Health & Sanitation	345,386		0		345,386
Restricted for Capital Projects	113,832		0		113,832
Unrestricted	<u>794,877</u>		<u>(202,622)</u>		<u>592,255</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 3,112,087</u>		<u>\$ (85,382)</u>		<u>\$ 3,026,705</u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.



**CITY OF GRAMBLING**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2007**

FUNCTIONS/PROGRAMS	<u>PROGRAM REVENUES</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>
<b>Governmental Activities:</b>			
General government	\$ 748,868	\$ 0	\$ 0
Public safety	719,145	189,082	0
Health and sanitation	196,278	104,114	0
Highways and streets	108,920	0	0
Interest expense	<u>51,512</u>	<u>0</u>	<u>0</u>
Total Governmental Activities	<u>1,824,723</u>	<u>293,196</u>	<u>0</u>
<b>Business-Type Activities:</b>			
Utility Enterprise	<u>917,292</u>	<u>477,897</u>	<u>0</u>
Total Business-Type Activities	<u>917,292</u>	<u>477,897</u>	<u>0</u>
Total	<u>\$ 2,742,015</u>	<u>\$ 771,093</u>	<u>\$ 0</u>

General revenues:

Taxes:

Ad valorem taxes

Sales tax revenue

Licenses and permits

Fines and forfeitures

Use of money and property

intergovernmental revenue

Miscellaneous

Transfers

Total general revenues and transfers

Changes in net assets

Net assets - beginning

Net assets - ending

Statement B

PRIMARY GOVERNMENT

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

<u>Governmental</u>	<u>Business-Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>TOTAL</u>

\$ (748,868)	\$ 0	\$ (748,868)
(530,063)		(530,063)
(92,164)		(92,164)
(108,920)		(108,920)
<u>(51,512)</u>		<u>(51,512)</u>
<u>(1,531,527)</u>	<u>0</u>	<u>(1,531,527)</u>

	<u>(439,395)</u>	<u>(439,395)</u>
	<u>(439,395)</u>	<u>(439,395)</u>
<u>(1,531,527)</u>	<u>(439,395)</u>	<u>(1,970,922)</u>

471,438	36,850	508,288
881,843	18,193	900,036
176,450	0	176,450
16,030	0	16,030
34,155	13,936	48,091
433,584	12,250	445,834
76,255	42,654	118,909
<u>(5,826)</u>	<u>5,826</u>	<u>0</u>

<u>2,083,929</u>	<u>129,709</u>	<u>2,213,638</u>
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552,402	(309,686)	242,716
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<u>2,559,685</u>	<u>224,304</u>	<u>2,783,989</u>
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<u>\$ 3,112,087</u>	<u>\$ (85,382)</u>	<u>\$ 3,026,705</u>
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THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**BASIC FINANCIAL STATEMENTS:**  
**FUND FINANCIAL STATEMENTS (FFS)**

**CITY OF GRAMBLING**  
**GOVERNMENTAL FUNDS**  
**Balance Sheet**  
**December 31, 2007**

**Statement C**

	<u>GENERAL</u>	<u>HEALTH &amp; SANITATION</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECT</u>	<u>TOTAL</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 275,447	\$ 68,577	\$ 120,791	\$ 1,411	\$ 466,226
Investments	241,290	233,468	11,842	4,783	491,383
Receivables	129,538	51,869	9,258	0	190,665
Interfund receivables	226,803	0	0	107,638	334,441
Prepaid expenses	4,919	0	0	0	4,919
<b>TOTAL ASSETS</b>	<u>877,997</u>	<u>353,914</u>	<u>141,891</u>	<u>113,832</u>	<u>1,487,634</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	10,304	3,122	0	0	13,426
Accrued and other liabilities	33,258	3,839	0	0	37,097
Interfund payables	26,157	1,567	0	0	27,724
<b>TOTAL LIABILITIES</b>	<u>69,719</u>	<u>8,528</u>	<u>0</u>	<u>0</u>	<u>78,247</u>
<b>FUND BALANCES:</b>					
Reserved for debt service	0	0	141,891	0	141,891
Unreserved, reported in:					
General Fund	808,278	0	0	0	808,278
Special Revenue Fund	0	345,386	0	0	345,386
Capital Projects Fund	0	0	0	113,832	113,832
<b>TOTAL FUND BALANCES</b>	<u>808,278</u>	<u>345,386</u>	<u>141,891</u>	<u>113,832</u>	<u>1,409,387</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 877,997</u>	<u>\$ 353,914</u>	<u>\$ 141,891</u>	<u>\$ 113,832</u>	<u>\$ 1,487,634</u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF GRAMBLING

Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Assets  
December 31, 2007

Statement D

Total fund balances - governmental funds \$ 1,409,387

The cost of capital assets (land, buildings, furniture and equipment and infrastructure ) purchased or constructed is reported as an expenditure in governmental funds. The Statement of Net Assets includes those capital assets among the assets of the City as a whole. The cost of those capital assets is allocated over their estimated useful lives (as depreciation expense) to the various programs reported as governmental activities in the Statement of Activities. Because depreciation expense does not affect financial resources, it is not reported in governmental funds.

Costs of capital assets	3,926,946	
Depreciation expense to date	<u>(1,389,055)</u>	
		2,537,891

Long-term liabilities applicable to the city's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long term - are reported in the Statement of Net Assets.

Balances at December 31, 2007 are:

Bond payable	(709,815)	
Bond amortization	26,800	
Compensated absences	(18,869)	
Leases payable	(111,975)	
Interest payable	<u>(21,332)</u>	
		<u>(835,191)</u>

Net Assets \$ 3,112,087

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**CITY OF GRAMBLING**  
**GOVERNMENTAL FUNDS**  
**Combined Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances**  
**For the Year Ended December 31, 2007**

Statement E

	GENERAL	HEALTH & SANITATION	DEBT SERVICE	CAPITAL PROJECT	TOTAL
<b>REVENUES</b>					
Local sources:					
Taxes	\$ 1,007,506	\$ 262,792	\$ 82,983	\$ 0	\$ 1,353,281
Licenses and permits	176,450	0	0	0	176,450
Intergovernmental revenues	307,662	0	0	145,800	453,462
Fines and forfeitures	185,184	50	0	0	185,234
Use of money and property	17,021	16,495	565	74	34,155
Miscellaneous revenues	48,482	133,419	0	530	182,431
<b>Total revenues</b>	<b>1,742,305</b>	<b>412,756</b>	<b>83,548</b>	<b>146,404</b>	<b>2,385,013</b>
<b>EXPENDITURES</b>					
Current:					
General government	652,498	0	0	6,576	659,074
Public Safety	641,067	0	0	0	641,067
Health and sanitation	0	193,746	0	0	193,746
Highways and streets	14,524	0	0	0	14,524
Debt service:					
Principal retirement	21,157	34,923	70,877	0	126,957
Interest and bank charges	3,451	5,770	38,831	0	48,052
Capital outlay	25,486	1,195	0	865,434	892,115
<b>Total expenditures</b>	<b>1,358,183</b>	<b>235,634</b>	<b>109,708</b>	<b>872,010</b>	<b>2,575,535</b>
<b>EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES</b>	<b>384,122</b>	<b>177,122</b>	<b>(26,160)</b>	<b>(725,606)</b>	<b>(190,522)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	50,000	0	185,326	569,447	804,773
Transfers out	(550,599)	(160,000)	(100,000)	0	(810,599)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(500,599)</b>	<b>(160,000)</b>	<b>85,326</b>	<b>569,447</b>	<b>(5,826)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(116,477)</b>	<b>17,122</b>	<b>59,166</b>	<b>(156,159)</b>	<b>(196,348)</b>
<b>FUND BALANCES - BEGINNING</b>	<b>924,755</b>	<b>328,264</b>	<b>82,725</b>	<b>269,991</b>	<b>1,605,735</b>
<b>FUND BALANCES - ENDING</b>	<b>\$ 808,278</b>	<b>\$ 345,386</b>	<b>\$ 141,891</b>	<b>\$ 113,832</b>	<b>\$ 1,409,387</b>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF GRAMBLING

**Reconciliation of the Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
For the Year Ended December 31, 2007**

Statement F

Total net change in fund balances - governmental funds \$ (196,348)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period:

Capital outlays	892,115	
Depreciation	<u>(264,532)</u>	627,583

Repayment of bonds and capital leases is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Assets. 126,957

Bond costs are reported in the Government-wide Statements, but not in the Fund Financial Statements.

Bond amortization expense		(3,350)
---------------------------	--	---------

Loss on sale of capital assets (2,062)

Compensated absences are recognized in the Statement of Net Assets as an increase to liabilities, but not in the Fund Financial Statements. (268)

Interest on long-term debt in the Statement of Activities differs from the amount reporting in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (110)

Change in net assets of governmental activities. \$ 552,402

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF GRAMBLING

GENERAL FUND  
 Budgetary Comparison Schedule  
 For the Year Ended December 31, 2007

Statement G-1

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
BUDGETARY FUND BALANCES, Beginning	\$ 224,273	\$ 924,755	\$ 924,755	0
Resources (inflows)				
Local sources:				
Taxes	626,500	988,002	1,007,506	19,504
Licenses and permits	133,750	176,650	176,450	(200)
Intergovernmental revenues	258,700	218,750	307,662	88,912
Fines and forfeitures	295,000	191,800	185,184	(6,616)
Miscellaneous revenues	35,405	60,945	65,503	4,558
Transfers from other funds	75,000	546,000	50,000	(496,000)
Amounts available for appropriations	<u>1,648,628</u>	<u>3,106,902</u>	<u>2,717,060</u>	<u>(389,842)</u>
Charges to appropriations (outflows)				
Current:				
General government	752,668	664,670	652,498	12,172
Public Safety	653,005	667,785	641,067	26,718
Highways and streets	52,405	17,950	14,524	3,426
Parks and recreation	11,500	0	0	0
Debt service:				
Principal retirement	10,783	0	21,157	(21,157)
Interest and bank charges	555	700	3,451	(2,751)
Capital outlay	0	36,520	25,486	11,034
Transfers	143,628	1,166,500	550,599	615,901
Total charges to appropriations	<u>1,624,544</u>	<u>2,554,125</u>	<u>1,908,782</u>	<u>645,343</u>
BUDGETARY FUND BALANCES, ENDING	<u>\$ 24,084</u>	<u>\$ 552,777</u>	<u>\$ 808,278</u>	<u>255,501</u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.



CITY OF GRAMBLING

HEALTH AND SANITATION  
 Budgetary Comparison Schedule  
 For the Year Ended December 31, 2007

Statement G-2

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
BUDGETARY FUND BALANCES, Beginning	\$ 328,264	\$ 328,264	\$ 328,264	0
Resources (inflows)				
Local sources:				
Taxes	200,000	209,000	262,792	53,792
Use of money and property	6,000	15,000	16,495	1,495
Fines and forfeitures	0	0	50	50
Miscellaneous revenues	92,500	107,700	133,419	25,719
Transfers from other funds	0	61,000	0	(61,000)
Amounts available for appropriations	<u>628,764</u>	<u>720,964</u>	<u>741,020</u>	<u>20,056</u>
Charges to appropriations (outflows)				
Current:				
Health and sanitation	172,400	192,400	193,746	(1,346)
Debt service:				
Principal retirement	0	0	34,923	(34,923)
Interest and bank charges	8,567	8,567	5,770	2,797
Capital outlay	31,461	31,461	1,195	30,266
Transfers	75,000	160,000	160,000	0
Total charges to appropriations	<u>287,428</u>	<u>392,428</u>	<u>395,634</u>	<u>(3,206)</u>
BUDGETARY FUND BALANCES, ENDING	<u>\$ 339,336</u>	<u>\$ 328,536</u>	<u>\$ 345,386</u>	<u>16,850</u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**CITY OF GRAMBLING**  
**PROPRIETARY FUND - MAINTENANCE ENTERPRISE FUND**  
**Statement of Net Assets**  
**December 31, 2007**

**Statement H**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 164,017
Receivables, net of allowance of \$13,638	31,220
Prepaid expenses	1,362
Restricted assets	
Cash	171,702
Investments	<u>122,417</u>
 Total current assets	 490,718
 Capital assets, net	 <u>1,701,029</u>
 TOTAL ASSETS	 <u>2,191,747</u>
 <b>LIABILITIES</b>	
Account payable	84,002
Accrued and other liabilities	4,424
Interfund payable	306,717
Interest payable from restricted assets	61,026
Customer deposits payable from restricted assets	108,514
Current portion of bonds payable	<u>106,681</u>
 Total current liabilities	 <u>671,364</u>
 Long term liabilities:	
Notes payable	25,000
Revenue bonds payable	<u>1,580,765</u>
 Total long term liabilities	 <u>1,605,765</u>
 TOTAL LIABILITIES	 <u>2,277,129</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(7,339)
Restricted for Debt Retirement	124,579
Unrestricted	<u>(202,622)</u>
 TOTAL NET ASSETS	 <u>\$ (85,382)</u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

CITY OF GRAMBLING

PROPRIETARY FUND -MAINTENANCE ENTERPRISE FUND

Statement of Revenues, Expenses,  
and Changes in Fund Net Assets

For the Year Ended December 31, 2007

Statement I

OPERATING REVENUES	
Water sales	\$ 170,808
Water connection charges	5,325
Sewer fees	<u>301,764</u>
Total operating revenues	<u>477,897</u>
OPERATING EXPENSES	
Water department	620,688
Sewer department	<u>221,985</u>
Total operating expenses	<u>842,673</u>
OPERATING INCOME (LOSS)	<u>(364,776)</u>
NONOPERATING REVENUES (EXPENSES)	
Miscellaneous	42,654
Interest income	13,936
Ad valorem tax revenues	36,850
Intergovernmental revenue	12,250
Sales tax revenues	18,193
Interest expense	<u>(74,619)</u>
Total nonoperating revenues (expenses)	<u>49,264</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(315,512)</u>
TRANSFERS IN/OUT	
Transfers in	119,826
Transfers out	<u>(114,000)</u>
Total transfers in/out	<u>5,826</u>
CHANGE IN NET ASSETS	(309,686)
NET ASSETS - BEGINNING	<u>224,304</u>
NET ASSETS - ENDING	<u>\$ (85,382)</u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**CITY OF GRAMBLING**

**PROPRIETARY FUND - MAINTENANCE ENTERPRISE FUND**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2007**

Statement J

<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 501,523
Payments to employees	(104,042)
Payments to others	<u>(279,765)</u>
Net cash provided (used) for operating activities	<u>117,716</u>
 <b>CASH FLOW (USES) FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfers in	119,826
Sales tax receipts	18,193
Ad valorem tax receipts	36,850
(Increase) decrease in restricted assets - deposits	40,962
Other miscellaneous receipts	42,654
Transfers out	(114,000)
Grants	<u>12,250</u>
Net cash provided (used) for noncapital financing activities	<u>156,735</u>
 <b>CASH FLOW (USES) FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of capital assets	(5,240)
Principal payments on notes and bonds	(147,710)
Interest paid on bonds	<u>(74,619)</u>
Net cash provided (used) for capital and related financing activities	<u>(227,569)</u>
 <b>CASH FLOW FROM INVESTING ACTIVITIES</b>	
Earnings on investments	<u>13,936</u>
Net increase (decrease) in cash and cash equivalents	60,818
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>103,199</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$ 164,017</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (364,776)
Adjustments to reconcile operating income to net cash provided (used) for operating activities:	
Depreciation	210,883
(Increase) decrease in accounts receivable	23,626
(Increase) decrease in prepaid expenses	(1,362)
Increase (decrease) in accounts payable	74,322
Increase (decrease) in accrued and other liabilities	365
Increase (decrease) in compensated absences	218
Increase (decrease) in interfund payables	167,756
Increase (decrease) in customer deposits	11,519
Increase (decrease) in interest payable	<u>(4,835)</u>
Net cash provided (used) by operating activities	<u>\$ 117,716</u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

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**City of Grambling**  
**Notes to the Basic Financial Statements**  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** The accompanying financial statements of the City of Grambling have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**A. REPORTING ENTITY** The City of Grambling was founded in 1959 under the provisions of the "Lawrason Act" (Louisiana Revised Statutes (R.S.) 33:321-481) of the constitution of the state of Louisiana. The City is located in the parish of Lincoln and has a population of approximately 4,693. The City is governed by the mayor and five-member council. The mayor and council members serve four-year terms which expire on December 31, 2007.

As the governing authority of the City, for reporting purposes, the City of Grambling is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary government (the City), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board (GASB) Statement No. 14 established criteria for determining which component units should be considered part of the City of Grambling for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criterion includes:

1. Appointing a voting majority of an organization's governing body, and
  - a. The ability of the municipality to impose its will on that organization and/or
  - b. The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the City.
2. Organizations for which the City does not appoint a voting majority but are fiscally dependent on the City.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization were not included because of the nature or significance of the relationship.

As required by generally accepted accounting principles, these financial statements present the City of Grambling (the primary government). The City of Grambling has no component units.

**B. FUND ACCOUNTING** The City uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts that comprises its assets, liabilities, fund equity, revenues, and expenditures/expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

Funds are classified into two categories; governmental and proprietary. Each category, in turn, is divided into separate "fund types." Governmental funds are used to account for a government's general activities, where the focus of attention is on the providing of services to the public as opposed to proprietary funds where the focus of attention is on the recovering the cost of providing services to the public or other agencies through service charges or user fees.

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

The City's current operations require the use of governmental and proprietary fund types described as follows:

**Governmental Funds**

**General fund** – is the general operating fund of the City. It accounts for all financial resources, except those required to be accounted for in other funds.

**Health & Sanitation fund** – is used to account for the expenses in providing services for health care and garbage collection services.

**Debt service fund** – is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

**Capital project fund** – is used to account for financial resources received and used for the acquisition, construction, or improvement of capital facilities not reported in the other governmental funds.

**Proprietary Fund** – Maintenance enterprise fund – accounts for the operations of the City's sewer and water systems. The operations are financed and operated in a manner similar to a private business enterprise, where the intent of the governing body is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

**Government-Wide Financial Statements (GWFS)** The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. The Statement of Net Assets and the Statement of Activities was prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

**Program revenues** Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**Allocation of indirect expenses** The City reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

**Fund Financial Statements (FFS)**

**Governmental Funds** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which is recognized when due. Compensated absences and claims and judgments are reported in a governmental fund only if the claims are due and payable.

With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The governmental funds use the following practices in recording revenues and expenditures:

**Revenues** Ad valorem taxes are recorded in the year the taxes are due and payable. Ad valorem taxes are assessed on a calendar-year basis and attach as an enforceable lien and become due and payable on the date the tax rolls are filed with the recorder of mortgages. Louisiana Revised Statute 47:1994 requires that the tax roll be filed on or before November 15 of each year. Ad valorem taxes become delinquent if not paid by December 31. The taxes are normally collected in December, January and February of the current year.

Franchise taxes and intergovernmental revenues are recorded when the City is entitled to the funds.

Interest income on time deposits is recorded when the interest has been earned and the amount is determinable.

Substantially all other revenues are recorded when they are received by the City.

Based on the above criteria, ad valorem taxes, franchise taxes and intergovernmental revenues have been treated as susceptible to accrual.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

**Other Financing Source (Use)** Transfers between funds that are not expected to be repaid are accounted for as other financing sources and are recognized when the underlying event occurs.

**Proprietary Funds** Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The City has elected pursuant to GASB Statement No. 20, to apply all GASB pronouncements and only FASB pronouncements issued before November 30, 1989.

**Operating revenues and expenses** Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. BUDGET PRACTICES** A preliminary budget for the ensuing year is prepared in November. The proposed budget is reviewed by the mayor and the City Council and made available to the public. During the December meeting of the City Council, the City holds a public hearing on the proposed budget in order to receive comments from citizens. Changes are made to the proposed budget based on the public hearing and the desires of the City Council as a whole. The budgets are then adopted during the December meeting, and notice published in the official journal. During the year, the City Council receives monthly budget comparison statements which are used as a tool to



**City of Grambling**  
**Notes to the Basic Financial Statements**  
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control the operations of the City. Necessary budget amendments are presented to the Council when actual operations are differing materially from those anticipated in the original budget. The Council in regular session reviews the proposed amendments, makes necessary changes, and formally adopts the amendments. The adoption of amendments is included in the City's minutes published in the official journal. The budget is established and controlled by the mayor and council members at the fund level of expenditure. Unexpended appropriations lapse at year-end and must be reappropriated for the following year to be expended. All changes in the budget must be approved by the mayor and the council members. The City does not use encumbrance accounting in its accounting system.

**E. CASH AND CASH EQUIVALENTS** Under state law, the City may deposit funds within a fiscal agent bank organized under the laws of the state of Louisiana, the laws of any other state in the union, or the laws of the United States of America. The City may invest in certificates and time deposits of state banks organized under Louisiana laws and national banks having principal offices in Louisiana. For purposes of the statement of cash flows, cash equivalents include all highly liquid investments with a maturity date of three months or less when purchased.

**F. INVESTMENTS** Investments are limited by R.S. 33:2955 and the City's investment policy. If the original maturities of investments exceed 90 days they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The investments are reflected at fair value except for the following which are required/permitted as per GASB Statement No. 31:

1. Investments in *nonparticipating* interest-earning contracts, such as nonnegotiable certificates of deposit with redemption terms that do not consider market rates, are reported using a cost-based measure.
2. The City reported at amortized cost money market investments and *participating* interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less.

Definitions:

Interest-earning investment contract include time deposits with financial institutions (such as certificates of deposit), repurchase agreements, and guaranteed investment contracts.

Money market investments are short-term, highly liquid debt instruments that include U. S. Treasury obligations.

The City participates in the Louisiana Asset Management Pool, Inc., (LAMP) which is an external investment pool that is not SEC-registered. Because the LAMP is an arrangement sponsored by a type of governmental entity, it is exempt by statute from regulation by the SEC.

LAMP is administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short-term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LA-R.S. 33.2955.

GASB Statement No. 40 Deposit and Investment Risk Disclosure, requires disclosure of credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk for all public entity investments.

**City of Grambling**  
**Notes to the Basic Financial Statements**  
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LAMP is a 2a7-like investment pool. The following facts are relevant for 2a7-like investment pools:

- Credit risk: Lamp is rated AAAM by Standard & Poor's
- Custodial credit risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.
- Concentration of credit risk: Pooled investments are excluded from the 5 percent disclosure requirement.
- Interest rate risk: 2a7-like investment pools are excluded from this disclosure requirement, per paragraph 15 of the GASB 40 statement.
- Foreign currency risk: Not applicable to 2a7-like pools.

The dollar weighted average portfolio maturity of LAMP assets is restricted to not more than 90 days, and consists of no securities with a maturity in excess of 397 days. LAMP is designed to be highly liquid to give its participants immediate access to their account balances. The investments in LAMP are stated at fair value based on quoted market rates. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the value of the pool shares.

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and the board of directors.

An annual audit of LAMP is conducted by an independent certified public accountant. The Legislative Auditor of the state of Louisiana has full access to the records of the LAMP.

LAMP issues financial reports. These financial reports can be obtained by writing: LAMP, Inc., 228 St. Charles Avenue, Suite 1123, New Orleans, LA 70130.

**G. CAPITAL ASSETS** Capital assets are recorded at either historical cost or estimated historical cost and depreciated over their estimated useful lives (excluding salvage value). Donated capital assets are recorded at their estimated fair value at the date of donation. The City has a capitalization threshold of \$1,000. Estimated useful life is management's estimate of how long the asset is expected to meet service demands. Straight line depreciation is used for governmental fund-type based on the following estimated useful lives:

Buildings	40 years
Concrete block building	20 years
Equipment	8 years
Vehicles	5 years
Sewer system and lines	20 years
Water system and lines	20 years

The capital assets used in the proprietary fund-type operations are included on the balance sheet of the fund. Depreciation of all exhaustible fixed assets used by the proprietary fund type operations are charged as an expense against operations. Depreciation is computed using the straight-line method over estimated lives of 20 years for the plant, distribution system, and collection system, 5 to 8 years for furniture and equipment.

**City of Grambling**  
**Notes to the Basic Financial Statements**  
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**H. LONG-TERM DEBT** Long-term obligations, such as bonded debt and bank loans are recognized as liabilities of a governmental fund only when due.

**I. COMPENSATED ABSENCES** Full time employees are allowed five days of annual leave in the first two years of employment. After the first two years, employees are eligible for ten annual leave days which can accumulate to 20 days. Employees earn ten days of sick leave each year which is not paid upon retirement or termination. The City of Grambling's recognition and measurement criteria for compensated absences follow:

GASB Statement No. 16 provides that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

- a. The employees' rights to receive compensation are attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

The cost of leave privileges, computed in accordance with GSAB Codification Section C60, is recognized as current-year expenditure in the governmental funds when leave is actually taken or when employees are paid for accrued leave upon resignation or termination.

**J. RESTRICTED ASSETS** Certain grants received by the City contained restrictions on spending for specific purposes. In the Maintenance Enterprise Fund, cash and investments are restricted for debt service payments, maintenance on the sewer system, and customer deposits payable.

**K. RISK MANAGEMENT** The City is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. To handle such risk of loss, the City maintains commercial insurance policies covering its automobiles, professional liability, general liability, and surety bond coverage. There were no significant reductions in insurance coverage during the year ended December 31, 2007.

**L. RESTRICTED NET ASSETS** For the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either:

Externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments;

Imposed by law through constitutional provisions or enabling legislation. All restricted net assets reported on statement A are the result of enabling legislation.

When both restricted and unrestricted resources are available for use, it is the government's policy to use unrestricted resources first, then restricted resources as they are needed.

**M. FUND BALANCES OF FUND FINANCIAL STATEMENTS** Reserves represent those portions of fund equity not appropriable for expenditures or legally segregated for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

**N. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES** During the course of operations, numerous transactions occur between individual funds for services rendered. These receivables and payables are classified as interfund receivable/payables on the balance sheet. Short-term interfund loans are also classified as interfund receivables/payables.

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

**O. USE OF ESTIMATES** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**P. ELIMINATION AND RECLASSIFICATIONS** In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

**Q. SALES TAX** Sales taxes are collected by the Lincoln Parish Sales and Use Tax Commission and by the Lincoln Parish Police Jury. The City's sales tax percentage is two percent.

**NOTE 2 - BUDGET TO GAAP RECONCILIATION**

Sources/inflows of resources:

	<u>General</u>	<u>Health &amp; Sanitation</u>
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule-Statement G	\$2,717,060	\$741,020
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(924,755)	(328,264)
Transfers in from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(50,000)</u>	<u>0</u>
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds-Statement E	<u>\$1,742,305</u>	<u>\$412,756</u>

Charges to appropriations/outflows

Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedule-Statement G	\$1,908,782	\$395,634
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(550,599)	(160,000)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds- Statement E	<u>\$1,358,183</u>	<u>\$235,634</u>

**Stewardship, Compliance, and Accountability**

**A. Excess of Expenditures Over Appropriations in Individual Funds** The following individual fund had actual expenditures over budgeted expenditures for the year ended December 31, 2007:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Health & Sanitation	<u>\$392,428</u>	<u>\$395,634</u>	<u>\$3,206</u>

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

**NOTE 3 - DEPOSITS & INVESTMENTS** At December 31, 2007, the City had the following investments:

<u>Type of investment</u>	<u>Carrying Amount</u> <u>Fair Value</u>	<u>Concentration of</u> <u>Credit risk</u>
Investments not subject to categorization:		
External investment pool (LAMP)	<u>\$411,757</u>	<u>84%</u>
Total investments		

**Interest Rate Risk:** The City's policy does not address interest rate risk.

**Credit Risk:** The City invests in certificates of deposit which do not have credit ratings. The City's investment in LAMP was rated AAAM by Standard & Poor's. The City's policy does not address credit rate risk.

**Custodial Credit-Deposits:** At year end, The City's carrying amount of deposits was \$1,003,988 (Statement A-Cash and cash equivalents of \$630,243, restricted assets of \$294,119 and certificates of Deposit classified as investments of \$79,626). In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2007, the City's bank balance was \$952,980 of which \$407,532 was covered by federal depository insurance or by collateral held by the City's agent in the City's name (GASB Category 1). The remaining \$545,448 of the bank balance was exposed to custodial credit risk because it was uninsured and collateralized with security held by the pledging financial institutions trust department or agent but not in the City's name. Even though the pledge securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the City that the fiscal agent has failed to pay deposited funds upon request.

**Custodial Credit Risk-Investments:** For an investment, this is the risk that, in the event of the failure of the counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2007, the City had 100% of its investments with an outside party. The City's policy does not address custodial credit risk.

**NOTE 4 - LEVIED TAXES** The City levies property taxes on real and business property located within the City's boundaries. Property taxes are levied by the City on property values assessed by the Lincoln Parish Tax Assessor and approved by the state of Louisiana Tax Commission. The Lincoln Parish Tax Assessor prepares tax statements for the City.

The following is a summary of authorized and levied property taxes:

	<u>Authorized</u> <u>Millage</u>	<u>Levied</u> <u>Millage</u>	<u>Expiration</u> <u>Date</u>
Public improvement bond	7.08	7.08	2009
Public streets	6.50	6.50	2009
Water system	5.00	5.00	2016
Police department	5.50	5.50	2009
Fire department	20.80	20.80	2009
Capital outlay project	11.20	11.20	2009

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

**Property Tax Calendar**

Lien Date	No set date
Levy Date	October 31, 2007
Due Date	December 31, 2007
Collection Dates	November 1 through June 30

**NOTE 5 - RECEIVABLES** The following is a summary of receivables at December 31, 2007:

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Health &amp; Sanitation Fund</u>	<u>Debt Service Fund</u>	<u>Maintenance Fund</u>	<u>Total</u>
Taxes:					
Property taxes	\$ 71,463	\$ -	\$ 8,991	\$ 20,089	\$ 100,543
Sales and use	48,134	45,577	-	-	93,711
Intergovernmental revenue	-	-	-	-	-
User fees	-	6,292	-	10,620	16,912
Franchise Fees	4,537	-	-	-	4,537
Other	5,404	-	267	511	6,182
Total	<u>\$129,538</u>	<u>\$ 51,869</u>	<u>\$ 9,258</u>	<u>\$ 31,220</u>	<u>\$ 221,885</u>

These receivables are net of an allowance for doubtful accounts of \$13,638.

**NOTE 6- INTERFUND ASSETS/LIABILITIES (FFS LEVEL ONLY)**

Individual balances due from/to other funds at December 31, 2007 are as follows:

<u>Receivable Fund</u>	<u>Amount</u>	<u>Payable Fund</u>	<u>Amount</u>
General	\$ 1,567	Health & Sanitation	\$ 1,567
	225,236	Maintenance	225,236
Capital Projects	26,157	General Fund	26,157
	81,481	Maintenance	81,481
Total	<u>\$ 334,441</u>	Total	<u>\$ 334,441</u>

The general fund receivables are for payroll which is paid by the general fund and reimbursed by other funds and also for payment of expenses in the Maintenance Fund to be reimbursed. The capital projects receivable is for construction projects costs which include the Community Center and also, capital projects for the Enterprise Fund such as painting water tanks and repairs to the water tanks.

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

Transfers during the year ended December 31, 2007 were as follows:

	Transfer From Other Funds	Transfer to Other Funds
General Fund	\$ 50,000	\$ 550,599
Health & Sanitation Fund	-	160,000
Debt Service Fund	185,326	100,000
Capital Projects Fund	569,447	-
Maintenance Fund	119,826	114,000
<b>Total</b>	<b>\$ 924,599</b>	<b>\$ 924,599</b>

The purpose of the operation transfers is to cover cash shortages at certain times during the year and to cover construction costs in the Capital Projects Fund for the new Community Center and capital projects in the Enterprise Fund which includes painting of water tanks, and also, the repairs to the water tanks.

**NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED AND OTHER LIABILITIES** The payables at December 31, 2007 are as follows:

Payable category	General Fund	Health & Sanitation Fund	Maintenance Enterprise Fund	Total
Vendors	\$ 10,304	\$ 3,122	\$ 84,002	\$ 97,428
Wages	24,170	3,839	4,424	32,433
Other	9,088	-	-	9,088
<b>Total</b>	<b>\$ 43,562</b>	<b>\$ 6,961</b>	<b>\$ 88,426</b>	<b>\$ 138,949</b>

**NOTE 8 - CAPITAL ASSETS** The following presents the changes in capital assets for the year ended December 31, 2007:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Nondepreciable assets:				
Land	\$ 42,902	\$ -	\$ -	\$ 42,902
Construction in progress	168,137	-	168,137	-
Total nondepreciable assets	211,039	-	168,137	42,902
Depreciable Assets:				
Buildings and improvements	1,601,788	1,033,571	-	2,635,359
Furniture and equipment	1,229,004	26,681	7,000	1,248,685
Total depreciable assets	2,830,792	1,060,252	7,000	3,884,044
Less: accumulated depreciation	(1,129,461)	(264,532)	(4,938)	(1,389,055)
Net depreciable capital assets	1,701,331	795,720	2,062	2,494,989
Governmental activities capital assets, net	<b>\$ 1,912,370</b>	<b>\$ 795,720</b>	<b>\$ 170,199</b>	<b>\$ 2,537,891</b>

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

Depreciation expense for 2007 was charged to governmental activities as follows:

General government	\$ 88,715
Public safety	78,078
Health and sanitation	3,343
Highways and streets	94,396
Total	<u>\$264,532</u>

A summary of plant and equipment changes in the Maintenance Enterprise Fund for 2007 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 16,526	\$ -	\$ -	\$ 16,526
Depreciable Assets:				
Buildings and improvements	30,000	-	-	30,000
Sewage plant	2,483,313	-	-	2,483,313
Water system	1,566,193	-	-	1,566,193
Water/Sewer equipment	1,059,612	-	-	1,059,612
Vehicles	12,758	5,240	-	17,998
Total depreciable assets:	5,151,876	5,240	-	5,157,116
Less: accumulated depreciation	(3,261,730)	(210,883)	-	(3,472,613)
Net capital assets, depreciable	1,890,146	(205,643)	-	1,684,503
Enterprise fund capital assets, net	\$ 1,906,672	\$ (205,643)	\$ -	\$ 1,701,029

**NOTE 9 - PENSION AND RETIREMENT PLAN** The City established a Simple IRA plan to be effective October 4, 2002. All city employees are eligible to participate in the plan. The plan is a defined contribution plan administered by Morgan Keegan & Co., Inc. Under the plan, the City matches each employee's salary reduction for contributions to the plan up to 3% for that calendar year. The funds are immediately vested when paid into the plan. The plan is based on the IRS Code and must comply with all IRS Code requirements. The City of Grambling's contributions to the system for the year ending December 31, 2007 was \$3,528 and employees contributed \$3,640.



**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

**NOTE 10 - CHANGES IN LONG-TERM OBLIGATIONS** The following is a summary of long-term obligation transactions for the year ended December 31, 2007:

	Governmental Funds				Maintenance - Enterprise Fund		
	Compensated Absences	Capital Leases	Certificate of Indebtedness	Total	Compensated Absences	Bonds Payable	Total
	Balance, beginning	\$ 18,601	\$ 168,055	\$ 780,692	\$ 967,348	\$ 3,860	\$ 1,856,078
Additions	14,487	-	-	14,487	3,694	-	3,694
Retirements	14,219	56,080	70,877	141,176	3,476	147,710	151,186
Balance, ending	18,869	111,975	709,815	840,659	4,078	1,708,368	1,712,446
Due within one year	\$ 18,869	\$ 14,533	\$ 74,402	\$ 107,804	\$ 4,078	\$ 102,603	\$ 106,681

Compensated absences are paid from Governmental Funds (General Fund & Health & Sanitation) and the Maintenance Enterprise Fund.

Bonded debt payable at December 31, 2007 is comprised of the following individual issues:

\$850,000 – Certificate of Indebtedness, Series 2005 – the principal is due in annual installments of \$109,708 beginning June 30, 2005 and due each year through 2015, with an interest rate of 4.974%. Debt retirement payments are made from the Debt Service Fund.	\$ 709,815
\$150,000 - Certificate of Indebtedness, Series 2001 – the remaining principal is due in annual installments of \$21,000 to \$25,000 through February, 2008, with an interest rate of 5.65%. Debt retirement payments are made from the Maintenance Enterprise Fund.	25,000
\$1,250,000 – Utilities Revenue Bonds, Series 1995 – the remaining principal is due in annual installments of \$15,000 to \$72,000 through 2035, with the balance of \$12,305 being paid in 2036, with an interest rate of 5.125. Debt retirement payments are made from the Maintenance Enterprise Fund.	1,103,583
\$380,000 -1970 Water Sewer Bonds Junior Lien Revenue Bonds – the remaining principal is due in annual installments of \$21,000 to \$25,000 through 2009, with the balance of \$11,000 being paid in 2010, with an interest rate of 5.375%. Debt retirement payments are made from the Maintenance Enterprise Fund.	36,000
\$1,170,000 - 1993 Utilities Revenue Bond, Series 1993 – the remaining principal is due in annual installments of \$55,000 to \$75,000 through March, 2015, with an interest rate of 2.95%. Debt retirement payments are made from the Maintenance Enterprise Fund.	<u>543,785</u>
<b>Total</b>	<b><u>\$2,418,183</u></b>

As shown on Statement C, \$141,891 is available in the Debt Service Fund to service the bonded debt on the Certificate of Indebtedness, Series 2005. The annual requirements to amortize all outstanding bonded debt at December 31, 2007 are as follows:

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

Debt Service Fund:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 74,402	\$ 35,306	\$ 109,708
2009	78,103	31,605	109,708
2010	81,988	27,720	109,708
2011	86,066	23,642	109,708
2012	90,347	19,361	109,708
2013-2015	298,909	30,217	329,126
Total	<u>\$709,815</u>	<u>\$ 167,851</u>	<u>\$877,666</u>

Of the restricted cash and investments on Statement H, \$185,605 is restricted for debt service on the bonded debt. The annual requirements to amortize all outstanding bonded debt at December 31, 2007 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 102,603	\$ 73,161	\$ 175,764
2009	108,544	74,334	182,878
2010	95,536	73,530	169,066
2011	90,581	69,476	160,057
2012	91,681	68,376	160,057
2013-2017	340,868	293,196	634,064
2018-2022	164,890	207,754	372,644
2023-2027	213,943	158,701	372,644
2028-2032	277,591	95,054	372,645
2033-2036	222,131	18,903	241,034
Total	<u>\$ 1,708,368</u>	<u>\$1,132,485</u>	<u>\$ 2,840,853</u>

The City records items under capital leases as an asset and an obligation in the accompanying fund financial statements. Capital lease payments are made from governmental funds (General Fund and Health & Sanitation Fund).

At December 31, 2007, the City had the following assets under capital lease:

<u>Asset</u>	<u>Cost</u>
Fire Truck	\$ 91,575
New Holland Tractor	15,929
Garbage Truck	206,790
Total	<u>\$ 314,294</u>

**City of Grambling**  
**Notes to the Basic Financial Statements**  
**December 31, 2007**

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments, as of December 31, 2007:

General Fund:	
Fiscal year:	<u>Amount</u>
2008	\$ 17,093
2009	52,953
2010	<u>52,955</u>
Total lease payments	123,001
Less amounts representing interest	<u>(11,026)</u>
Present value of net minimum lease payments	<u>\$ 111,975</u>

**NOTE 11 - LITIGATION AND CLAIMS** At December 31, 2007, the City is involved in litigation. In the opinion of the City's legal counsel, the outcome of any litigation will not materially affect the financial statements.

**Grant Disallowances** The City participates in a number of state and federally assisted grant programs. The programs are subject to compliance audits under the single audit approach. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. City Management believes that the amount of disallowances, if any, which may arise from future audits will not be material.

**NOTE 12 - CONTINGENT LIABILITIES** The City has an outstanding liability at December 31, 2007 in the amount of \$105,504 to Louisiana Municipal Risk Management Agency for prior years worker compensation and liability policy premium covering the policy periods of 2006 and 2007. The amortization of 2006 worker's compensation premium amount of \$36,212 will be amortized over an eighteen month period. The combined 2006 and 2007 premium amounts for liability coverage of \$80,978 will be amortized over an eighteen month period also.

City of Grambling

**SUPPLEMENTAL INFORMATION**  
**REQUIRED BY THE**  
**U. S. DEPARTMENT OF AGRICULTURE**

CITY OF GRAMBLING  
**PROPRIETARY FUND TYPE - MAINTENANCE ENTERPRISE FUND**  
**Comparative Statement of Net Assets**  
**December 31, 2007 and 2006**

Schedule 1

	<u>2007</u>	<u>2006</u>
	<u>MAINTENANCE</u>	<u>MAINTENANCE</u>
	<u>FUND</u>	<u>FUND</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 164,017	\$ 152,724
Receivables, net of allowance of \$13,638 and \$805	31,220	54,846
Prepaid expenses	1,362	0
Capital assets, net	1,701,029	1,906,672
Restricted Assets:		
Cash	171,702	170,475
Investments	<u>122,417</u>	<u>115,081</u>
 TOTAL ASSETS	 <u>2,191,747</u>	 <u>2,399,798</u>
 <b>LIABILITIES</b>		
Accounts payable	84,002	9,680
Accrued and other liabilities	4,424	4,059
Interfund payable	306,717	138,961
Interest payable from restricted assets	61,026	65,861
Customer deposits payable from restricted assets	108,514	96,995
Current portion of bonds payable	106,681	127,570
Notes payable	25,000	25,000
Revenue bonds payable	<u>1,580,765</u>	<u>1,707,368</u>
 TOTAL LIABILITIES	 <u>2,277,129</u>	 <u>2,175,494</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	(7,339)	50,594
Restricted for Debt Retirement	124,579	285,556
Unrestricted	<u>(202,622)</u>	<u>(111,846)</u>
 Total Net Assets	 <u>\$ (85,382)</u>	 <u>\$ 224,304</u>

CITY OF GRAMBLING  
 PROPRIETARY FUND - MAINTENANCE ENTERPRISE FUND  
 Proposed Budget - 2008  
 For the Year Ended December 31, 2007

Schedule 2

OPERATING REVENUES	
Water sales	\$ 210,000
Water connection charges	3,500
Sewer fees	<u>327,850</u>
Total operating revenues	<u>541,350</u>
OPERATING EXPENSES	
Water department	442,150
Sewer department	<u>504,666</u>
Total operating expenses	<u>946,816</u>
OPERATING INCOME (LOSS)	<u>(405,466)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	8,650
Ad valorem tax revenues	96,871
Sales tax revenues	16,000
Other income	18,600
Interest expense	<u>(80,885)</u>
Total nonoperating revenues (expenses)	<u>59,236</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(346,230)</u>
TRANSFERS IN	
Transfers in	465,000
Transfers out	<u>(117,982)</u>
Total transfers in	<u>347,018</u>
CHANGE IN NET ASSETS	788
NET ASSETS - BEGINNING	<u>(85,382)</u>
NET ASSETS - ENDING	<u>\$ (84,594)</u>

**City of Grambling**  
**Schedule of Compensation Paid Council Members**  
**For the Year Ended December 31, 2007**

**Schedule 3**

The schedule of per diem paid council members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Compensation of council members is included in legislative expenditures of the General Fund.

<u>Board Member</u>	<u>Term Expiration</u>	<u>Compensation Paid</u>
Alvin Bradley, Sr.	12/31/10	\$ 5,425
Clarence Kennedy	12/31/10	4,725
Edward Jones, Mayor Pro Tem	12/31/10	5,600
Roosevelt Bryant, Jr.	12/31/10	4,900
Toby Bryan	12/31/10	<u>5,600</u>
Total		<u>\$26,250</u>

**City of Grambling**  
**Schedule of Insurance Coverage**  
**As of December 31, 2007**

Schedule 4

<u>Type of Coverage</u>	<u>Name of Insurer</u>	<u>Policy Number</u>	<u>Amount of Coverage</u>	<u>Deductible</u>	<u>Expiration Date</u>
Commercial property	Underwriters at Lloyd of London	APPUC101805	Building-\$2,198,000	\$2,500	07/30/08
Automobile	Agency Management Corporation	5CA8938	Personal Property-\$540,000 Based on individual Vehicle	\$2,500 \$1,000	07/30/08 03/13/08
Fidelity Bond	Traveler's Casualty	103093269 104436852 103093272	\$15,000 \$ 5,000 \$10,000	NONE \$500 NONE	07/20/08 02/11/10 07/20/08

Agents: Agency Management Corporation  
P. O. Box 15989  
Baton Rouge, LA 70895

Community Financial Insurance Center, LLC  
P. O. Drawer 2006  
Monroe, LA 71207-2006



**City of Grambling**  
**Schedule of Breakdown of Utility Customers**  
**For the Year Ended December 31, 2007**

**Schedule 5**

Commercial	74
Residential	<u>1,028</u>
Total Customers	<u>1,102</u>

**City of Grambling**  
**Schedule of Water & Sewer Rates**  
**As of and For the Year Ended December 31, 2007**

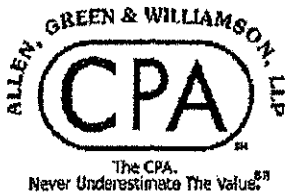
**Schedule 6**

<u>Gallon</u>	<u>Water rates</u>	<u>Sewer rates</u>
1,000	10.00	9.25
2,000	10.00	10.50
3,000	11.75	11.75
4,000	13.50	13.00
5,000	15.25	14.25
6,000	17.00	15.50
7,000	18.75	16.75
8,000	20.50	18.00
9,000	22.25	19.25
10,000	24.00	20.50

**City of Grambling**

**OTHER REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

The report following this page is a report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards, issued by the Comptroller General of the United States of America. The section of the report on compliance is based solely on the audit of the basic financial statements and presents, where applicable, compliance matters that would be material to the basic financial statements. The section of the report on internal control over financial reporting is, likewise, based solely on the audit of the basic financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses.



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Cindy Thomason, CPA

Ernest L. Allen, CPA  
(Retired) 1963 - 2000

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Honorable Martha W. Andrus,  
and Members of the City Council  
City of Grambling  
Grambling, Louisiana

We were engaged to audit the financial statements of the governmental activities, the business-type activities and each major fund of the City of Grambling, (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 15, 2008. We did not express an opinion on the financial statements due to the City declining to provide representation letters confirming to the best of their belief the financial statements were fairly stated which constitutes a scope limitation. Also, we were unable to obtain sufficient documentation to complete testing of certain areas of the financial statements.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 07-F1, 07-F5, 07-F6, 06-F7, 07-F8, 07-F9, 07-F10, 07-F11, 07-F12, and 07-F15 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-F1, 07-F5, 07-F6, 07-F7, 07-F8, 07-F9, 07-F10, 07-F11, 07-F12, and 07-F15 to be material weaknesses.

Compliance and Other Matters

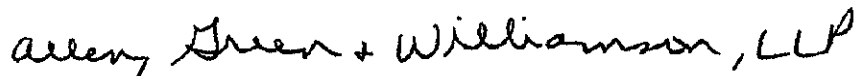
As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 07-F2, 07-F3, 07-F4, 07-F13, and 07-F14.

Management Letter Item

We noted a certain matter involving internal control over financial reporting, which we have reported to the management of the City in a separate letter dated October 15, 2008.

The City's responses to the findings identified in our audit are described in the accompanying corrective action plan for current year findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the council members, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Although the intended use of these reports may be limited, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana  
October 15, 2008

**City of Grambling**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2007**

**Reference # and title:**     **07-F1**     **Material Journal Entries Not Recorded**

**Entity-Wide or program /department specific:** This finding is entity-wide.

**Criteria or specific requirement:** The agency should record journal entries to accrue all material accounts receivable and accounts payable at year-end.

**Condition found:** There were no entries made to record accounts receivable and accounts payable at year-end.

**Possible asserted effect (cause and effect):**

**Cause:** Unknown.

**Effect:** Auditors were required to make journal entries to record material accounts payable and accounts receivable for the year ended December 31, 2007.

**Recommendation to prevent future occurrences:** The City should record all material journal entries in the accounting records for accruals at year-end. The accounting firm now being used by the City should make the entries or the entries should be made by a qualified employee of the City.

**Reference # and title**     **07-F2**     **Louisiana Local Government Budget Act**

**Entity-Wide or program /department specific:** This finding is for the General Fund.

**Criteria or specific requirement:** LSA-R.S. 39:1301-1314 states, in part, that chief executive or administrative officer is to advise the governing authority or independently elected official in writing when actual total revenues for the remainder of the year, within a fund, are less than total budgeted revenues by five percent or more.

**Condition found:** The General Fund actual revenues were less than budgeted revenues by 12.6 % for the year.

**Possible asserted effect (cause and effect):**

**Cause:** The budget was not monitored closely in order to amend as required by law. The main cause was transfers budgeted but not received from other funds in the General Fund. Budgeted transfers in from other funds were \$546,000, but the amount actually transferred was \$50,000.

**Effect:** The City is in violation of the Louisiana Local Government Budget Act.

**Recommendations to prevent future occurrences:** The City should monitor revenues and expenditures and amend budgets when necessary as required by law.

**City of Grambling**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2007**

**Reference # and title:**      **07-F3**      **Late Submission of the Audit Report to the USDA**

**Federal Program:** Water and Waste Disposal Systems for Rural Communities, CFDA#10.760.

**Criteria or specific requirement:** The United States Department of Agriculture requires the audit for the City be filed 150 days after fiscal year end of December 31st each year.

**Condition found:** The City did not file the audit by the end of the 150 days as required. The audit for the year ended December 31, 2007 was filed in September, 2008.

**Possible asserted effect (cause and effect):**

**Cause:** The audit for the City was not completed in time to meet the required deadline due to additional testing of accounting records required by auditors.

**Effect:** The City is in violation of the requirements of the USDA.

**Recommendation to prevent future occurrences:** In the future, the City should maintain accounting records necessary for auditors to complete the audit to meet the deadline.

**Reference # and title:**      **07-F4**      **Late Submission of Audit Report to Legislative Auditor**

**Entity-Wide or program /department specific:** This finding is entity-wide.

**Criteria or specific requirement:** Louisiana Revised Statute 24:513A (5) (a) (i) requires that "...audits shall be completed within six months of the close of the entity's fiscal year".

**Condition:** The City requested an extension of time by the Legislative Auditor's Office and an extension was approved to August 1, 2008. The report was filed after the approved extension date.

**Possible asserted effect (cause and effect):**

**Cause:** Accounting software problems and change in duties of accounting personnel.

**Effect:** The City's audit was not filed by the deadline.

**Recommendations to prevent future occurrences:** The City should strive to have all accounting software issues and personnel issues resolved in a timely manner for the submission of their audit each year in order to comply with requirements with the Legislative Auditor's Office and other agencies.

**City of Grambling**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2007**

**Reference # and title:**            **07-F5**            **Bank Reconciliations**

**Entity-wide or program/department specific:** This finding is entity-wide.

**Criteria or specific requirement:** Good internal control mandates that bank reconciliations for all bank accounts be completed each month and any differences be investigated in a timely manner. Completed bank reconciliations should be printed each month and become a part of the permanent accounting records of the City. Outstanding checks should be investigated and the reason determined as to the status of each check. Deposits which are deleted from one month to the next should be priority in investigation to the reasons. Account balances per bank reconciliation should be agreed to the general ledger balances and any variances examined further. The bank reconciliations for each account should be reviewed timely each month by management to ensure the safekeeping of City assets.

**Condition:** While examining the City's bank reconciliations, the following items were noted:

- 1) The July, 2007 and September, 2007 bank reconciliations for the General Fund could not be located.
- 2) On the May, 2007 bank reconciliation for the General Fund there was a note written by the fee accountant stating that there were gaps in the list of deposits and checks which needed to be entered before the reconciliation could be completed.
- 3) Bank reconciliations for the Housing Preservation Grant were not completed monthly. The fee accountant prepared the bank reconciliations for the entire year in February of 2008.
- 4) Upon examination of bank reconciliations for the numerous Maintenance Fund bank accounts many items were noted. Outstanding deposits on the April, 2007 bank reconciliation for \$18,130.56 and \$757.08 were deleted on the bank reconciliation by a journal entry in May, 2007 with no reason noted for the entry. For another bank account, the January, 2007 bank reconciliation had a journal entry in the amount of \$32,124 to record a deposit and the credit side of the entry was posted to fund balance. For another bank account, the fee accountant did not receive the October, 2007 bank statement in order to complete the reconciliation. In December, 2007, there were 4 deposits deleted from the system from two different bank reconciliations. The amounts of the 4 deleted deposits were \$300.00, \$1,900.00, \$3,148.63 and \$9,066.10. The May, 2007 bank reconciliation contained a note by the fee accountant that a journal entry was made in June, 2007 which affected the May, 2007 bank reconciliation and it had to be redone.

**Possible asserted effect (cause and effect):**

**Cause:** Unknown.

**Effect:** Bank reconciliations have questionable items as listed above.

**Recommendations to prevent future occurrences:** Good internal control should be implemented by the City to ensure bank balances per bank reconciliations agree with general ledger amounts. All variances which are posted between bank reconciliations and the amounts recorded by general ledger history should be examined further.



**City of Grambling**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended December 31, 2007**

Permanent records for printed bank reconciliations completed monthly should be maintained by the City. Management should review all bank reconciliations each month to ensure assets of the City are being maintained and safeguarded. Questionable items found during management's review of bank reconciliations should be researched in a timely manner until a final resolution is reached. Deposits should not be deleted from the system. Corrections should be made by journal entry.

**Reference # and title:**     **07-F6**     **Lack of Separation of Duties in Water & Sewer Department**

**Entity-wide or program/department specific:** This finding is for the Enterprise Fund.

**Criteria or specific requirement:** Good internal control procedures require assignment of job responsibilities in such a way as to divide the accounting function between two or more people so that if transactions were processed that were not consistent with management's policies and/or errors were made in the accounting process, these transactions would be discovered by the City's personnel in the process of performing their assigned duties within a timely period and the necessary corrections could be made.

**Condition found:** Although the physical location for collection of water & sewer fees was moved from the utility department to the Clerk's office, the employee for the water & sewer department who prepares the billing lists and enters payments into the computer system maintained for the water & sewer department has the authority to collect payments for utilities in the new location of the Clerk's office.

**Possible asserted effect (cause and effect):**

**Cause:** Unknown.

**Effect:** Internal control over accounting records for the water & sewer is inadequate.

**Recommendations to prevent future occurrences:** The City should realign duties between the clerk and the other individuals in the administrative office in order to have better internal control over the accounting function in the future.

**Reference # and title:**     **07-F7**     **Cash Deposits of Water & Sewer Receipts**

**Entity-wide or program/department specific:** This finding is for the Enterprise Fund.

**Criteria or specific requirement:** Deposits should be traceable from the point of receipt to posting in the general ledger. Good cash management requires that cash receipts be deposited in a timely manner. AG&W consider deposits within three banking days as being timely.

**Condition found:** While testing 30 cash receipts for the Water and Sewer Enterprise funds, it was noted that 10 of the 30 tested of the water deposits and 11 of the sewer deposits could not be traced to a validated deposit slip and 3 could not be traced to the general ledger. Of the deposits traced to a validated deposit slip, 17 were considered not being deposited in a timely manner.

**City of Grambling**  
**Schedule of Findings and Questioned Costs**  
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**Possible asserted effect (cause and effect):**

**Cause:** Unknown.

**Effect:** Cash deposits for the Water & Sewer were not made in a timely manner by the City.

**Recommendation to prevent future occurrences:** The City should ensure that all cash receipts are deposited in a timely manner (within three business days). There should be greater internal control over all cash receipts. There should be a reconciliation of receipts to the actual deposit of all payments performed by an employee outside of the Water & Sewer Department.

**Reference # and title:**      **07-F8**      **Delinquent Customer Accounts in Water & Sewer Department**

**Entity-wide or program/department specific:** This finding is for the Enterprise Fund.

**Criteria or specific requirement:** All customer accounts not paid by the required date should be disconnected and procedures taken to collect all monies owed to the City for services. Policies should be in place and strictly adhered to.

**Condition found:** Upon examining the year-end billing report for water and sewer, it was found that there were numerous customers with balances in arrears. The total of customer billings in arrears at year-end was \$13,638.

**Possible asserted effect (cause and effect):**

**Cause:** The City's policies/procedures to collect monies from customers in arrears appear to be ineffective.

**Effect:** The City is not collecting all monies owed for utility services.

**Recommendation to prevent future occurrences:** The City should increase its effort to collect arrear amounts from customers. Security deposits should be applied to outstanding amount before refunding any monies to customers. The City should consider legal action or contracting with an outside firm who specializes in collections to recoup the money for accounts in arrears.

**Reference # and title:**      **07-F9**      **Internal Control over Vendor Expenses**

**Entity-wide or program/department specific:** This finding is entity-wide.

**Criteria or specific requirement:** Effective internal control should include vendor expenses having original documentation (invoices, etc.), proper approval, should be paid timely, and signed by the number of required authorized check signers.

**Condition found:** The following was noted from a test of 40 vendor disbursements:

- Four exceptions were found where the canceled check could not be examined.
- One exception was found in which there were not the appropriate number of signatures on check.
- Seven exceptions were found where the invoice payment was not properly approved by appropriate personnel.

**City of Grambling**  
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**For the Year Ended December 31, 2007**

- Eleven exceptions were noted where the charge was not supported by proper documentation (original invoice, etc).
- Six exceptions were found where the invoice date was not current when compared to date of check

In testing construction in progress, 18 checks were selected for testing. Seven of these checks could not be tested because the documentation could not be found.

**Possible asserted effect (cause and effect):**

**Cause:** Unknown.

**Effect:** Internal control over vendor disbursements is not adequate.

**Recommendations to prevent future occurrences:** All vendor payments in the future should include original documentation (invoices, etc.), proper approval, should be paid timely, and signed by the number of required authorized check signers. Records supporting disbursement should be properly maintained. Records supporting bid law requirements should be maintained.

**Reference # and title:**     **07-F10**     **Internal Control over Travel Expenses-HRSA Grant**

**Federal Program:**         HRSA Grant

**Criteria or specific requirement:** Effective internal control over travel expenses should include documentation for all expenses required before payment is made.

**Condition found:** There were 10 travel reimbursements examined from the HRSA Grant funds in which the documentation was found to be inadequate. The following exceptions were found:

- Two exceptions where the reimbursements were not approved properly.
- Five exceptions where there was no documentation for expenses.
- Four exceptions in which there was no documentation of the business purpose such as an agenda, etc.

**Possible asserted effect (cause and effect):**

**Cause:** Unknown.

**Effect:** Internal control over travel reimbursements is not adequate.

**Recommendations to prevent future occurrences:** All travel reimbursements in the future should include all the required receipts for documentation of expense before payment is made.



**City of Grambling  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2007**

- One exception was found where the expenditure was not supported by a time card, time sheet, leave slip or other acceptable documentation which had been approved by a supervisor.
- Four exceptions were found for time records not signed by the employee.
- One exception was found where the extra pay was not supported by salary schedule, sign-in card, time sheet, or other acceptable documentation.
- One exception was found where the documentation of extra pay was not approved by appropriate personnel.
- Two exceptions were found where computation of salaries was not correct based on hours worked and/or salary approved by council.
- One exception was found where the accounting distribution/classification was not consistent and correctly posted.
- One exception was found where the canceled check did not agree with the amount posted in the general ledger.

**Possible asserted effect (cause and effect):**

**Cause:** Unknown.

**Effect:** Internal control over payroll is inadequate.

**Recommendations to prevent future occurrences:** In the future, payroll documentation should include proof of existence, approved salary/hourly rate, supported with appropriate approval, be recorded in the correct general ledger account in the correct amount, calculation of hourly pay should be reviewed for correctness, time sheets and time cards should be signed by supervisor and by the employee.

**Reference # and title:**     **07-F13**     **Asset Management Law**

**Entity-wide or program/department specific:** This finding is entity-wide.

**Criteria or specific requirement:** Louisiana Revised Statute LSA-R.S. 24:515 requires the City to maintain a comprehensive listing of capital assets.

**Condition found:** The City does not have a comprehensive procedure where an employee maintains a complete listing of the City's additions and deletions to the capital assets during the year.

**Possible asserted effect (cause and effect):**

**Cause:** There was a low priority placed on the capital assets listing.

**Effect:** The City was in violation of LSA-R.S. 24:515(B) and has inadequate internal control over safeguarding of capital assets.

**Recommendations to prevent future occurrences:** Management of the City should consider appointing an employee as property manager who will maintain a comprehensive listing of capital assets as additions and deletions are added during the year. Department heads should be given addition and deletions sheets and require the sheets be completed as purchases of capital assets are made and give the property manager.

City of Grambling  
Schedule of Findings and Questioned Costs  
For the Year Ended December 31, 2007

**Reference # and title:**    07-F14            Transfers Made To Other Funds from Dedicated Tax Funds

**Entity-wide or program/department specific:** This finding is for the Debt Service Fund.

**Criteria or specific requirement:** The purpose of fund accounting is to establish a self-balancing set of accounts which are maintained to ensure observance of limitations and restrictions placed on the use of the resources for each fund. Funds which account for property tax for repayment of bond debt are restricted in use by voter referendum.

**Condition found:** During the year, transfers of \$100,000 were made from the Debt Service Fund of which \$50,000 was transferred to the General Fund and \$50,000 was transferred to Fire (included in the General Fund) which was then transferred to capital projects to assist with cost of capital projects.

**Possible asserted effect (cause and effect):**

**Cause:** To assist with the cost of capital projects.

**Effect:** The limitations placed on these funds have not been observed.

**Recommendations to prevent future occurrences:** Management should explore other sources of funding in the future and not use funds which are dedicated for other purposes.

**Reference # and title:**    07-F15            Information System Controls

**Entity-wide or program/department specific:** This finding is entity-wide.

**Criteria or specific requirement:** Good controls over information systems should include a written policy, segregation of duties, and user controls.

**Condition found:** The City uses a general ledger program and a program for utility billing. The City presently has no written policy for information systems or established procedures for limiting access or backing up information.

**Possible asserted effect (cause and effect):**

**Cause:** Unknown

**Effect:** Information systems were not consistently backed up and stored offsite. Access was not consistently restricted.

**Recommendations to prevent future occurrences:** The City should adopt a formal policy regarding information systems and establish procedures to ensure that access is limited and back ups are consistently done and stored offsite or in a fire proof safe.

## **Other Information**

The information in the following section concerns management's actions or intentions concerning prior- and current-year audit findings. This information has been prepared by the management of the City of Grambling. Management accepts full responsibility for the accuracy of the information. This information has not been audited by the auditors and accordingly, no opinion is expressed.

**City of Grambling**  
**Summary Schedule of Prior Year Audit Findings**  
**For the Year Ended December 31, 2007**

**Reference # and title:**      **06-F1**      **Related-Party Transactions**

**Year Finding Originated:** December 31, 2006

**Condition found:** The City administers a federal grant which provides medical related services at the medical clinic. Two people who were paid contract amounts of \$850 and \$300 from this grant are relatives of city employees. Also, the City paid two city employees who also worked on this grant as contract labor, not through the payroll system.

**Corrective action taken:** The City is no longer conducting business with related parties.

**Reference # and title:**      **06-F2**      **Louisiana Local Government Budget Act**

**Year Finding Originated:** December 31, 2005

**Condition found:** The Health & Sanitation Fund had actual expenditures exceeding budgeted expenditures in excess of 5% for the year.

**Corrective action planned:** See current-year finding 07-F2.

**Reference # and title:**      **06-F3**      **Accounting for USDA-Housing Preservation Grant Funds**

**Year Finding Originated:** December 31, 2006

**Condition found:** The funds received from USDA-Housing Preservation Grant were not included in the accounting records for the City. There was no activity recorded for the grant in the accounting records for the year ended December 31, 2006.

**Corrective action taken:** The City now records the bank account for monies received through the USDA-Housing Preservation Grant in the General Fund. See current-year finding 07-F5 for comments on bank reconciliations for Housing Preservation Grant bank account.

**Reference # and title:**      **06-F4**      **Lack of Separation of Duties in Water & Sewer Department**

**Year Finding Originated:** December 31, 2006

**Condition found:** The Clerk for the water & sewer department prepares the billing lists, accepts all payments, and enters payments into the computer system maintained for the water & sewer department.

**Corrective action planned:** See current-year finding 07-F6.



**City of Grambling**  
**Summary Schedule of Prior Year Audit Findings**  
**For the Year Ended December 31, 2007**

**Reference # and title:**      **06-F5**      **Untimely Cash Deposits of Water & Sewer Receipts**

**Year Finding Originated:** December 31, 2006

**Condition found:** While testing cash receipts for the Water and Sewer Enterprise funds, it was noted that eight deposits tested were not deposited in a timely manner (within three business days). One receipt for August 4, 2006 could not be traced to a deposit. Receipts for June 8, 2006 were deposited before the receipts for June 1, 2006. There was also lack of physical security of receipts as it was noted that bill stubs, checks and cash were laid on top of the cash register where they could be easily taken.

**Corrective action planned:** See current-year finding 07-F7.

**Reference # and title:**      **06-F6**      **Delinquent Customer Accounts in Water & Sewer Department**

**Year Finding Originated:** December 31, 2006

**Condition found:** While testing the month of June, 2006, it was noted that 6 of the 10 customer payments tested had not been paid. The security deposit paid by the customer had not been drawn down against the outstanding amount owed in 5 of the 6 instances. None of the 6 had ever had their services terminated nor had any of the accounts owed been turned over to a collection agency. The security deposit listing was examined and it was noted that numerous inactive customers' deposits are still listed in the total deposits.

**Corrective action planned:** See current-year finding 07-F8.

**Reference # and title:**      **06-F7**      **Material Journal Entries Not Recorded**

**Year Finding Originated:** December 31, 2006

**Condition found:** There were no entries made to record accounts receivable and accounts payable at year-end.

**Corrective action planned:** See current-year finding 07-F1.

**Reference # and title:**      **06-F8**      **Late Submission of the Audit Report to the USDA**

**Year Finding Originated:** December 31, 2005

**Condition found:** The City did not file the audit by the end of the 150 days as required. The audit for the year ended December 31, 2006 was filed in June, 2007.

**Corrective action planned:** See current-year finding 07-F3.

**City of Grambling**  
**Corrective Action Plan for Current-year Findings and Questioned Costs**  
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**Reference # and title:**     **07-F1**     **Material Journal Entries Not Recorded**

**Condition found:** There were no entries made to record accounts receivable and accounts payable at year-end.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
City of Grambling	Fax: (318) 247-0940
P. O. Box 108	
Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title**     **07-F2**     **Louisiana Local Government Budget Act**

**Condition found:** The General Fund actual revenues were less than budgeted revenues by 12.6 % for the year.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
City of Grambling	Fax: (318) 247-0940
P. O. Box 108	
Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:**     **07-F3**     **Late Submission of the Audit Report to the USDA**

**Condition found:** The City did not file the audit by the end of the 150 days as required. The audit for the year ended December 31, 2007 was filed in September, 2008.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
City of Grambling	Fax: (318) 247-0940
P. O. Box 108	
Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.

City of Grambling  
Corrective Action Plan for Current-year Findings and Questioned Costs  
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**Reference # and title:**    07-F4        Late Submission of Audit Report to Legislative Auditor

**Condition:** The City requested an extension of time by the Legislative Auditor's Office and an extension was approved to August 1, 2008. The report was filed after the approved extension date.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
City of Grambling	Fax: (318) 247-0940
P. O. Box 108	
Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:**    07-F5        Bank Reconciliations

**Condition:** While examining the City's bank reconciliations, the following items were noted:

- 1) The July, 2007 and September, 2007 bank reconciliations for the General Fund could not be located.
- 2) On the May, 2007 bank reconciliation for the General Fund there was a note written by the fee accountant stating that there were gaps in the list of deposits and checks which needed to be entered before the reconciliation could be completed.
- 3) Bank reconciliations for the Housing Preservation Grant were not completed monthly. The fee accountant prepared the bank reconciliations for the entire year in February of 2008.
- 4) Upon examination of bank reconciliations for the numerous Maintenance Fund bank accounts many items were noted. Outstanding deposits on the April, 2007 bank reconciliation for \$18,130.56 and \$757.08 were deleted on the bank reconciliation by a journal entry in May, 2007 with no reason noted for the entry. For another bank account, the January, 2007 bank reconciliation had a journal entry in the amount of \$32,124 to record a deposit and the credit side of the entry was posted to fund balance. For another bank account, the fee accountant did not receive the October, 2007 bank statement in order to complete the reconciliation. In December, 2007, there were 4 deposits deleted from the system from two different bank reconciliations. The amounts of the 4 deleted deposits were \$300.00, \$1,900.00, \$3,148.63, and \$9,066.10. The May, 2007 bank reconciliation contained a note by the fee accountant that a journal entry was made in June, 2007 which affected the May, 2007 bank reconciliation and it had to be redone.

**Corrective action planned:** See management's response following the management letter.

**City of Grambling**  
**Corrective Action Plan for Current-year Findings and Questioned Costs**  
**For the Year Ended December 31, 2007**

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus Telephone: (318) 247-6120  
City of Grambling Fax: (318) 247-0940  
P. O. Box 108  
Grambling, LA 71245

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:      07-F6      Lack of Separation of Duties in Water & Sewer Department**

**Condition found:** Although the physical location for collection of water & sewer fees was moved from the utility department to the Clerk's office, the employee for the water & sewer department who prepares the billing lists and enters payments into the computer system maintained for the water & sewer department has the authority to collect payments for utilities in the new location of the Clerk's office.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus Telephone: (318) 247-6120  
City of Grambling Fax: (318) 247-0940  
P. O. Box 108  
Grambling, LA 71245

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:      07-F7      Cash Deposits of Water & Sewer Receipts**

**Condition found:** While testing 30 cash receipts for the Water and Sewer Enterprise funds, it was noted that 10 of the 30 tested of the water deposits and 11 of the sewer deposits could not be traced to a validated deposit slip and 3 could not be traced to the general ledger. Of the deposits traced to a validated deposit slip, 17 were considered not being deposited in a timely manner.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus Telephone: (318) 247-6120  
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**Anticipated completion date:** See management's response following the management letter.

**City of Grambling**  
**Corrective Action Plan for Current-year Findings and Questioned Costs**  
**For the Year Ended December 31, 2007**

**Reference # and title:**     **07-F8**     **Delinquent Customer Accounts in Water & Sewer Department**

**Condition found:** Upon examining the year-end billing report for water and sewer, it was found that there were numerous customers with balances in arrears. The total of customer billings in arrears at year-end was \$13,638.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
City of Grambling	Fax: (318) 247-0940
P. O. Box 108	
Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:**     **07-F9**     **Internal Control over Vendor Expenses**

**Condition found:** The following was noted from a test of 40 vendor disbursements:

- Four exceptions were found where the canceled check could not be examined.
- One exception was found in which there were not the appropriate number of signatures on check.
- Seven exceptions were found where the invoice payment was not properly approved by appropriate personnel.
- Eleven exceptions were noted where the charge was not supported by proper documentation (original invoice, etc).
- Six exceptions were found where the invoice date was not current when compared to date of check.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
City of Grambling	Fax: (318) 247-0940
P. O. Box 108	
Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:**     **07-F10**     **Internal Control over Travel Expenses-HRSA Grant**

**Condition found:** There were 10 travel reimbursements examined from the HRSA Grant funds in which the documentation was found to be inadequate. The following exceptions were found:

- Two exceptions where the reimbursements were not approved properly.
- Five exceptions where there was no documentation for expenses.
- Four exceptions in which there was no documentation of the business purpose such as an agenda, etc.

**City of Grambling**  
**Corrective Action Plan for Current-year Findings and Questioned Costs**  
**For the Year Ended December 31, 2007**

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
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Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:**     **07-F11**     **Internal Control over Petty Cash-HRSA Grant**

**Condition found:** There were 13 petty cash reimbursements examined from the HRSA Grant funds in which the documentation was found to be inadequate. The following exceptions were found:

- Ten exceptions were noted where there was no purchase order or the purchase order date was after the actual purchase.
- Six exceptions in which there was no documentation or the documentation was insufficient.
- Three exceptions in which cost was questionable such as food purchases, medical expense for an employee for \$5.65, and \$25 given to the Wal-Mart Coalition Meeting.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
City of Grambling	Fax: (318) 247-0940
P. O. Box 108	
Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:**     **07-F12**     **Payroll Expenses**

**Condition found:** The following was found from a test of 24 payroll disbursements:

- Two cancelled checks could not be tested for several attributes because the cancelled check could not be located.
- Four exceptions were found where the personnel file did not contain proof of existence.
- Seven exceptions in which salary/hourly rate agrees with personnel documentation or no documentation was able to be examined.
- One exception was found where the expenditure was not supported by a time card, time sheet, leave slip or other acceptable documentation which had been approved by a supervisor.
- Four exceptions were found for time records not signed by the employee.
- One exception was found where the extra pay was not supported by salary schedule, sign-in card, time sheet, or other acceptable documentation.
- One exception was found where the documentation of extra pay was not approved by appropriate personnel.

**City of Grambling**  
**Corrective Action Plan for Current-year Findings and Questioned Costs**  
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- Two exceptions were found where the computation of salaries was not correct based on hours worked and/or salary approved by council.
- One exception was found where the accounting distribution/classification was not consistent and correctly posted.
- One exception was found where the canceled check did not agree with the amount posted in the general ledger.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus Telephone: (318) 247-6120  
City of Grambling Fax: (318) 247-0940  
P. O. Box 108  
Grambling, LA 71245

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:** 07-F13 Asset Management Law

**Condition found:** The City does not have a comprehensive procedure where an employee maintains a complete listing of the City's additions and deletions to the capital assets during the year.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus Telephone: (318) 247-6120  
City of Grambling Fax: (318) 247-0940  
P. O. Box 108  
Grambling, LA 71245

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:** 07-F14 Transfers Made To Other Funds from Dedicated Tax Funds

**Condition found:** During the year, transfers of \$100,000 were made from the Debt Service Fund of which \$50,000 was transferred to the General Fund and \$50,000 was transferred to Fire (included in General Fund) which was then transferred to capital projects to assist with cost of capital projects.

**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus Telephone: (318) 247-6120  
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**City of Grambling**  
**Corrective Action Plan for Current-year Findings and Questioned Costs**  
**For the Year Ended December 31, 2007**

**Anticipated completion date:** See management's response following the management letter.

**Reference # and title:**     **07-F15**     **Information System Controls**

**Entity-wide or program/department specific:** This finding is Entity-wide.

**Condition found:** Good controls over information systems should include a written policy, segregation of duties, and user controls. The City uses a general ledger program and a program for utility billing. The City presently has no written policy for information systems or established procedures for limiting access or backing up information.

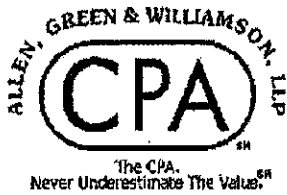
**Corrective action planned:** See management's response following the management letter.

**Person responsible for the above corrective actions:**

Mayor Martha W. Andrus	Telephone: (318) 247-6120
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P. O. Box 108	
Grambling, LA 71245	

**Anticipated completion date:** See management's response following the management letter.





# ALLEN, GREEN & WILLIAMSON, LLP

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Ernest L. Allen, CPA  
(Retired) 1963 - 2000

## Management Letter

Honorable Martha W. Andrus,  
and Members of the City Council  
City of Grambling  
Grambling, Louisiana

We were engaged to audit the governmental activities, the business-type activities and each major fund of the City of Grambling, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements. We considered the City's internal control to plan our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control.

However, during our audit, we noted certain matters involving internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated October 15, 2008 on the financial statements of the City. We will review the status of these comments during our next audit engagement. Our comments and recommendations, which have been discussed with appropriate members of management, are intended to improve internal control or result in other operating efficiencies. Our comment is summarized as follows:

### 07-M1      Accepting Cash Payments for Utility Payments

**Comment:** The City accepts cash for payments of utility service bills by customers.

**Recommendation:** The City should consider accepting check or money orders for utility payments to reduce the risk the City is exposed to when cash is kept on hand.

**Management's response:** See management's response following the management letter.

Also included are management's responses to our current-year management letter item. We have performed no audit work to verify the content of the responses.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not reveal all weaknesses in policies and procedures that may exist.

Immediately following this letter is the Status of Prior Year Management Letter Items. This information has not been audited by Allen, Green, & Williamson, LLP, and no opinion is expressed. However, we did follow-up on the prior year management items and performed procedures to access the reasonableness of the Status of Prior Year Management Letter Items prepared by the auditee, and we would report, as a current-year management letter item when Allen, Green, & Williamson, LLP concludes the Status of Prior Year Management Letter Items materially misrepresent the status of any prior year management letter item.

This report is intended solely for the information and use of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Although the intended use of these reports may be limited, under Louisiana Revised Statute 24:513 this report is distributed by the Office of the Louisiana Legislative Auditor as a public document.

*Allen, Green + Williamson, LLP*

ALLEN, GREEN & WILLIAMSON, LLP

Monroe, Louisiana  
October 15, 2008

**City of Grambling**  
**Status of Prior Management Letter Items**  
**For the Year Ended December 31, 2007**

**06-M1**            **Accepting Cash Payments for Utility Payments**

**Comment:** The City accepts cash for payments of utility service bills by customers.

**Management's response:** See current-year management item 07-M1.

**06-M2**            **Credit Cards In City Employees' Names**

**Comment:** It was observed that the City was required to make payment to the credit card company (MBNA) for amounts it had already reimbursed to an employee and council member. The credit card company was threatening to take legal action if the City did not make payment. The amounts were then deducted from the employee and council member's wages through the payroll system until the amounts were reimbursed to the City.

**Management's response:** The city canceled all MBNA credit cards.

## **Management Responses / Corrective Actions -- Final**

### **City of Grambling Auditor's Report Year Ended December 31, 2007 Martha W. Andrus, Mayor**

Responses and/or Corrective Actions as Listed by Respective Audit Reference # and Title:

#### **07-F1**      **Material Journal Entries Not Recorded**

**Corrective Action Planned:** The City will ensure that journal entries to properly accrue all material accounts receivable and accounts payable at year-end are recorded in the accounting system. Management will continue to work with the currently engaged accounting firm to coordinate administrative and bookkeeping efforts towards proper accounting and complete, timely financial statements. The accounting firm shall be tasked with correctly recording the journal entries for the year-end accrual of these accounts.

**Anticipated Completion Date:** December 31, 2008.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements.

#### **07-F2**      **Louisiana Local Government Budget Act**

**Corrective Action Planned:** Priority will be emphasized for continuous effective functions deemed necessary to assure that the City functions in and maintains compliance with the Louisiana Local Government Budget Act as prescribed by LSA-R.S. 39:1301-1314. Management and the Municipal Clerk will closely monitor the City's operations and fiscal status for adherence to the adopted budget allocations, and shall appropriately notify the City Council should monitored revenues, expenditures, or beginning fund balances differ from the budget estimates by five percent or more in accordance with LSA-R.S. 39:1311.

In order to properly advise and expediently inform the Council of any budget deviation, in written notification, as required by law, the Municipal Clerk shall be expected to organize and provide applicable financial information, and to appropriately highlight any significant differences, in a timely manner to the Mayor. As such, the Mayor shall provide the requisite notification for the Council to appropriately adopt and publish relevant budget amendment, as is the responsibility of the Council in accordance with LSA-R.S. 39:1310-1311.

**Anticipated Completion Date:** Immediately.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

#### **Management Response:**

Management will continue effective coordination with the current accounting firm in the ongoing efforts to maintain correct accounting records in accordance with proper fund accounting standards.

Emphasis will be continued on keeping accurate records current and producing timely reliable financial statements on a regular basis. These actions are expected to provide relevant financial data to be used in preparing budget projections that more closely represent actual City operations than in previous years. These measures, combined with proposed corrective actions, are expected to result in less significant deviation from the adopted budget. Also expected will be valuable information to better support or mitigate any fluctuations or operational changes for pertinent notification to Council for budget amendment.

### **07-F3      Late Submission of the Audit Report to the USDA**

**Cause/Effect Notes:** The auditor-reported cause of “additional testing of accounting records required by auditors” is ambiguous. After the Mayor properly reported the initial security breach details to the appropriate authorities, the auditors subsequently disclosed to the Mayor auditor-identified irregularities and risk factors that warranted expansion of testing of the City’s accounting system. It should be duly noted that, before the auditors revealed their discovered irregularities, the Mayor had no foreknowledge of any such irregularities or risk factors to the City’s accounting records. No allegations, official or otherwise, were made then, nor have been made to date, by the Mayor and office administrative staff. Thus, any referenced additional audit testing was to be determined at the exclusive discretion of and by the auditors.

It is also noted that the auditors performed no further testing of the City’s on-site accounting system records as observed by management, nor as communicated by the auditors. Accordingly, the Mayor was unable to readily confirm by auditor-prepared representation letter, and without opportunity for question, in early August 2008, that the financial statements of September 30, 2008, were fairly stated as compiled by the audit firm, but without the mayor’s assistance, or input, as per the amended engagement agreement dated July 3, 2008.

Furthermore, the Mayor noted a disconcerting period of non-communication from August 2008 to October 3, 2008, including no communication by any means from the auditors regarding the subsequent passing of the first approved audit extension Legislative Auditor deadline of September 30, 2008, thus requiring the Mayor’s second approved extension request for October 15, 2008.

(Please see “Cause/Effect Notes” for Finding 07-F4 below pertaining to Management’s additional concerns regarding ineffective communication between the Mayor and the audit firm.)

The Mayor and administrative staff, under reasonable expectations of the professional responsibility of the City’s independent auditors, continued with all proper efforts of coordination and compliance with auditor requirements for the engagement. Also, the details of the auditor-identified and auditor-disclosed irregularities and risk factors were properly reported to the appropriate investigating authorities. The Mayor self-initiated an internal investigation, which consisted of examining bookkeeping procedures and systems, towards ascertaining the accuracy of the City’s accounting records. All actions taken by management and staff were appropriate, and performed under authoritative advisement, in the interest of safeguarding and preserving the integrity of the city’s accounting records and data for all ongoing and pending investigations.

Furthermore, the audit firm delayed coming on-site to commence on-site engagement procedures for approximately one month and requested that the City provide requested documents and information to them to work off-site, which required additional staff time and effort as the investigating officers (Louisiana State Police) were requesting much of the same information. The audit firm took additional time away from the City’s audit work during the engagement to relocate their office. Duplication of historical and support documentation for investigation procedures, audit requirements, and normal daily business operations were performed by management and administrative staff through extensive efforts over a significant period of time.

It should also be noted that all efforts were executed within an awareness of all compliance requirement deadlines, and while monitoring and controlling for undue excessive costs to the City.

Also on several occasions, especially during initial efforts, the Mayor offered to maintain open communication with the Council members, encouraging the asking of questions and observation of implemented procedures. (It should be further noted that former Councilmember Clarence Kennedy maintained communication and offered advisory assistance until his ensuing resignation.) However, efforts of management and staff, as well as the City's independent auditors, were excessively and unnecessarily complicated by the improper interference and questionable undue influence of Council members, including an unmerited lawsuit, despite the Mayor's formal and public appeals for cooperation. Though still disregarded, the Mayor's appeals to Council for prudent cooperation were, and still are, considered reasonable toward protecting all of the City's interests, including all employees and business operations, especially as the official outcomes of any ongoing and pending formal investigations have yet to be released.

**Corrective Action Planned:** The City will maintain continued proper accounting records in accordance with proper fund accounting standards, along with the appropriate maintenance and filing of supplemental documentation, in correct accordance with accepted standards in the City's procedurally controlled and centralized accounting system, which will be necessary to ensure that future audit procedures and engagements will be appropriately completed in such a timeframe as to be in compliance with audit filing requirements.

The City will plan and conduct timely processes to ensure that the City files audit reports within 150 days after fiscal year of December 31 each year as required by the United State Department of Agriculture. The CPA firm responsible for the City's audit report will be expected to begin audit engagement procedures in a timely manner, and to maintain effective communication with the Mayor for resolution of any audit requirement issues, toward the timely completion of audit processes and audit reports.

Management will continue effective coordination with the current accounting firm in the ongoing efforts to accurately and correctly maintain accounting records and secure accounting systems in accordance with proper fund accounting standards, to conduct timely bank reconciliations and make related journal entries, and to provide timely reliable financial statements on a regular basis. These actions are expected to provide relevant and more accurate financial data to facilitate timely future audit preparation processes.

As referenced in Finding 07-F15 below, Management's decision to establish and implement improved procedures for information systems use and applications use will promote the increased accountability of authorized users, and provide for the increased automation of correct accounting methods in accordance with generally accepted standards. Procedures and security protocol methods will also be maintained according to conventional (industry-accepted) information technology (IT) systems and internal control policies, including the maintenance of consistent system data backups securely stored offsite, to effectively mitigate risks of unauthorized access and prevent future incidents such as these circumstances defining the exceptional nature of this 2007 audit engagement.

**Anticipated Completion Date:** Immediately, and presently ongoing throughout 2008.

Ongoing improvements and the effective coordination of efforts appropriately and as warranted, respective to discoveries and outcomes of management's ongoing internal investigation/processes, are expected to provide for relevant and accurate documentation in year-end preparation for timely audit engagements.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign any bookkeeping/accounting duties to office employees or municipal officers, current or future

instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

**Management Response/Concerns:**

As 2007 engagement began, yet to be mitigated user and system complications, which were primarily reported by the City's former accountant, impeded year-end processing and subsequently rendered management's generation of the City's fiscal year-end financial statements impossible. Subsequent discoveries of IT-related instances indicating possible unauthorized manipulation or misstatement of accounting records introduced a potential risk of question concerning the possible compromise of the City's 2007 accounting records. IT-related instances indicated discoveries of two types of critical unauthorized internal control infractions: indications of the contravention of conventional computer systems and file security protocol, and correlated historical indications of inappropriate data adjustments in the City's general ledger accounting application. These discoveries necessitated the proper reporting to authorities for appropriate further investigation, as well as warranted the prudent application of data analysis processes as to the question of the integrity and reliability of the City's repository of accounting and financial information. These situational contingencies defined the circumstances surrounding and impacting the engagement period.

The maintenance of the City's daily business operational interests, as well as effective customer service and support, has been emphasized throughout the audit engagement. Ongoing cooperative work efforts as undertaken by the Mayor, previously supported by the Council, and commendably often self-initiated by the administrative staff in place during the first half of the engagement, are considerable and extensive, and were often crucially exacerbated by implications relevant to numerous findings and exceptions in bookkeeping and support data procedures, as discovered and documented in investigation processes, and disclosed by the Mayor to the auditors. Further situational circumstances impacting the audit engagement and current management efforts are ongoing formal investigations, as originally reported to the auditors and City Council, and subsequent inappropriate interference and hindrances by Council members considerably exacerbating the current work efforts of the Mayor and administrative staff, which were implemented before and continued during the audit engagement.

Current management focus is on the proper setup, security, and authorized use, as procedurally defined and controlled, of the general ledger application for the correct recording of historical data and transactions for 2008 and forward use as referenced in Finding 07-F15 below.

**07-F4 Late Submission of the Audit Report to Legislative Auditor**

**Cause/Effect Notes:** The auditor-reported statements of cause as follows are ambiguous and considered to be misleading: "accounting software problems and change in duties of accounting personnel... The software the City maintains its records on was not operating correctly. Change of duties of the City's personnel in accounting positions was also a cause of the delay in the timely submission of the audit report." The Mayor requested an extension of time for the City by the Legislative Auditor's Office, which was subsequently approved, under the reasons "ongoing investigation of a security breach of accounting computer systems and related additional required testing." These were also the reasons stated by the Mayor before the Legislative Auditor Advisory Council in Baton Rouge on October 7, 2008, for the second extension request of October 15, 2008.

Any referenced software exceptions, as the Mayor communicated to the auditors and current investigating officers, were relevant to indications of possible unauthorized modifications or offenses to the City's intellectual property, to be further investigated appropriately, and would primarily correlate to the

extraction of historical electronic evidence for formal investigation procedures, both ongoing and pending. Referenced exceptions did not impact the ongoing maintenance of accounting records in accordance with ordinary and expected uses within the office by administrative personnel. However management duly noted, upon internal investigation processes, that the unauthorized access exceptions were very likely correlated in the above-referenced complications, as primarily reported by the City's former accountant and further documented in tech support service visits, which partly impeded year-end processing. (See also Finding 07-F15)

As referenced above in management response for Finding 07-F3:

After the Mayor properly reported the initial security breach details to the appropriate authorities, the auditors subsequently disclosed to the Mayor auditor-identified irregularities and risk factors that warranted expansion of testing of the City's accounting system. It should be duly noted that, before the auditors revealed their discovered irregularities, the Mayor had no foreknowledge of any such irregularities or risk factors to the City's accounting records. No allegations, official or otherwise, were made then, nor have been made to date, by the Mayor and office administrative staff. Thus, any referenced additional audit testing was to be determined at the exclusive discretion of and by the auditors.

It is also noted that the auditors performed no further testing of the City's on-site accounting system records as observed by management, nor as communicated by the auditors. Accordingly, the Mayor was unable to readily confirm by auditor-prepared representation letter, and without opportunity for question, in early August 2008, that the financial statements of September 30, 2008, were fairly stated as compiled by the audit firm, but without the mayor's assistance, or input, as per the amended engagement agreement dated July 3, 2008.

Furthermore, the Mayor noted a disconcerting period of non-communication from August 2008 to October 3, 2008, including no communication by any means from the auditors regarding the subsequent passing of the first approved audit extension Legislative Auditor deadline of September 30, 2008, thus requiring the Mayor's second approved extension request for October 15, 2008.

The Mayor takes further exception to the auditors' failure to communicate in a timely manner, any issues regarding incomplete information or impediment to the accessibility of documents encountered with any employee or municipal officer, especially as relevant to the most recently documented Findings 07-F9 and 07-F12. As the Mayor is responsible for providing all financial information required by the auditors, and also has emphasized cooperation with the auditors throughout the engagement, it is reasonably expected that the auditors would request the Mayor's assistance toward the remediation of incomplete, missing, or hindered data/information, especially to prevent undue delay of the engagement.

It is unacceptable that last-minute findings and specific testing exceptions were submitted to the Mayor for review and proposed corrective actions as late as October 3, 2008, especially when City management is concerned with audit report delay and required deadline compliance. However, when the Mayor attempted to review the reported test exceptions, specifically for Finding 07-F12, the auditors communicated that support information had been requested of the municipal clerk, who had not yet complied with the auditor's requirements. Thus the information was still considered incomplete/missing. This issue also warrants inquiry regarding the municipal clerk's possible noncompliance with both audit requirement expectations and statutorily-prescribed duties of office pertinent to the "preservation of records and papers appertaining to the business of the municipality." (LSA-R.S. 33:421)

The Mayor and administrative staff, under reasonable expectations of the professional responsibility of the City's independent auditors, continued with all proper efforts of coordination and compliance with auditor requirements for the engagement. Also, the details of the auditor-identified and auditor-disclosed irregularities and risk factors were properly reported to the appropriate investigating authorities. The Mayor



self-initiated an internal investigation, which consisted of examining bookkeeping procedures and systems, towards ascertaining the accuracy of the City's accounting records. All actions taken by management and staff were appropriate, and performed under authoritative advisement, in the interest of safeguarding and preserving the integrity of the city's accounting records and data for all ongoing and pending investigations.

Furthermore, the audit firm delayed coming on-site to commence on-site engagement procedures for approximately one month and requested that the City provide requested documents and information to them to work off-site, which required additional staff time and effort as the investigating officers (Louisiana State Police) were requesting much of the same information. The audit firm took additional time away from the City's audit work during the engagement to relocate their office. Duplication of historical and support documentation for investigation procedures, audit requirements, and normal daily business operations were performed by management and administrative staff through extensive efforts over a significant period of time. It should also be noted that all efforts were executed within an awareness of all compliance requirement deadlines, and while monitoring and controlling for undue excessive costs to the City.

It should be noted that through the Mayor's temporary reassignment of duties, duly implemented in efforts toward ascertaining the accuracy of accounting records and safeguarding the city's financial information, many of the exceptions and discoveries were noted as documented and reported to auditors in management's internal findings. Additionally, through the temporary reassignment of accounting duties in 2008, coinciding with the engagement commencement, remediation methods relevant to several internal control findings referenced in this audit report were effectively implemented and successfully maintained for a significant time period, as can be researched in administrative office documentation, and are expected to be continued as proper accounting and internal control methods and to be so indicated in the 2008 audit report.

Also on several occasions, especially during initial efforts, the Mayor offered to maintain open communication with the Council members, encouraging the asking of questions and observation of implemented procedures. (It should be further noted that former Councilmember Clarence Kennedy maintained communication and offered advisory assistance until his ensuing resignation.) However, efforts of management and staff, as well as the City's independent auditors, were excessively and unnecessarily complicated by the improper interference and questionable undue influence of Council members, including an unmerited lawsuit, despite the Mayor's formal and public appeals for cooperation. Though still disregarded, the Mayor's appeals to Council for prudent cooperation were, and still are, considered reasonable toward protecting all of the City's interests, including all employees and business operations, especially as the official outcomes of any ongoing and pending formal investigations have yet to be released.

**Corrective Action Planned:** The City will maintain continued proper accounting records in accordance with proper fund accounting standards, along with the appropriate maintenance and filing of supplemental documentation, in correct accordance with accepted standards in the City's procedurally controlled and centralized accounting system, which will be necessary to ensure that future audit procedures and engagements will be appropriately completed in such a timeframe as to be in compliance with audit filing requirements.

The City will plan and conduct timely processes to ensure that the City submits audit reports to the Legislative Auditor within six months of the close of the fiscal year of December 31, in accordance with LSA-R.S. 24:513. The CPA firm responsible for the City's audit report will be expected to begin audit engagement procedures in a timely manner, and to maintain effective communication with the Mayor for resolution of any audit requirement issues, toward the timely completion of audit processes and audit reports.

Management will continue effective coordination with the current accounting firm in the ongoing efforts to accurately and correctly maintain accounting records and secure accounting systems in accordance

with proper fund accounting standards, to conduct timely bank reconciliations and make related journal entries, and to provide timely reliable financial statements on a regular basis. These actions are expected to provide relevant and more accurate financial data to facilitate timely future audit preparation processes.

As referenced in Finding 07-F15 below, Management's decision to establish and implement improved procedures for information systems use and applications use will promote the increased accountability of authorized users, and provide for the increased automation of correct accounting methods in accordance with generally accepted standards. Procedures and security protocol methods will also be maintained according to conventional (industry-accepted) IT systems and internal control policies, including the maintenance of consistent system data backups securely stored offsite, to effectively mitigate risks of unauthorized access and prevent future incidents such as these circumstances defining the exceptional nature of this 2007 audit engagement.

Anticipated Completion Date: Immediately, and presently ongoing throughout 2008.

Ongoing improvements and the effective coordination of efforts appropriately and as warranted, respective to discoveries and outcomes of management's ongoing internal investigation/processes, are expected to provide for relevant and accurate documentation in year-end preparation for timely audit engagements.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign any bookkeeping/accounting duties to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

Management Response/Concerns:

As referenced above in management response for Finding 07-F3:

As 2007 engagement began, yet to be mitigated user and system complications, which were primarily reported by the City's former accountant, impeded year-end processing and subsequently rendered management's generation of the City's fiscal year-end financial statements impossible. Subsequent discoveries of IT-related instances indicating possible unauthorized manipulation or misstatement of accounting records introduced a potential risk of question concerning the possible compromise of the City's 2007 accounting records. IT-related instances indicated discoveries of two types of critical unauthorized internal control infractions: indications of the contravention of conventional computer systems and file security protocol, and correlated historical indications of inappropriate data adjustments in the City's general ledger accounting application. These discoveries necessitated the proper reporting to authorities for appropriate further investigation, as well as warranted the prudent application of data analysis processes as to the question of the integrity and reliability of the City's repository of accounting and financial information. These situational contingencies defined the circumstances surrounding and impacting the engagement period.

The maintenance of the City's daily business operational interests, as well as effective customer service and support, has been emphasized throughout the audit engagement. Ongoing cooperative work efforts as undertaken by the Mayor, previously supported by the Council, and commendably often self-initiated by the administrative staff in place during the first half of the engagement, are considerable and extensive, and were often crucially exacerbated by implications relevant to numerous findings and exceptions in bookkeeping and support data procedures, as discovered and documented in investigation processes, and disclosed by the Mayor to the auditors. Further situational circumstances impacting the audit engagement and current management efforts are ongoing formal investigations, as originally reported to the auditors and City Council, and subsequent inappropriate interference and hindrances by Council members considerably

exacerbating the current work efforts of the Mayor and administrative staff, which were implemented before and continued during the audit engagement.

Current management focus is on the proper setup, security, and authorized use, as procedurally defined and controlled, of the general ledger application for the correct recording of historical data and transactions for 2008 and continued forward use as referenced in Finding 07-F15 below.

#### **07-F5      Bank Reconciliations**

##### **Corrective Action Planned:**

Note: These findings, relevant to bank reconciliations and discovered variances and irregularities, are considered to be significant deficiencies and material weaknesses in internal control over financial reporting. These findings, as documented as also discovered by management's internal processes, indicate significant procedural concerns, and possible indications of infringement of internal control policies considered by management to be significantly correlated with current and prior year audit report findings 07-F7 and 06-F5, Untimely Cash Deposits of Water & Sewer Receipts (and 07-M1, 06-M1, Accepting Cash Payments for Utility Payments).

Documented irregular deletions of deposits, along with observations of missing bank reconciliations and support documents, are of particular concern and warrant further inquiry. These exceptions occurred under the sole responsibility of the municipal clerk, despite training and administrative correction for such. No other administrative employee held any responsibility in this area of findings during the disclosed time period. In accordance with LSA-R.S. 33:421-422, the municipal clerk, as an officer of the City, "is to act as the auditor and shall preserve a record of the accounts of each particular fund, and is to file and preserve all records and papers appertaining to the business of the municipality." Documented and discovered exceptions are also considered to be indications of possible noncompliance with statutory duties of office.

As referenced above in Findings 07-F3 and 07-F4, among the issues contributing to and exacerbating year-end complications as reported by the City's former accountant and subsequently discovered and documented by the Mayor, was the inaccessibility of many operational documents, such as bank reconciliations asserted to have already been completed by the former accountant and several bank statements. According to documented complaints, the former accountant cited difficulties impeding the effective communication for resolution, with the municipal clerk and particularly to the Mayor, of issues of inquiry and meriting remediation, adjusting entries, and management corrective or research actions. The auditors were informed of the complications to audit preparation that had been and were continually encountered in the previous year, and especially the second half of 2007, and throughout 2008 as further discovered by management.

Upon the subsequent discovery of many of the referenced documents, with pragmatic regard to observations of possible clandestine retention, in particular bank reconciliations as previously completed, with referenced notes containing questions, issues, instructions for adjustment, and statements addressed specifically to the Mayor, Management considers these to be indications of a probable significant problem relevant to the possibility of impaired reliability and integrity otherwise inherent to a position of municipal office. Good internal controls call for management's timely review of bank reconciliations each month to ensure the maintenance and safeguarding of the City's assets. It is the responsibility of the Mayor to expeditiously research any questionable items found during the review e review of bank reconciliations until a final resolution is reached. These exceptions are considered to be indications of the probable hindrance, with possible intent, of the Mayor's administrative responsibilities, and necessitate administrative inquiry.

City Management duly recognizes the importance of good internal controls mandating that bank reconciliations for all bank accounts be completed each month and any differences be investigated in a timely manner. In accordance with proper internal control procedures for bank reconciliations, the Mayor is continuing the coordination of proper efforts with the current accounting firm in the following steps for timely bank reconciliations:

- Completed bank reconciliations are printed out each month as completed by the accounting firm, or City accountant, to filed as part of the City's permanent accounting records
- Bank balances per the bank reconciliations are checked to agree general ledger amounts
- All variances which are posted between bank reconciliations and the amounts recorded by general ledger history will be examined further
- **Note:** Deletions of deposits are considered to violate good internal control procedures, complicate the policy of timely and traceable cash deposits, and indicate possible questionable bookkeeping/accounting practices, which warrant further administrative and investigative inquiries. Deletions of deposits are improper and not to be practiced.

The Mayor recognizes the critical importance of maintaining good internal control over financial reporting and the responsibility for such will continue to be a primary administrative priority. Accordingly, one of the critical specifications for the centralized general ledger accounting system, and its related ongoing installation, is that authorized usage of the system will be procedurally controlled. As part of established administrative policy for the new system's general ledger transactions, NO user will have the ability to change, edit or delete any transactions. Deletion of transactions will be, and is currently, strictly prohibited. The policy further requires that corrections be made by entering reversing and correcting journal entries, to include adequate reference notation.

Management will continue effective coordination with the current accounting firm in the ongoing efforts to accurately and correctly maintain accounting records and secure accounting systems in accordance with proper fund accounting standards, to conduct timely bank reconciliations and make related journal entries, and to provide timely reliable financial statements on a regular basis. These actions, when combined with the maintenance of effective internal control procedures, are expected to provide relevant and more accurate financial data and information toward promoting public confidence in the municipality and protecting the City's current and future business interests.

**Anticipated Completion Date:**

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

**07-F6            Lack of Separation of Duties in Water & Sewer Department**

**Management Disagreement/Response:** The finding exception as documented in the audit report is not correct. The auditor-stated "Condition Found" is inaccurate relevant to the City's 2007 operations and not applicable to internal control procedures put into effect for 2007. The municipal clerk retained sole responsibility and authority to collect payments for utilities. In accordance with the auditor recommendation for 2006 audit report Finding 06-F4, the City realigned and separated duties as suggested to allow for effective check and balance and better internal control over the accounting function.

Upon initiation of management's internal processes in March 2008, the City's administrative offices were short of staff for normal business operations for several months, necessitated temporary modifications to procedures. As referenced in other findings responses (07-F5, 07-F7), through further discoveries during the course of management's internal process activities, it was discerned that indications of internal control deficiencies and weakness, as disclosed in procedure exceptions and variances, improperly persisted under the sole responsibility of the municipal clerk, despite training and administrative correction for such.

As referenced in Finding 07-F4, many of the exceptions and discoveries were observed as documented through the Mayor's temporary reassignment of duties, appropriately implemented in efforts toward ascertaining the accuracy of accounting records and safeguarding the city's financial information. Additionally, it was through the temporary reassignment of accounting duties in 2008, coinciding with the engagement commencement, that remediation methods relevant to several internal control findings referenced in this audit report were effectively implemented and successfully maintained for a significant time period, as can be researched in administrative office documentation, and are expected to be continued as proper accounting and internal control methods and to be indicated as such in the 2008 audit report.

City management coordinated efforts to proficiently document administrative staff job responsibilities and procedures, with integral controls for separation of duties and to support proper internal control. Efforts included hands-on training for administrative staff in operating procedures. Also, the cash drawer (cash register) located in the front office was programmed for proper usage. The cash register is currently being used to mitigate security-related risks, to issue customer receipts for payments, to provide an automated classification coding system for receipt/payment types, and to generate register receipt tapes toward use in efficient cash audits and effective verification of deposit amounts to receipt totals to facilitate the continued timely deposits of receipts, as referenced in Finding 07-F7.

**Corrective Action Planned:** Note: It is management's judicious and prudent opinion that the recommendation, as stated in the audit report, seems rather short-sighted and impractical, especially in consideration of our present situational circumstances.

City management has taken measures to ensure there is effective separation of duties in all departments where funds are handled. These measures, which are currently being maintained and reviewed for effectiveness and appropriate modification as necessary, were proficiently implemented in early 2008 as a course of action in management's internal processes. Periodic reviews of supplemental documentation for compliance will be conducted by management. Proficiency and accountability continue to be of primary importance to the administrative staff and the Mayor.

**Anticipated Completion Date:** Immediately, and presently ongoing throughout 2008.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

#### **07-F7            Untimely Cash Deposits of Water & Sewer Receipts**

##### **Corrective Action Planned:**

Note: As referenced above in Finding 07-05, the persistent incidents of improper untimely deposits of cash receipts are considered to possibly be appreciably correlated with noted exceptions and variances, as documented in the finding for Bank Reconciliations, and warrant further inquiry. These findings, for

untimely cash deposits of receipts, are considered to be significant deficiencies and material weaknesses in internal control over financial reporting. Such deficiencies and weaknesses were documented as audit report findings for 2006 and 2007. Management noted that such exceptions continued into 2008, before implementing internal process actions. These exceptions have improperly continued under the sole responsibility of the municipal clerk, despite training and administrative correction for such.

Furthermore, Management duly notes the importance of good cash management procedures requiring that cash receipts be deposited in a timely manner, with deposits occurring within three banking days being considered timely, and the reconciliation of receipts to posting in the general ledger. Timely proper deposits of full receipts in their entirety, all checks and cash received, are required by procedure. Timely deposits of all cash and check receipts, made on a regular continual basis, will lessen the risk of potential losses of cash or checks that would otherwise be stored in the cash register and/or front office for excessive periods of time. Additionally, maintenance of standard timely deposit routines will provide for easier tracing of deposits from the point of receipt to posting in the general ledger.

As of March 2008, deposits are currently being made in a timely manner. Timely deposits will continue to be a primary administrative priority. City management has implemented a procedure for the timely deposits of water and sewer receipts, as well as the timely deposit of all cash receipts. Included in the procedure is a check and balance system, which provide for the reconciliation of cash receipts and the Mayor's review of timely deposit processes, toward support of internal control procedures. Management has also required that full deposits of receipts, all checks and cash in their entirety, are made at all times. The assigned employee is required to prepare deposits from cash receipts, along with completed verification support packets as described below, each workday or no later than one day after.

The employee(s) assigned to be responsible for executing the timely deposits of cash receipts is designated by the Mayor. The responsible employee(s) will "zero-out/cash-out" the cash register (cash drawer) preferably each workday afternoon to prepare the day(s)' receipts for timely deposit. The cash register generated receipt tape, containing the total amounts of receipts, will be used to verify and tie deposit amounts. Also, the printed report of customer account bill payments from the water and sewer department will be obtained to verify and tie total payments posted and the proper deposit amount. Copies of the cash register receipt tape, the prepared deposit slips, any tally paperwork used, and the customer bill payments report will be stapled together, with one set to be filed according to procedures in the City's permanent accounting records and one set to be submitted to the Mayor for review and record filing.

Anticipated Completion Date: Immediately, and presently ongoing throughout 2008.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

Management Response/Concerns:

Deposits are currently being made in a timely fashion at this point and will continue to be a top internal control priority. Management emphasis for timely deposits of receipts was initiated in March 2008. Current policy is to make daily deposits of all cash receipts as time and the workday task load permits, but it is deemed to be a priority task for each day. By aiming for daily deposits, management is assured that deposits will be made at least within three days of receipt, and therefore considered to be timely.

The mayor makes the effort to monitor the timeliness of the deposits of receipts and provides reminders if necessary, or assistance in rearranging workload to in order to allow the responsible employee to

make the cash deposit. So far, deposits have been regular at an average of three to four times a week. Analysis of total deposits year-to-date have been noted to be significantly increased over the prior year-to-date total deposits. It is expected that untimely deposits of receipts will no longer continue to be a finding exception on the 2008 and future audit reports, as timely deposits are emphasized to be a normal daily operational task.

Also, this corrective action, the proper timely deposits of full receipts, specifically all check and cash receipts, is expected to mitigate/lessen the risks for the loss of cash receipts that would otherwise be stored in the cash register/front office for an excessive period of time. Persistent effective methods for the timely and full deposits of all receipts will also enable easier tracing of deposits to the point of receipt in the general ledger, as the receipt timeline will be more closely followed by deposits, thus supporting internal control over financial reporting. Maintenance of timely deposit practices is expected to facilitate expedient bank reconciliation processes and to promote public and internal confidence in business operations.

#### **07-F8      Delinquent Customer Accounts in Water & Sewer Department**

**Corrective Action Planned:** City Management has emphasized and will continue the strict enforcement of the established collection policy for delinquent customer accounts in the current effort to collect all funds owed to the City for water and sewer utility services. In accordance with established policy, for customer accounts twenty-five (25) days in arrears, services are disconnected until the account is brought current.

**Anticipated Completion Date:** Immediately, and presently ongoing throughout 2008.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

**Management Response/Concerns:** Efforts are being focused to best prevent exceptions and to properly remedy or severely limit any necessary incident-specific exemptions. Any trend patterns of exceptions, arising during a reasonable period of strict enforcement of delinquent account policies, will be analyzed by management toward potential modification of efforts at remediation, including but not limited to, consideration and proposal of legal actions or the contractual outsourcing of collections functions with a specialty provider.

#### **07-F9      Internal Control over Vendor Expenses**

**Corrective Action Planned:**

The importance of effective internal control over vendor expenses is duly recognized by Management. Note: These findings, relevant to internal control over vendor expenses, are considered to be significant deficiencies and material weaknesses in internal control over financial reporting. Such deficiencies and weaknesses were documented as audit report findings for 2005 and 2007. Management noted that such exceptions continued into 2008, before implementing internal processes actions. These exceptions have continued under the sole responsibility of the municipal clerk, despite training and administrative correction for such.

Additionally, as highlighted by findings per se from management's internal investigation of practices, this area of internal control has warranted focus especially regarding the importance of timely payments and monitoring for such. Management will continue the emphasis of proper procedures for vendor expenses, including ensuring that vendor payments include original documentation, proper approval, and are paid on time. All records supporting disbursements will be properly maintained.

**Anticipated Completion Date:** Immediately, and presently ongoing throughout 2008.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

**Management Response/Concerns:** Through the enforcement of procedure, and training as necessary, for the continuing correct use of the general ledger application, management will emphasize the use of automated processes in the centralized accounting system to aid in monitoring the timeliness of vendor expense payments. The automation of processes is expected to reduce errors attributed to manual omission or impediment.

**Note:** It should be noted that Management has made every effort to comply with audit requirements as communicated by the audit firm. However, the documented testing exceptions were not brought to the attention of Management in a timely manner to provide for research or remediation as necessary. Especially given the complications encountered before and during the engagement, and the cooperative efforts shown by management, it is reasonably expected that any hindrances or problems with the accessibility of information on the part of any employee or municipal officer should have been reported to the Mayor much earlier during the testing process. It is also reasonably expected that audit findings were to be presented in sufficient detail and in a timely manner to the Mayor to allow for the preparation of an effective corrective action plan, and to prevent the late submission of audit reports. (See also Findings 07-F3 and 07-F4.) The electronic submission of findings and exceptions to be first reviewed in the exit-conference, scheduled, by auditor-request, at the convenience of two City Council members, within the two weeks before the second requested and approved extension deadline of October 15, 2008, is inconsiderate and objectionable.

#### **07-F10 Internal Control Over Travel Expenses – HRSA Grant**

**Corrective Action Planned:** Note: These findings are considered to be significant deficiencies and material weaknesses in internal control over financial reporting. The City will revisit its travel policy to ensure it includes proper language to address the issues in this finding, and especially to ensure compliance with the specifics of the federal contract for the HRSA Grant. Travel reimbursements will require proper approval before payment and will require the submission of all required receipts and detailed documentation for expenses.

**Anticipated Completion Date:** Immediately, and presently ongoing throughout 2008.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.



Management Response/Concerns:

At this point, the municipal clerk is currently receiving payment from HRSA grant funds to execute the duties of business manager for the HRSA grant. Especially as internal control for HRSA grant expenses falls under the administrative responsibilities of the mayor, concerns regarding conflicts of interest and management have been presented to the auditors for advisement. There are also current questions of inquiry as to the appropriate preparation and maintenance of salary- and expense- related documents. The federal contract for the grant will be reviewed for specifics as to the responsibilities for this position, including the proper maintenance of documentation, correct accounting functions, and effective internal control of grant-related expenses. Management will continue ongoing processes to monitor for proper documentation, and effective coordination will be expected from the HRSA grant administrator/executive director to ensure the City maintains proper accounting standards compliance with federal and HRSA grant specifications.

**07-F11 Internal Control Over Petty Cash – HRSA Grant**

Corrective Action Planned: Note: These findings are considered to be significant deficiencies and material weaknesses in internal control over financial reporting. The City will no longer allow for the use or maintenance of Petty Cash accounts for the HRSA Grant, or in any city accounting functions. Based on problems with previous attempts to correct errors found in the accounting for HRSA grant expenses as well as findings relevant to documentation and expenses in management's internal processes, petty cash accounting for the HRSA grant was found to be improper. Effective immediately, all expenses for the City, including HRSA grant expenses, will be recorded in the general ledger in the appropriate expense account to correctly represent the nature of the expense incurred. Also, all expenses incurred will require the submission of required receipts and proper documentation for approval.

Anticipated Completion Date: Immediately.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

Management Response/Concerns:

Duties in question were executed solely by the municipal clerk as referenced above in Finding 07-F10. The city employee is receiving payment from HRSA grant funds to execute the duties of business manager for the HRSA Grant. Especially as internal control for HRSA grant expenses falls under the administrative responsibilities of the mayor, concerns regarding conflicts of interest and management have been presented to the auditors for advisement. There are also current questions of inquiry as to the appropriate preparation and maintenance of salary- and expense- related documents. The federal contract for the grant will be reviewed for specifics as to the responsibilities for this position, including the proper maintenance of documentation, correct accounting functions, and effective internal control of grant-related expenses. Management will continue ongoing processes to monitor for proper documentation, and effective coordination will be expected from the HRSA grant administrator/executive director to ensure the City maintains proper accounting standards and compliance with federal and HRSA Grant specifications.

**07-F12 Payroll Expenses**

Corrective Action Planned:

Note: These findings, relevant to payroll expenses, are considered to be significant deficiencies and material weaknesses in internal control over financial reporting. Such deficiencies and weaknesses were documented as audit report findings for 2005 and 2007. Management noted that such exceptions continued into early 2008, before implementing internal process actions. These exceptions have continued under the sole responsibility of the municipal clerk, despite training and administrative correction for such.

In accordance with LSA-R.S. 33:421-422, the municipal clerk, as an officer of the City, "is to act as the auditor and shall preserve a record of the accounts of each particular fund, and is to file and preserve all records and papers appertaining to the business of the municipality." Documented and discovered exceptions are also considered to be indications of possible noncompliance with statutory duties.

Also, and as disclosed by management to auditors, historical 2007 personnel files were not maintained in a secured and updated manner by the responsible employee. These exceptions were noted before and during the audit engagement period. Personnel files for 2008 were created and organized by administrative staff, with the coordination of the Mayor; and missing data in the 2007 files had to be completed using information from the 2008 prepared files. Numerous discoveries indicating possible exceptions and inconsistencies were documented during management's internal process actions pertinent to payroll processing procedures, with some requiring remediation to prevent or mitigate potential detrimental implications. Documented issues warrant further management review and inquiry as indications of possible noncompliance with statutory duties.

City management will ensure that the payroll clerk, or the employee assigned responsibility for payroll processes, maintains proper payroll documentation, to include proof of existence, approved salary/hourly rated as supported with appropriate approval and recorded in the correct general ledger account in the correct amount. Management will continue, with increased efforts as applicable, effective review of payroll documentation, to include reviews of calculation of hourly pay for correctness, and reviews of time sheets and time cards for accuracy and signatures of supervisors and employees.

Management and the administrative staff will continue appropriate procedural modifications as implemented earlier in 2008, including the effective automation of payroll processes, using payroll application parameters and functions of the general ledger accounting system. Management will continue effective coordination with the current accounting firm in the ongoing efforts to setup and maintain correct automated payroll processes, with appropriate employee requested corrections. Additionally, periodic reviews of payroll and supplemental documentation for compliance will be conducted by management.

Anticipated Completion Date: Immediately, and presently ongoing throughout 2008.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

Management Response/Concerns: Through the ongoing implementation of procedure, and training as necessary, for the continuous correct use of the general ledger application, management will emphasize the use of automated processes in the centralized accounting system to aid in the correct and efficient execution of regular and normal payroll processes every two weeks. Effective automation of duplicative payroll process steps, such as the setup of employee base initial data, will reduce errors attributed to manual operation or convoluted. Effective automation of payroll processes as appropriate, will also serve to facilitate the maintenance of adequate internal control over payroll by allowing for more time, otherwise expended in

inefficient manual processes, for the monitoring and review of compliance specifications as referenced in the reported finding.

Note: Upon Management inquiry to review the supporting information to review the testing exceptions, the auditors reported that the required information is incomplete as the municipal clerk did not provide the necessary information and documents to comply with the auditor requirements. It should be noted that Management has made every effort to comply with audit requirements as communicated by the audit firm. However, the documented testing exceptions were not brought to the attention of Management in a timely manner to provide for research or remediation as necessary. Especially given the complications encountered before and during the engagement, and the cooperative efforts shown by management, it is reasonably expected that any hindrances or problems with the accessibility of information on the part of any employee or municipal officer should have been reported to the Mayor much earlier during the testing process. It is also reasonably expected that audit findings were to be presented in sufficient detail and in a timely manner to the Mayor to allow for the preparation of an effective corrective action plan, and to prevent the late submission of audit reports. (See also Findings 07-F3 and 07-F4.) The electronic submission of findings and exceptions to be first reviewed in the exit-conference, scheduled, by auditor-request, at the convenience of two City Council members, within the two weeks before the second requested and approved extension deadline of October 15, 2008, is inconsiderate and objectionable.

**07-F13**      **Asset Management Law**

Corrective Action Planned: The City will develop and implement policy/procedure for properly maintaining and listing capital assets in accordance with LSA-R.S. 24:515. The City will allocate employee duties to maintain a comprehensive listing of capital assets, including additions and deletions, and to coordinate such with department heads. Such allocation will include the appointment of an employee position of property manager if deemed necessary and appropriate by Management and City Council.

Anticipated Completion Date: Immediately.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

**07-F14**      **Transfers Made to Other Funds from Dedicated Tax Funds**

Corrective Action Planned: City management will ensure limitations placed on all funds are observed and will not use funds which are dedicated for other purposes.

Note: The condition documented in the referenced finding was a one-time instance/exception, which action was taken under the advisement of the City accountant engaged at the time, to remedy a situation in which estimated funding sources were not successfully acquired as aptly projected prior to commencement of the referenced capital project, which was approved by City Council. Respective details were communicated to the auditors by the Mayor.

Exception: The Mayor further notes that this item, as duly noted as a finding that warrants corrective action by both the City Council and administration, is being referenced as a point of issue in the unmerited and questionable lawsuits initiated by Councilmember Edward Jones against the

Mayor in unlawful efforts to dictate executive functions as statutorily prescribed to the Mayor in accordance with LSA-R.S. 33:404, and especially deemed counterproductive to audit engagement procedures and processes enacted in compliance with ongoing and pending formal investigations, as reported and disclosed, following the proper reporting of and in response to the documented systems security breach, and also counterproductive to current and pending City business interests, and detrimental to the best interests of the City's employees and citizens, most notably as the official outcomes of any ongoing and pending investigations have yet to be released.

Anticipated Completion Date: Immediately.

#### **07-F15      Information System Controls**

Corrective Action Planned: The City will maintain continued proper accounting records, along with the appropriate maintenance and filing of supplemental documentation, in correct accordance with accepted and proper fund accounting standards in the City's procedurally controlled and centralized general ledger accounting system to be maintained on a third-party, peer-reviewed domain-network secured IT server infrastructure, as referenced in above Findings. A written policy providing procedures for segregation of duties, in accordance with management-documented and –maintained job duties descriptions, authorized user access and controls, approved training, and methods for the proper maintenance of accounting records has been developed and is currently being implemented. Security protocol methods will be provided through the contracted use of the application's proprietary third-party online services, including additional data backup and historical accountability functions, will be maintained upon installation of system accounting records on the secured network. Security protocol methods will also be documented and maintained in accordance with industry-accepted data security white papers.

Adjunct security measures and system isolation, as documented in the Mayor's procedural methods for setup, are currently maintained for the 2008 application system, and will remain in place until after 2008 accounting data has been verified and stabilized, which process is currently ongoing. Additionally, any new user to the 2008 accounting application system will be prohibited access until they have successfully completed a management-approved training process, draft proposal in review. At future point, after all historical data has been transferred and reconciliations completed with correlated financial statements, and work is brought current, the general ledger application system will maintained entirely on the new IT-server domain-network secured infrastructure as referenced below, current work-in-progress.

Anticipated Completion Date: Immediately, and presently ongoing throughout 2008.

In accordance with LSA-R.S. 33:404, the Mayor reserves the executive right and responsibility to delegate or reassign these duties, and any bookkeeping/accounting duties, to office employees or municipal officers, current or future instated, as necessary to safeguard and ascertain the accuracy and integrity of the City's business and accounting records and financial statements and maintain compliance.

Management Response/Concerns: The auditor-reported effect that "information systems were not consistently backed up and stored offsite" and "access was not consistently restricted" was also duly noted by management's internal investigation of internal controls and processes. These effects were also indicated to be relevant to the discovery of the above referenced IT-related indications of the unauthorized contravention of conventional computer systems and file security protocol and possible indications of unauthorized modification to City intellectual property.

Management's decision to improve information systems internal controls, setup and security measures, and policy procedures for authorized use on a centralized system and peer-reviewed domain-network secured server infrastructure, was initiated by the Mayor in response to third-party peer expert advice sought of information technology (IT) consultants and authoritative agencies as measures to mitigate risks of unauthorized access and unauthorized manipulation or misstatement of accounting records, as a part of a relevant course of action following the reporting the security breach for investigation. Establishing and implementing improved procedures for information systems use and applications use, for all centralized server-maintained business applications, will promote the increased accountability of all authorized users.

**Management Letter:      07-M1              Accepting Cash Payments for Utility Payments**

Management's Response:      At present time, City management considers the change in current policy to accept checks or money orders for utility payments to be impractical. Management's previous experience with "insufficient funds" related problems with checks and money orders indicate a potential increased risk exposure for reduced receipts and lost revenue, including a significant increase in staff time and efforts expended in procedural efforts to collect funds owed the City.

Management reasonably expects that the current risk exposure of accepting cash payments will be mitigated through the effective enforcement and maintenance of improvements to internal control procedures as documented in the planned corrective actions for the audit report findings. Management plans to conduct periodic reviews for compliance, including analysis procedures toward ascertaining efficacy. Management is open to considering the recommendation again next year, specifically with regards to outcomes.