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TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATION

AND MAINTENANCE FUND

JUNE 30, 2012

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATION AND MAINTENANCE FUND

JUNE 30, 2012

TABLE OF CONTENTS

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November 15, 2012

Honorable Mayors of the
Towns of Newellton and St Joseph, Louisiana
Jointly Owned Gas Line Operation and Maintenance Fund
St Joseph, Louisiana

Independent Auditor's Report

We have audited the accompanying financial statements of the Towns of Newellton and St Joseph, Louisiana Jointly Owned Gas Line Operation and Maintenance Fund (the Joint Gas Line) as of and for the year ended June 30, 2012 as listed in the table of contents These financial statements are the responsibility of the Joint Gas Line's management Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*, issued by the Louisiana Legislative Auditor and the Louisiana Society of Certified Public Accountants Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audit provides a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Joint Gas Line as of June 30, 2012, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2012, on our consideration of the Joint Gas Line's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws regulations, contracts 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-4 be presented to supplement the basic financial statements Such information, although not a part of the basic financial statements, is required by Government Auditing Standards who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context We have applied certain limited

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procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Heard, McElroy & Vestal, LLC

REQUIRED SUPPLEMENTARY INFORMATION

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA
JOINTLY OWNED GAS LINE OPERATION AND MAINTENANCE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

As management of the Joint Gas Line, we offer readers of the Joint Gas Line financial statements this narrative overview and analysis of the financial activities of the Joint Gas Line for the fiscal year ended June 30, 2012. It is designed to assist the reader in focusing on significant financial issues, identify changes in the Joint Gas Line's financial position, and identify material deviations and individual fund issues or concerns

Financial Highlights

- The assets of the Joint Gas Line exceeded its liabilities at the close of the most recent fiscal year by $141,459 (net assets). Of this amount, $141,459 (unrestricted net assets) represents the portion of net assets, which is not invested in capital assets or otherwise restricted.
- The government's total net assets decreased by $101,327 during the year ended June 30, 2012 This was caused by a distribution to each participating town in the amount of $150,000.

Overview of the Financial Statements

Under the provision of **GASB Statement 14**, "The Financial Reporting Entity", the Joint Gas Line is considered a special-purpose, stand-alone unit of the local government

This discussion and analysis is intended to serve as an introduction to the Joint Gas Line's basic financial statements The Joint Gas Line's basic financial statements are comprised of the following components: 1) Statement of Net Assets, 2) Statement of Activities, 3) Statement of Cash Flows, and 4) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The Statement of Net Assets presents information on all of the Joint Gas Line's assets and liabilities, with the difference between the two reported as net assets Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Joint Gas Line is improving or deteriorating

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Joint Gas Line's net assets changed during the most recent fiscal year All changes in net assets are reported as soon as the underlying event giving rise to the change occurs regardless of the timing of related cash flows.

Fund Financial Statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives The Joint Gas Line, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements All of the funds of the Joint Gas Line can be reported as in one category. a proprietary fund.

Proprietary Funds. The Joint Gas Line maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail

The proprietary fund financial statements can be found on pages 5, 6. and 7 of this report

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 8 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets serve over time as a useful indicator of a government's financial position. In the case of the Joint Gas Line, assets exceeded liabilities by approximately $141,000 at the close of the most recent fiscal year

For the years ended June 30, 2012 and 2011, net assets changed as follows:

	2012	2011
Beginning net assets	242,786	182,340
Increase (decrease) in net assets	48,673	60,446
Distributions (rebates to partners)	(150,000)	-
Ending net assets	141,459	242,786

The following schedule presents a summary of revenues and expenses for the years ended June 30, 2012 and 2011.

	2011	2011
Revenues:		
Charges for services	235,428	339,200
Interest income	279	392
Total	235,707	339,592
Expenses:		
Cost of sales	145,057	232,064
Other expenses	41,977	47,082
Total	187,034	279,146
Net income	48,673	60,446

Business-Type Activities. Business-type activities increased the Joint Gas Line's net assets by $48,673 in 2012 Revenues and cost of sales were down significantly for the year Other expenses also decreased $5,105 and $150,000 distributions to the owners were made this year. The key element of this change was a reduction in demand for gas by consumers

Financial Analysis of the Government's Funds

As noted earlier, the Joint Gas Line uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Joint Gas Line's government funds is to provide information on near-term inflows, outflows, and balances of spendable resources Such information is useful in assessing the Joint Gas Line's financing requirements

As of the end of the current fiscal year, the Joint Gas Line's fund reported combined ending fund balances of $141,459, a decrease of $101,327 in comparison with the prior year Approximately one hundred percent of this total amount ($141,459) constitutes unreserved fund balance, which is available for spending at the Joint Gas Line's discretion

Capital Asset and Debt Administration. The government has no capital assets or outstanding debt

Economic Factors and Next Year's Rates

Factors considered in planning for the Joint Gas Line's 2013 fiscal year included the impact that will be made by fluctuating gas prices. This could impact the Joint Gas Line's revenue.

Requests for Information

This financial report is designed to provide a general overview of the Joint Gas Line's finances for all of those with an interest in the government's finances Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mayor Edward Brown, P. O. Box 217, St Joseph, Louisiana, 71366.

BASIC FINANCIAL STATEMENTS

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS

Cash	57,214
Accounts receivable, (net of allowance for doubtful accounts of $17,523)	94,423
Total assets	151,637

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts payable	10,015
Customer deposits	163
Total liabilities	10,178
Net assets:	
Unrestricted net assets	141,459
Total liabilities and fund equity	151,637

The accompanying notes are an integral part of these financial statements

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

Revenues:	
Charges for services	235,428
Cost of sales	145,057
Gross profit from operations	90,371
Expenses:	
Salaries and wages	24,000
Payroll taxes	2,181
Legal and audit	7,280
Repair and maintenance	6,522
Other	1,994
Total expenses	41,977
Operating income	48,394
Nonoperating income and expenses:	
Interest income	279
Net income	48,673
Net assets, beginning of year	242,786
Less: distributions to participating towns	(150,000)
Net assets, end of year	141,459

The accompanying notes are an integral part of these financial statements

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:	
Receipts from customers	245,742
Payments for employee services	(26,181)
Payments to suppliers	(145,737)
Payments for other expenses	(15,796)
Net cash provided by operating activities	58,028
Cash flows from investing activities:	
Distributions to participating towns	(150,000)
Interest income	279
Net cash (used) by investing activities	(149,721)
Net (decrease) in cash	(91,693)
Cash at beginning of year	148,907
Cash at end of year	57,214

Reconciliation of operating income to net cash provided by operating activities:	
Operating income	48,394
Adjustments to reconcile operating income to net cash provided by operating activities:	
Accounts receivable decrease	10,314
Accounts payable and accrued liabilities decrease	(680)
Total adjustments	9,634
Net cash provided by operating activities	58,028

The accompanying notes are an integral part of these financial statements.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

INTRODUCTION

The Town of Newellton and the Town of St. Joseph, Louisiana Jointly Owned Gas Line Operations and Maintenance Fund (the Joint Gas Line) is a joint venture of the two Northeast Louisiana towns. Its purpose is to provide natural gas to the two towns for resale to their citizens and approximately fifteen other customers in the service area. The gas is transmitted from local gas fields by way of two pipelines to the towns. The Board of Aldermen and the Mayors of the two Towns govern the Joint Gas Line.

1. Summary of Significant Accounting Policies

(a) Basis of Presentation - Fund Accounting

The accompanying financial statements of the Joint Gas Line 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

(b) Reporting Entity

As the municipal governing authority, for reporting purposes, the Joint Gas Line is considered a separate reporting entity The financial reporting entity consists of (a) the primary government, the Joint Line, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which 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

Under the provisions of GASB Statement No. 14, "*The Financial Reporting Entity*", the Joint Gas Line is considered a special-purpose, stand-alone unit of local government. Both Towns share equally in the financial accountability and management, thus it cannot be a component unit of either

(c) Fund Accounting

The Joint Gas Line uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions

A fund is a separate accounting entity with a self-balancing set of accounts. The Joint Gas Line uses the proprietary fund for all of its operations. A description of the proprietary fund is as follows

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration

1. **Summary of Significant Accounting Policies** (Continued)

The Joint Gas Line functions as an Enterprise-type Proprietary fund to account for operations (a) where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determinations of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(d) **Basis of Accounting**

On July 1, 2003, the Joint Gas Line adopted the provisions of the **Governmental Accounting Standards Board Statement No. 34**, "*Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*" Statement No. 34 establishes standards for external reporting for all state and local governmental entities, which includes a Statement of Net Assets, a Statement of Activities, and a Statement of Cash Flows It also requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted, and unrestricted These classifications are defined as follows

Invested in capital assets, net of related debt – This component of net assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets – This component of net assets consists of those net assets on which constraints have been placed externally by creditors (such as through debt covenant), grantors, contributors, laws or regulations of other governments, or laws through constitutional provisions or enabling legislation

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Joint Gas Line has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued since November 30, 1989 unless they are adopted by the GASB.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the statement of net assets The proprietary fund uses the accrual basis of accounting Revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

The Joint Gas Line distinguishes operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services in connections with the Joint Gas Line's principal ongoing operations Their principal operating revenues are charges to customers for service Customers are billed monthly for the service received during the month. Operating expenses include the cost of services and administrative expenses. All revenues not meeting this definition are reported as non-operating revenues and expenses.

The charges for these services are as follows.

1 The Joint Gas Line is charged each month for the gas it uses This varies from month to month, but averaged $4 25 per MCF delivered in the fiscal year ended June 30, 2012.

1. **Summary of Significant Accounting Policies** (Continued)

2 All commercial and residential customers are billed monthly at a charge of $12 00 per MCF delivered.

3. The Town of Waterproof, Louisiana and the Locust Ridge Gas Company are charged $.20 and $.07, respectively, for each MCF that they transport through the pipeline owned jointly by the Towns of Newellton and St. Joseph, Louisiana.

(e) **Budgets**
The Joint Gas Line is not required to and does not adopt a budget.

(f) **Cash and Cash Equivalents**
Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits Cash equivalents include amounts in those time deposits and investments with maturities of 90 days or less. Under state law, the Joint Gas Line may deposit funds in demand deposits, money market accounts, or time deposits with state banks organized under Louisiana Law and national banks with principal offices in Louisiana

(g) **Use of Estimates**
The preparation of financial statements in accordance with generally accepted accounting principles 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 statements and the reported amount of revenue and expense during the reported period. Actual results could differ from those estimates

2. **Cash and Investments**
State statutes require the Joint Gas Line to invest surplus cash balances in obligations of the United States Treasury, time certificates of deposit, and any other federally insured investments At June 30, 2012, the Joint Gas Line had cash and investments (book balances) as follows:

Demand deposits	57,214
Time deposits	-
	57,214

Under state law, federal deposit insurance or the pledge of securities owned by the fiscal agent bank must secure these deposits (or resulting bank balances) The market value of each of the pledged securities plus federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent in a holding custodial bank that is mutually acceptable to both parties.

At June 30, 2012,1, the Joint Gas Line had $204,720 in deposits (collected bank balances). These balances are secured from risk by $250,000 of Federal deposit insurance and $-0- of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 2) Even though the pledged securities (if present) are considered uncollateralized (Category 2) under the provisions of (GASB) Statement 3, Louisiana Revised Statutes 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 Joint Gas Line that the fiscal agent failed to pay deposited funds upon demand

3. **Accounts Receivable**

Trade accounts receivable at June 30, 2012 are summarized as follows

Towns of Newellton and St Joseph, Louisiana	92,032
Other customers	19,914
	111,946
Less allowance for doubtful accounts	(17,523)
Net accounts receivable	94,423

The Joint Gas Line has elected to record its bad debts using the allowance for doubtful accounts method. The amount that is charged to the allowance account is determined by the use of historical collection data and specific account analysis.

4. **Related Party Transactions**

The towns of Newellton and St Joseph, Louisiana jointly own the gas line that supplies natural gas to each of the towns. Each town purchases gas from the Joint Gas Line for resale to their citizens For the year ended June 30, 2012, the purchase of gas by each town was as follows

Town of Newellton, Louisiana	83,400
Town of St Joseph, Louisiana	105,994
	189,394

As of June 30, 2012, the amount due from each town for gas purchases was as follows:

Town of Newellton, Louisiana	28,075
Town of St. Joseph, Louisiana	63,957
	92,032

5. **Commitments, Contingencies, and Concentrations**

The Joint Gas Line purchases 100% of the natural gas it sells from Locust Ridge Gas Company Locust Ridge Gas Line, which is owned by a private investor, has continued to supply natural gas to the Joint Gas Line without a signed contract. At June 30, 2012, the Joint Gas Line is still in negotiations with the owner for the continuation of the supply of natural gas, but no contract has been signed by either party.

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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November 15, 2012

Honorable Mayors of the
Towns of Newellton and St Joseph, Louisiana
Jointly Owned Gas Line Operation and Maintenance Fund
St Joseph, Louisiana

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*

We have audited the financial statements of the Towns of Newellton and St Joseph, Louisiana Jointly Owned Gas Line Operation and Maintenance Fund (the Joint Gas Line) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15 2012 We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*, issued by the Louisiana Society of Certified Public Accountants and the Louisiana Legislative Auditor

Internal Control Over Financial Reporting
In planning and performing our audit, we considered the Joint Gas Line's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Joint Gas Line's internal control over financial reporting Accordingly, we do not express an opinion on the effectiveness of the Joint Gas Line'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies

A deficiency in internal control 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 and correct misstatements on a timely basis A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-01 and 2012-02 to be material weaknesses

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-03 to be a significant deficiency

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Joint Gas Line's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Joint Gas Line's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Joint Gas Line's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the Joint Gas Line and the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24 513, this report is distributed by the Legislative Auditor as a public document.

Heard, McElroy & Vestal, LLC

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the Towns of Newellton and St. Joseph, Louisiana Jointly Owned Gas Line Operation and Maintenance Fund (the Joint Gas Line).

2. Three deficiencies in internal control relating to the audit of the basic financial statements are reported Two are material weaknesses; one is a significant deficiency.

3. No instances of noncompliance were disclosed during the audit.

4. The Joint Gas Line was not subject to a Federal Single Audit for the year ended June 30, 2012.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2012-01 – Segregation of Duties

Finding:

During our audit, we noted that the size of the Joint Gas Line and the limited number of employees does not permit an adequate segregation of employee duties for effective internal control. Based upon the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties This was a finding in the prior year.

Recommendation:

To the extent that it is practical to do so, management should segregate employee duties and perform supervisory reviews.

Response:

We continually monitor internal controls over the performance of employee duties and, as recommended, will provide for adequate separation of employee duties to the extent practical to do so

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2012-02 – Failure to Maintain Fiscal Responsibility

Finding:

We noted during our audit that the Joint Gas Line has not executed a contract with Locust Ridge Gas Company, its sole natural gas provider. This situation subjects the Towns of Newellton and St. Joseph and their respective citizens to unnecessary price vulnerability and potential service interruptions. This was a finding in the prior year.

Recommendation:

We recommend that the Joint Gas Line negotiate, at a minimum, an annual contract with Locust Ridge Gas Company.

Response:

We have discussed with the St. Joseph and Newellton Boards of Aldermen of the potential risks of operating without a natural gas contract

2012-03 – Undeposited Funds

Finding:

Our tests indicated instances where cash receipts were not deposited within a week of physical receipt, as required by the Joint Gas Line's revised policy Of the twelve (12) months tested, two (2) months were noted where deposits were held over seven days before being deposited in the bank. Holding cash receipts for an excessive period of time unduly exposes the entity to risk of loss from burglary, misappropriation, or misplacement, and prevents the funds from being available for use. This was a finding in the prior year.

Recommendation:

This recommendation has been improved upon from prior year findings, while we continue to urge management to make deposits on a weekly basis

Response:

The accounting clerk was out for extended periods of time during the year, which may have caused the holding of undeposited checks past the time specified by policy. We will monitor undeposited funds in order to make timely bank deposits.

TOWNS OF NEWELLTON AND ST. JOSEPH, LOUISIANA

JOINTLY OWNED GAS LINE OPERATIONS AND MAINTENANCE FUND

SUMMARY STATUS OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2012

2011-01 – Segregation of Duties

Finding:

During our audit, we noted that the size of the Joint Gs Line and the limited number of employees does not permit an adequate segregation of employee duties for effective internal control. Based upon the cost-benefit of additional personnel, it may not be feasible to achieve complete segregation of duties.

Recommendation:

To the extent that it is practical to do so, management should segregate employee duties and perform supervisory reviews

Status:

This finding is repeated as finding 2012-01

2011-02 – Failure to Maintain Fiscal Responsibility

Finding:

We noted during our audit that the Joint Gas Line has not executed a contract with Locust Ridge Gas Company, its sole natural gas provider. This situation subjects the Towns of Newellton and St. Joseph and their respective citizens to unnecessary price vulnerability and potential service interruptions.

Recommendation:

We recommend that the Joint Gas Line negotiate, at a minimum, an annual contract with Locust Ridge Gas Company.

Status:

This finding is repeated as finding 2012-02.

2011-03 – Undeposited Funds

Finding:

During our audit, we noted that cash receipts are not being deposited in a timely manner At the present time, the receipts are accumulated in a safe and deposits are made once or twice a month. As a result, not only is there a risk of loss from burglary, misplacement, or misappropriation, but the cash is not available for expenditures or investment.

Recommendation:

We recommend that deposits be made on a weekly basis both to improve cash flow and to reduce the risk of loss.

Status:

This finding is repeated as finding 2012-03.

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July 9, 2013

Honorable Mayors of the Towns of
Newellton and St. Joseph, Louisiana
Jointly Owned Gas Line Operation and Maintenance Fund
St. Joseph, Louisiana

Independent Accountant's Report
On Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the Mayors of the Towns of Newellton and St. Joseph, Louisiana "Jointly Owned Gas Line Operation and Maintenance Fund" and the Office of the Louisiana Legislative Auditor, solely to assist in performing the agreed-upon procedures outlined in the attached correspondence from the Office of the Louisiana Legislative Auditor for the period June 30, 2012. The above listed parties are responsible for the performance of the agreed-upon procedures performed, in accordance with the criteria specified in the above referenced correspondence and in accordance with generally accepted auditing standards. This agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures enumerated in this report include, but are not limited to:

- The agreed-upon procedures specified and outlined in the attached exhibit as provided by the Office of the Louisiana Legislative Auditor

We were not engage to and did not conduct an audit/examination, the objective of which would be the expression of an opinion on the accompanying procedures related to the specified and outlined agreed-upon procedures. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to management.

This report is intended solely for the information and use of the Mayors of the Towns of Newellton and St. Joseph, Louisiana "Jointly Owned Gas Line Operation and Maintenance Fund" and the Office of the Louisiana Legislative Auditor, and is not intended to be and should not be used by anyone other than those specified parties.

Heard, McElroy & Vestal, LLC

Shreveport, Louisiana

1. Determine if management (chief executive and board members) was presented with timely and accurate monthly financial statements, including budget-to-actual comparisons on funds (General Fund, Special Revenue Fund, Utility Fund, etc.) of the entity, during the year under examination.

   The financial statements are prepared by the Mayor of St. Joseph in the QuickBooks file of the joint pipeline on a monthly basis, and these financial statements are presented to the Mayors of St. Joseph and Newellton, Louisiana and the clerk who assists the Mayor of St. Joseph in the preparation and data entry functions for the joint pipeline entity. Although, the entity does not prepare a formal budget, therefore, reconciliation of budget-to-actual is not applicable.

2. If management was deficit spending during the period under examination, determine if there is a formal/written plan to eliminate the deficit spending and whether management is monitoring the plan.

   Management of the joint pipeline is not operating at a (deficit) for the period under examination in fact the income was distributed from the joint pipeline entity back to the respective towns who own the entity. The joint pipeline does follow the procedures and written policies of the Town of St. Joseph in the operation of entity under examination.

3. Determine if there are written policies and procedures for the following financial/business functions of the entity:

   - Budgeting, including preparing, adopting, monitoring, and amending the budget

   a. Purchasing, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) checks and balances to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

   b. Disbursements, including processing, reviewing, and approving

   c. Receipts, including receiving, recording, and preparing deposits

   The joint pipeline follows the same written policies and procedures as the Town of St. Joseph, Louisiana which such policies and procedures were reviewed by Heard, McElroy & Vestal, LLC for adequacy and application to the entity, no significant findings or deficiencies were noted in our review of the same. <u>The budgeting item noted above was not applicable to the entity under examination as the joint gas pipeline does not prepare a formal budget or have a formal budgeting process in place.</u>

No credit cards are used by the entity under examination.

1. Obtain from management a listing of all active credit cards (and bank debit cards if applicable) for the period under examination, including the card numbers and the names of the persons who maintained possession of the cards.

   [Note: There are three types of credit cards: (1) general (e.g., VISA, MasterCard, etc.), (2) store (e.g. Wal-Mart, Office Depot, Sam's Club, etc.), and (3) gasoline (e.g., Fuelman, Exxon, etc.)].

2. Obtain and review the entity's written policies and procedures for credit cards (and debit cards if applicable) and determine if the following is addressed:

   - How cards are to be controlled
   - Allowable business uses
   - Documentation requirements
   - Required approvers
   - Monitoring card usage

3. Obtain the monthly statements for all credit cards (general, stores, and gasoline) used during the period under examination and select for detailed review, the two largest (dollar amount) statements for each card. (Note: For a debit card, select the two monthly bank statements with the largest dollar amount of debit charges):

   A. Obtain the entity's supporting documentation for the purchases/charges shown on the selected monthly statements:

      - Determine if each purchase is supported by:
        - An original itemized receipt (i.e., identifies precisely what was purchased)
        - Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating)
        - Other documentation as may be required by policy (e.g., purchase order, authorization, etc.)
      - Determine if each purchase is:
        - In accordance with thresholds or guidelines established in the policies and procedures
        - For an appropriate and necessary business purpose relative to the entity

- Determine if any purchases were made for personal purposes If there are purchases made for personal purposes, determine the date(s) of reimbursement

- Determine if any purchases effectively circumvented the entity's normal procurement/purchasing process and/or the Louisiana Public Bid Law (i e., large or recurring purchases requiring the solicitation of bids or quotes).

B. Determine if there was any duplication of expenses by comparing all travel and related purchases to the appropriate person's expense reimbursement report(s)

C Determine if each monthly credit card statement (including supporting documentation) was reviewed and approved, in writing, by someone other than the person making the purchases. [Note Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality)

D Determine if finance charges and/or late fees were assessed on the monthly statements

1. Obtain and review the entity's written policies and procedures for travel and expense reimbursement and determine if the following is addressed:

   - Allowable expenses
   a. Dollar thresholds by category of expense
   b. Documentation requirements
   c. Required approvers

HM&V reviewed the travel and expense written policies and procedures for the joint gas pipeline which again follow the Town of St. Joseph, Louisiana's policies and procedures, with travel being limited for the entity and expense reimbursement being limited to two (2) part time employees of the entity. Allowable travel expenses are limited to the clerk of the entity (Ms. Yolanda Brown) using her personal vehicle to travel to/from St. Joseph, Louisiana to/from Newellton, Louisiana on authorized and official business of the joint gas pipeline. Ms. Brown is reimbursed at a standard mileage rate used by public entities and her reimbursement form is approved by the Mayor before payment is made. The expense reimbursements are made to Mr. Roy Sikes, who works part-time for the entity, and lives in Newellton, Louisiana. Mr. Sikes performs any repairs/maintenance required on the joint gas pipeline; he is reimbursed for miscellaneous purchases/expenses used in the performance of his duties as maintenance, and any material purchases are authorized by the Mayors of St. Joseph and/or Newellton, or both. If for some reason, Mr. Sikes must hire a contractor to assist in the maintenance/repair of the pipeline the joint gas pipeline will receive an invoice from the contractor, the invoice(s) will be approved by the Mayor(s) and reimbursement will be made. All expenses for travel and expenses incurred for maintenance/repairs are entered into the joint gas pipeline's books in the month incurred.

2. Obtain a listing of all travel and related expense reimbursements during the period under examination and select for review, the one person who was reimbursed the most money:

   Mr. Roy Sikes

   A. Obtain all of the expense reimbursement reports of the selected person, including the supporting documentation, and select the three largest (dollar) expense reports to review in detail (Note: If there are only three or less expense reports, review all (100%) of them.):

      - Determine if each expenditure is:

        - Reimbursed in accordance with written policy (e.g., rates established for meals, mileage, lodging, etc.) (Yes)

        - In accordance with thresholds or guidelines established in the policies and procedures (Yes)

        - For an appropriate and necessary business purpose relative to the travel (Yes)

- Determine if each expenditure is supported by:
  - An original itemized receipt (i.e., identifies precisely what was purchased) [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) generally does not require a receipt.] (Yes)
  - Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating) (Yes)
  - Other documentation as may be required by policy (e.g., authorization for travel, conference brochure, certificate of attendance, etc.) N/A
- Determine if any of the expenditures were for personal purposes (e.g., extended hotel stays before or after training class, meals for spouses, entertainment, etc.). None noted
  - Determine if each expense report (including documentation) was reviewed and approved, in writing, by someone other than the person receiving reimbursement. (Yes)

B. Determine if there was any duplication of expenses by comparing the expense reports to charges/purchases made on credit card(s).

Not applicable.

Contacts

1. Obtain and review the entity's written policies and procedures for contracts/contracting, including leasing, and determine if the following is addressed:

    - Types of services requiring written contracts
    - Standard terms and conditions
    - Legal review
    - Approval process
    - Monitoring process

    The only written contract for the joint gas pipeline is between the entity and Locust Ridge Gas Company, Inc., the supplier of the natural gas for the pipeline entity. Invoices for gas purchased by the entity and sold by Locust Ridge are mailed directly to the Mayor of Newellton, Louisiana for review and approval, and then mailed from his/her office directly to the Mayor of St. Joseph, Louisiana for review, processing, approval for payment, and ultimate payment. This policy is a good segregation of duties and internal control procedure, as this adds another level of review and approval of this material expenditure, between supplier and payor/payment processor.

2. Determine if the entity has centralized control and oversight of contracts to ensure that services/deliverables received and payments made comply with the terms and conditions of the contracts.

    The entity has centralized control and oversight of contract deliverables, see #1 above.

3. Obtain and review the accounting records (e.g., general ledgers, accounts payable vendor history reports, invoices, etc.) for the period under examination to identify individuals/businesses being paid for contracted services (e.g., professional, technical, etc.). Select the five "vendors" that were paid the most money during the period and for each:

    - Determine if there is a formal/written contract that supports the services arrangement and the total amount paid.

    - (The only contract vendor is Locust Ridge, the supplier of natural gas to the pipeline venture, and this contract has been in place since 1999; will all payments approved as noted in #1 above, and no other "contracts" exist or are contemplated at the time of the engagement by the entity)

    - Determine the business legitimacy of the vendor if not known by the auditor (e.g., look-up the vendor on the LA secretary of State's website).

    Concur

4. Obtain a listing of all active contracts and the expenditures made during the period under examination. Select for detailed review, the largest (dollar amount) contract in each of the following categories that was entered into during the period.

1) Services

2) Materials and supplies

3) Public works

These procedures are performed, without exception or deficiency, during the audit of the entity performed for the year ended June 30, 2012 by HM&V.

A. Obtain the selected contracts and the related paid invoices and:

- Determine if the contract is a related party transaction. (Not a related party)

- Determine if the transaction is subject to the Louisiana Public Bid Law: (Yes)

- If yes, determine if the entity complied with all requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder, etc.) (Yes)

  If no, determine if the entity provided an open and competitive atmosphere (a good business practice) for the transaction/work.

- Determine if the contract was awarded under the *request for proposals* (RFP) method. If done so, obtain all proposals and the evaluation/scoring documents to determine if the contract was awarded to the most responsible offeror whose proposal was the most advantageous taking into consideration price and other evaluation factors set forth in the *request for proposals*. (Not applicable)

- Determine if the procurement was made "off" state contract (as opposed to following the competitive bidding requirements of the Louisiana Public Bid Law). If done so, determine if the board formally adopted the use of the Louisiana Procurement Code (R.S. 39:1551-1755), the set of laws that govern most state agencies' purchases of certain services, materials and supplies, and major repairs. (N/A)

- Determine if the procurement related to homeland security and was made from federal General Services Administration (GSA) supply schedules. If done so, determine if the entity (1) utilized a Louisiana licensed distributor; (2) used the competitive ordering procedures of the federal GSA; and (3) received prior approval from the director of the State Office of Homeland Security and Emergency Preparedness, or his designee. (N/A)

- Determine if the entity "piggybacked" onto another agency's contract. If done so, determine if there is documentation on file that clearly demonstrates the contract was a previously bid, viable contract and the price paid by the entity was the same as that contract's bid price. (N/A)

- Determine if the contract was amended. If done so, determine whether the original contract contemplated or provided for such an amendment. Furthermore, determine if the amendment is outside the scope of the original contract, and if so, whether it should have been separately bid and contracted.

  The contract was not amended during the period under examination but Locust Ridge, the gas supplier, has asked to renegotiate the contract as of September 1, 2013.

- Determine if the invoices received and payments made during the period complied with the terms and conditions of the contract.

  (Yes)

- Determine if there is written evidence that the entity's legal advisor reviewed the contract and advised entering into the contract.

  (Yes), the local District Attorney is also the attorney for the Town of Newellton, Louisiana; and he reviewed the current contract as written.

- Determine if there is documentation of board approval, if required.

  (Yes)

1. Obtain and review the entity's written policies and procedures for payroll and personnel and determine if they address the processing of payroll, including reviewing and approving of time and attendance records, including leave and overtime worked.

   Reviewed the payroll and payroll processing functions for the above listed attributes, without exception or deficiency; and noted there is not overtime related to the joint pipeline entity by any employees.

2. Obtain a listing of employment contracts/agreements in force during the period under examination. Select the largest (dollar amount) employment contract and determine if all payments issued during the period under examination were done in strict accordance with the terms and conditions of the contract.

   No employment contracts/agreements are applicable for the entity.