

TOWN OF ST. JOSEPH



ADVISORY SERVICES REPORT
ISSUED MAY 14, 2008

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

May 14, 2008

**THE HONORABLE EDWARD L. BROWN,
MAYOR, AND MEMBERS OF THE BOARD
OF ALDERMEN**

St. Joseph, Louisiana

We visited the Town of St. Joseph (town) because for the last five consecutive years, the town has failed to ensure that its audit was completed and the report submitted to my office within six months of the close of the town's fiscal year, as required by Louisiana law (Louisiana Revised Statute 24:513).

My staff applied our *Checklist of Best Practices in Government* in providing advisory services for the financial operations of the town. In addition, we reviewed your resolution of the audit findings reported in the town's June 30, 2006, audited financial statements. Attachment I contains our recommendations resulting from our assessment of the financial procedures and practices of the town's business department and Attachment II provides the status of the June 30, 2006, audit findings. Management's response is presented in Appendix A.

Our recommendations are intended to (1) improve controls over the town's financial operations; (2) provide you with advice in implementing good business practices; and (3) ensure the town's compliance with the Louisiana Constitution and state laws.

This assessment is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards; therefore, we are not offering an opinion on the town's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

RLT:ESS:JSI:sr

St. Joseph08

Recommendations

The following are the recommendations resulting from our advisory services. The recommendations are presented to improve the system of controls that provide for the safeguarding, managing, and accounting for assets of the town and to ensure compliance with applicable state laws. However, management (mayor and aldermen) of the town should consider the costs of implementing these recommendations compared to the benefits they will provide. For those recommendations not implemented, management should be aware of the risks of not implementing such controls.

Management's response to the recommendations is included in Appendix A.

Failure to Comply With Louisiana Audit Law

For each of the previous five fiscal years (2003 through 2007) and contrary to Louisiana law [Louisiana Revised Statute (R.S.) 24:513], the annual audit report of the town was filed with our office after the statutory deadline.

Recommendation: Management should strictly comply with the audit law by ensuring that the town's annual audit report is filed with our office on or before December 31st each year (within six months of the close of the town's fiscal year). Compliance with the audit law can also avoid the interruption of state funding to the town as language in Acts 18 (Appropriations Budget) and 28 (Capital Outlay Budget) of the 2007 Legislative Session prohibits the payment of funds appropriated in these acts to any entity that is not in compliance with the audit law. In addition, we remind management that its continued failure to take appropriate action in the future to comply with reporting responsibilities under the state audit law can subject management to fines and penalties (R.S. 24:518).

Management should perform the following steps to help ensure the timely completion and filing of the town's upcoming 2008 audit report:

1. Record all prior-year's (2006 and 2007) audit and accounting adjustments/entries in the town's financial records to ensure accurate financial information is generated.
2. Before the end of the 2008 fiscal year (June 30, 2008), the mayor should consult with the contract accountant about potential current-year adjustments/entries that may need to be recorded. All transactions and adjustments for the 2008 fiscal year should be recorded in the financial records on a timely basis.
3. As soon as possible after June 30, 2008 (not later than August 31), the town's financial/accounting records should be made available to the contract accountant to prepare the town's compiled financial statements.
4. Engage the auditor for the 2008 audit and establish firm target dates for starting and completing the audit. The audit report must be submitted to the legislative auditor no later than December 31, 2008 (statutory deadline date).

Noncompliance With Budget Laws

Management failed to comply with certain Louisiana laws related to budgeting as follows:

Budget Not Adopted by Ordinance - The town's 2008 General Fund budget was adopted by resolution instead of by ordinance as required by state law. An ordinance carries the effect of law, while a resolution merely expresses an opinion. R.S. 33:406 A (3) requires the town, a Lawrason Act municipality, to adopt its annual budget by ordinance. The ordinance accompanying a budget must define the authority of the mayor to make changes within various budget classifications without approval by the board of aldermen, as well as those powers reserved solely to the board.

In addition, we were informed that the town's annual budgets, including amendments, have historically been adopted by resolution. The Louisiana Attorney General has opined (A.G. Opinion 00-462) that budget amendments must also be adopted by ordinance.

Recommendation: The board of aldermen should take immediate action to adopt the 2008 budget by ordinance in accordance with state law.

No Budget Message - The 2008 budget did not include a budget message as required by the Local Government Budget Act. R.S. 39:1305 (C) requires, among other things, a budget message signed by the budget preparer (mayor) that provides a summary description of the proposed financial plan, policies, objectives, assumptions, budgetary basis, and a discussion of the most important features.

Recommendation: In the future, the mayor should prepare and sign a budget message and include with the annual budget as required. We suggest that the overall financial status of the town be included in the budget message that includes the current financial status, the short-term outlook, and the long-term trends. The emphasis on this analysis should be understandability of the financial status and issues, not necessarily on exact numbers and detail. This analysis should be provided in written form, early in the budget process, so a broad financial framework is available to management of the town.

Lack of Financial Management

During our visit to the town, we determined there are deficiencies in the overall financial management of the town. Without an effective financial management system, the mayor and board of aldermen cannot effectively exercise its fiduciary responsibilities of managing the town's finances.

Recommendation:

1. **Need Accurate Monthly Financial Statements on All Funds** - The monthly financial statements being generated and provided to the board of aldermen are not accurate. We determined that prior-year's (2006 and 2007) audit and accounting adjustments/entries have not been posted to the town's financial

records. Without accurate financial information on all funds, management cannot effectively exercise its fiduciary responsibilities of managing the town’s fiscal operations. The mayor should ensure that all adjustments/entries are recorded timely in the accounting system (QuickBooks).

2. **Need Accurate Budget-to-Actual Comparisons** - The monthly budget-to-actual comparisons schedule being generated and provided to the board of aldermen is not accurate. The mayor should ensure that accurate budget numbers are input into the accounting system. Without accurate budget-to-actual comparisons information, the board of aldermen cannot detect if and when corrective action may be needed, including amending the budget.

Our assessment revealed certain budget amounts (for revenues and expenditures of the General Fund) on the budget-to-actual comparisons schedule which did not match the amounts listed in the 2008 budget. We determined that the total budgeted revenues and the total budgeted expenditures on the budget-to-actual comparisons schedule exceeded the amounts in the actual budget by approximately \$30,000 and \$7,000, respectively.

3. **Need Plan to Eliminate Deficit Spending in General Fund** - The town’s compiled financial statements for the fiscal year ended June 30, 2007, reflect deficit spending of approximately \$44,000 in the General Fund. Management of the town should prepare a written plan for making both short- and long-term spending cuts to ensure that it does not continue to incur deficit spending in the General Fund. We suggest that the plan be monitored monthly to assess whether the town is on target with the plan.
4. **Need Plan to Eliminate Deficit Spending in Utility Fund** - Significant losses totaling approximately \$765,000 have resulted in the operations of the Utility Fund (water, gas, sewer, garbage, and trash services) in the past four years (2004 through 2007) as summarized below:

	Fiscal Year 2007 (Unaudited)	Fiscal Year 2006 (Audited)	Fiscal Year 2005 (Audited)	Fiscal Year 2004 (Audited)
Operating Revenues	\$671,107	\$862,724	\$601,643	\$614,453
Operating Expenses	(879,988)	(1,006,970)	(816,173)	(811,473)
Operating Loss	<u>(\$208,881)</u>	<u>(\$144,246)</u>	<u>(\$214,530)</u>	<u>(\$197,020)</u>

Management of the town should prepare a written plan for making both short- and long-term spending cuts to ensure it does not continue to incur deficit spending and analyze the fees the town charges for its water, gas, and sewer services to determine if increases are needed to sustain its utility operations.

5. **Need Written Policies and Procedures** - The town's written policies and procedures are not complete. Written policies and procedures are necessary to provide a clear understanding of what should be done, how it should be done, who should do it, and when it should be done and ensure the procedures followed meet management's expectations. Also, written policies and procedures aid in the continuity of operations and for staff cross-training.

We recommend that management develop and implement written policies and procedures for the following:

- Code of ethics, including requiring an annual certification letter be signed by each alderman and other members of management attesting to their compliance with the ethics policy
- Nature, extent, and frequency of financial reporting information provided to the mayor and board of aldermen
- Preparing, adopting, monitoring, and amending the town's budget
- Investing excess cash, including procedures for ensuring that bank balances and investments are fully secured and that the types of securities pledged by the financial institution are appropriate
- Receiving, recording, and preparing deposits for cash receipts/collections
- Preparing customer utility (water, gas, sewer, garbage, and trash) bills, including reading meters
- Enforcing the town's cut-off policy for water, gas, and sewer services
- Processing, reviewing, and approving disbursements/expenditures
- Procurement/purchasing process, including how purchases are initiated and approved and checks and balances to ensure compliance with the public bid law
- Payroll recordkeeping, including time, attendance, and leave
- Recording, tagging, and safeguarding capital assets, including conducting physical inventories
- Travel, including rates for business mileage, meals, lodging, and parking and filing standard expense reimbursement reports
- Dispensing and accounting for gasoline and diesel tank inventories

- Storing, issuing, and accounting for traffic tickets/citations
 - Recording, maintaining, inventorying, and disposing of confiscated items (evidence locker)
 - Backing up and storing computer files and general controls for the computer system
6. **Need Segregation of Duties in Accounting Department** - Duties are not adequately segregated in the business/accounting department for a proper system of checks and balances. In addition to the daily administrative/management duties, the mayor is performing most of the town's accounting duties. For example, the mayor prepares and signs the checks (e.g., accounts payable and payroll), records the transactions in the accounting system, reconciles all bank accounts, and prepares the monthly financial statements. This lack of segregation of duties increases the potential for material misstatements and/or misappropriation of assets to occur and not be detected in a timely manner.

Recommendation: The town clerk and utility clerk should be trained to perform the various accounting duties, including training on the use of the accounting software, so that duties can be separated so that no single person controls all facets of a financial function. The town may also consider engaging the contract accountant to perform certain functions (e.g., reconciling bank accounts) to adequately segregate accounting duties.

7. **Need Controls Over Purchasing** - To strengthen accountability and controls over purchasing and disbursements, the town should implement a purchase order system. Under a basic purchase order system, certain documentation is required before payment is made for services provided or materials received. Documentation should include the following:
- Purchase requisition - submitted by the department requesting the purchase and approved by a designated town official
 - Purchase order - prepared by the town clerk who verifies that funds are budgeted and available and that the purchase is in compliance with the public bid law (approved by a designated town official)
 - Receiving report - evidence from the town employee receiving the materials/supplies that they were actually received
 - Invoice - evidence from the vendor of the services or materials provided

- Invoice approval - verification by the approver that documentation is present to support the payment and the amount owed is correct

Recommendation: Before making a payment, the town clerk should account for and match up the purchase requisition, purchase order, and receiving report with the vendor invoice and submit to the mayor for review and approval.

Customer Utility Accounts

Management needs to improve controls over utility accounts and meter deposits. Our assessment revealed the following control weaknesses:

Account Balances Not Reconciled - The accounts receivable balance in the accounting system (general ledger) is not reconciled with the balance on the detailed utility (water, gas, and sewer) customer listing. The monthly reconciliation of these two independent records is very important and essential for a good system of controls over customer utility account balances.

For example, as of February 29, 2008, the utility accounts receivable balance in the general ledger was \$316,080 and the total balance due from customers on the detailed utility customer listing was \$299,362, an unexplained difference of \$16,718.

Recommendation: The town clerk or contract accountant should reconcile these two separate records each month and any difference should be investigated and resolved timely.

Customer Meter Deposits Not Reconciled - The liability balance for customer meter (water and gas) deposits recorded in the general ledger is not reconciled with the cash maintained in the restricted bank account and the meter deposit balance on the detailed utility customer list. Management of the town has a fiduciary responsibility to properly account for customer meter deposits.

We determined that there are significant unexplained differences among the three balances at January 31, 2008, as follows:

- The meter deposit bank account balance is \$63,699.
- The meter deposit liability balance in the general ledger is \$57,681.
- The detailed customer listing of meter deposits totals \$121,679.

Recommendation: Management of the town should immediately investigate and resolve these differences. Thereafter, on a monthly basis, the town clerk should reconcile the meter deposit bank balance with the meter deposit liability balance in the general ledger and with the customer listing of meter deposits. Any difference should be investigated and resolved on a timely basis.

Delinquent Utility Accounts - The town is not following its policy for collecting delinquent utility accounts (i.e., water, gas, sewer, garbage, and trash accounts). As of February 29, 2008, utility accounts past due totaled \$174,454 (excludes one past due account totaling \$108,842 currently in litigation) and includes one alderman and two town employees who have combined past due balances totaling \$2,809.

Continuing to provide utility services after the cut-off date and not actively trying to collect delinquent account balances is prohibited by the Louisiana Constitution [Article VII, Section 14(A)]. In addition, the continued operation and quality of services provided to customers depends on the town collecting for the services it provides.

The town's cut-off policy was adopted by Ordinance 02-04 on July 13, 2004, and requires services to be disconnected if customers do not pay their bill within 13 days after the due date. The ordinance was incorrectly amended by resolution (No. 2005-55) on June 14, 2005, which allowed aldermen to grant extensions of time for payments. We remind management that an ordinance carries the effect of law, while a resolution expresses an opinion; therefore, the amendment made by resolution is not valid. Furthermore, the Lawrason Act does not allow the board of aldermen to exercise administrative powers such as granting extensions of time for utility payments. The mayor exercises the administrative powers in the town and the legislative powers are exercised by the board of aldermen. Also, the law prohibits the board of aldermen from adopting an ordinance that limits the authority/powers of the mayor.

Recommendation: The mayor should:

- Ensure that the town's cut-off policy (Ordinance 02-04) is strictly enforced and that utility services are promptly terminated on all customers, including aldermen and employees, who do not pay their bill by the policy due date
- Immediately prohibit aldermen from granting extensions of time for payments
- Take aggressive action to collect delinquent accounts, including legal action when necessary, and consider using a collection agency

Purchases and Disbursements

In addition to implementing a basic purchase order system, the town needs to improve controls over purchases and disbursements. Our assessment revealed the following control weaknesses:

MasterCard Charges - There is little control over the use of the town's MasterCard. The town has two cards, one of which is in the possession of the mayor and the other is kept at town hall.

Our assessment revealed that charges appear to be primarily for travel and entertainment (e.g., gasoline, meals, and hotels) for which detailed/itemized receipts are not always maintained and the business purpose for charges and persons attending are not documented. The following table provides examples of some charges from the town's February 2008 MasterCard account statement that are not supported by documentation of the business purpose and persons attending and/or receipts:

Dates	Vendors	Charges	Remarks
January 17, 2008	Chevron	\$46.32	Located in Grambling, LA
January 23, 2008	Ralph & Kacoo's Restaurant	\$123.07	Located in Baton Rouge, LA Alcohol charges = \$30.00
January 24, 2008	Hilton Hotel	\$228.57	Located in Baton Rouge – no receipt
January 24, 2008	Hilton Hotel	\$231.00	Bill includes movie charge = \$17.43
January 28, 2008	Outback Steakhouse	\$64.01	Located in Jackson, MS
January 28, 2008	Outback Steakhouse	\$3.27	Alcohol charge
January 29, 2008	Edison Whitehall Hotel	\$150.00	Located in Jackson, MS
January 29, 2008	Edison Whitehall Hotel	\$168.00	No receipt

Recommendation: The town should discontinue using the MasterCard credit cards and require all officials/employees to file expense reports for reimbursement of expenditures made for business purposes of the town. The expense reports should include all appropriate documentation supporting the business nature of the expenditures, in particular the business purpose for lodgings and meals, including the names of all individuals participating.

Management is reminded that the Louisiana Constitution [Article VII, Section 14(A)] prohibits the town from making payments that do not serve a public purpose. Management should perform a thorough review of all charges made on the town's MasterCard account for propriety. State law (R.S. 24:523) requires the town's management to immediately notify, in writing, the legislative auditor and the district attorney of its knowledge of any misappropriation of public funds or town assets.

Recurring Purchases and Large Purchases - During the first eight months of the current fiscal year, the town purchased approximately \$26,000 in salt from one vendor without obtaining competitive bids as required by state law (R.S. 38:2212.1). The Louisiana public bid law requires competitive bids for all purchases of materials and supplies exceeding \$20,000. Also, the Louisiana Attorney General has opined (A.G. Opinion 02-0122) that recurring purchases that in the aggregate exceed the bid limit must be advertised and let for public bid.

In addition, we determined that the town purchased approximately \$14,000 in chemicals from one vendor without obtaining telephone or facsimile quotations as required by law. The Louisiana public bid law requires the town to obtain at least three telephone or facsimile quotations for purchases between \$10,000 and \$20,000.

Recommendation: Management should comply with the competitive bidding requirements of the Louisiana public bid law and seek quotes when recurring/large items are purchased to ensure that the most favorable prices are obtained. The quotes should be documented as part of the approval process before the purchase is made and maintained on file.

Gasoline/Diesel Charges - Our assessment revealed that receipts/tickets for fuel charged at vendors do not always contain the (1) identity/description of the vehicle receiving the fuel (license or vehicle number); (2) vehicle odometer readings; and (3) number of gallons purchased.

Recommendation: Management should review the reasonableness of fuel charged at vendors each month. Documentation on charge tickets should include the identity of the vehicle, the odometer readings, and the number of gallons purchased. From this information, a monthly summary by vehicle should be prepared that includes the number of miles traveled during the month and the calculated miles per gallon. This monthly summary should be presented to the board of aldermen at its monthly board meeting.

Written Contract - The town does not have a written contract with its legal counsel. Good business practices require written agreements/contracts for services setting forth the specific terms and conditions.

Recommendation: We suggest that all agreements for services (professional or otherwise) with third parties be in the form of a written contract. Also, contracts should be monitored by a designated employee to ensure that services received by the town comply with the terms and conditions of the contract.

Receipts/Collections

Controls over receipts need to be improved. Our assessment revealed the following control weaknesses:

Bank Deposits - Daily receipts (cash, checks, et cetera) are not deposited in the bank until the following business day.

Recommendation: To strengthen safeguards over money, we suggest that monies be deposited on the same day collected. Monies should not be kept overnight.

Cash Drawers - Both clerks use the same cash drawers/trays for collections. Also, the trays are not secured under lock.

Recommendation: To improve controls over receipts, the town should establish separate cash trays for each clerk and prohibit them from working out of the same cash tray and require that trays be maintained under lock at all times.

Payroll

In addition to the lack of segregation of duties over the town's payroll duties, management needs to improve payroll procedures.

Time Cards and Leave Slips - Although employees document the hours worked and leave (vacation and sick) taken on their time cards, the following deficiencies were noted:

- Time cards are not always signed/approved by the supervisor.
- Leave slips are not always prepared for leave taken.

- Leave slips are not attached to the time card (slips are separately filed in personnel folders).

Recommendation: The town should:

- Require leave slips to be prepared for all leave taken and attached to the time cards
- Require supervisors to review time cards of their employees and document approval
- Require the mayor to review time cards of supervisors and document approval

Leave Recordkeeping - The town does not maintain formal records to support vacation and sick leave earned and taken by employees. Without maintaining adequate documentation, management cannot ensure that leave privileges are reasonable and not being abused.

Recommendation: The town should require that detailed records be maintained to account for annual and sick leave earned and taken by all employees. We suggest that the payroll software be upgraded to enable leave records to be maintained and reported on employees' payroll check stubs.

U.S. Department of Homeland Security - Form I-9, *Employment Eligibility Verification*, is not maintained for all employees hired after November 6, 1986.

Recommendation: The town should require each employee hired after November 6, 1986, to complete Form I-9 and maintain the completed form in the town records.

Employee vs. Independent Contractor

The supervisor for the water and sewer departments is paid as an independent contractor; however, he may be an employee of the town. As we understand, the supervisor was a town employee before he resigned and was rehired in the same capacity but as an independent contractor.

The town is required to withhold income and social security taxes and to pay social security taxes on wage payments for an employee. Independent contractors, on the other hand, are considered self-employed persons and are responsible for making their own tax payments.

Recommendation: We suggest that management review this issue with the town's legal counsel to determine if an employee-employer relationship exists. If the supervisor is determined to be an independent contractor, the town should have a written agreement with the supervisor that provides the terms and conditions, fee or rate of pay, and what the town expects.

Noncompliance With Debt Agreement

Our assessment revealed that the town was not always paying \$80 each month into the bond reserve fund and the bond contingency fund as required by the terms of its 2003 water revenue bonds.

Recommendation: Management should ensure that checks are issued monthly and deposited into the bond reserve and contingency funds as required.

Ordinance Book

Ordinances adopted by the board of aldermen are not being filed in the town's ordinance book as required by Louisiana law. R.S. 33:406(D) (1) requires the original of all ordinances to be filed immediately in the town's ordinance book.

Recommendation: The town should comply with Louisiana law and ensure that the ordinance book is updated to include the originals of all adopted ordinances. In addition, the ordinances should be codified periodically by subject matter (e.g., public work, public safety).

Capital Assets

We were informed that a physical inventory of the town's capital assets (e.g., property and equipment) is not being done and that the detailed listing has not been updated since 2002. Failure to update records and periodically locate and account for movable property exposes the town to possible loss, theft, and misuse of its assets.

Recommendation: The listing of capital assets should be updated for any assets purchased or disposed during the year. Management should ensure that a physical inventory is taken at least annually and that any items not located/found during the inventory are addressed and appropriately resolved.

Vehicle Decals

We determined that not all town vehicles are marked with an insignia/decal containing the name of the town as required by Louisiana law. R.S. 49:121 requires town vehicles to have inscribed, painted, decaled, or stenciled on the outside door on each side of the vehicle, an insignia containing the name of the town.

Recommendation: Management should ensure that all town vehicles are properly identified with appropriate decals in accordance with state law.

Traffic Tickets

Accounting for Tickets - The town is not accounting for the numerical sequence of traffic tickets. Without accounting for the numerical sequence of tickets, there is no way to determine

whether citations were issued, lost, or voided. Proper accounting for traffic tickets is important to help ensure (1) traffic fines are collected or that appropriate action is taken for nonpayment; (2) compliance with relevant Louisiana laws; and (3) assets/cash is not misappropriated.

Recommendation: The town should require ticket books to be issued to police officers only after the previously issued book has been accounted for and all issued citations have been received from the police officer. The numerical sequence of tickets/citations should be accounted for on a monthly basis.

Reporting Traffic Violations - The town is not reporting traffic violations to the Louisiana Department of Public Safety (DPS) as required by law. R.S. 32:393C(1)(b) requires the town to report all traffic violations, except parking violations, to DPS not later than 30 days after the date of such person's conviction and sentencing or the final disposition of the case.

Recommendation: The town should immediately comply with state law and report all traffic violations to DPS.

Confiscated Evidence

Confiscated items (e.g., weapons) relevant to criminal cases dating back to the 1980s are stored in the police department's evidence locker. Storing evidence for such a long period of time is creating problems for storing current evidence because of the limited space in the locker.

Recommendation: A physical inventory of evidence should be performed periodically and we recommend that a policy be established for the period of time that evidence should be maintained and when a destruction order (or an order to return the evidence to the lawful owner) is to be obtained from the court/judge and district attorney. After the policy is approved, the appropriate orders should be obtained for all evidence held that exceeds the policy period. A document from the law enforcement agency that destroys the evidence should be maintained that includes the date, location, items destroyed, and signature of the persons destroying and witnessing the destruction (the town's police officers should be prohibited from destroying evidence).

Disaster Recovery and Business Continuity

We recommend that a written disaster recovery/business continuity plan be prepared and tested/revised annually. Having a written plan is good business practice as it will provide the steps to be performed to continue town operations in the event of a disaster, fire, or terrorist attack.

Summary of Audit Findings

The following represents a summary of the audit findings reported in the June 30, 2006, audited financial statements (reported by the town's independent auditor) and the disposition of those findings based on our inquiries and general observations as of March 22, 2008. Management's response is included in Appendix A.

June 30, 2006, Audit Findings	Disposition as of March 22, 2008
<p>1. Lack of Segregation of Duties - The mayor performs all accounting duties with the exception of receiving the customer payments and making the daily deposits.</p> <p>A. Quarterly payroll tax returns are not all filed and payments are not remitted timely.</p> <p>B. Bank statements are not reconciled in a timely manner.</p> <p>C. Paid invoices are missing.</p> <p>D. Invoices are paid before the approval of the Finance Committee.</p>	<p><u>Unresolved.</u> Although a town clerk was hired, the mayor continues to perform most accounting functions.</p> <p><u>Resolved.</u></p> <p><u>Unresolved.</u> Bank statements are not being reconciled within 30 days of receipt.</p> <p><u>Unresolved.</u> Invoices/receipts for purchases made using the MasterCard are missing.</p> <p><u>Not Determinable.</u> Invoices evidence approval of members of the Finance Committee but do not reflect the date approval was given.</p>
<p>2. Audit Report - The 2006 audit report was not filed with the Legislative Auditor within six months of the close of the town's fiscal year as required by law.</p>	<p><u>Unresolved.</u> The town's 2007 audit report was not filed by the statutory deadline of December 31, 2007, and has not been filed as of March 22, 2008.</p>
<p>3. Customer Utility Accounts - The town is not following its Cut Off policy for collecting delinquent utility accounts.</p>	<p><u>Unresolved.</u> As of February 29, 2008, utility accounts past due totaled \$283,296 and includes one alderman and two town employees who have combined past due balances totaling \$2,809.</p>

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Management's Response

TOWN OF SAINT JOSEPH RESPONSE TO AUDIT FINDINGS

Failure to Comply With Louisiana Audit Law

As stated in the Audit Report, the town has failed to file annual audit reports with the Legislative Auditor by the December 31st deadline for the fiscal years 2003 through 2007. Prior to 2002, however, the town did not maintain an accounting system for monthly financial reporting and in 2003 during the time that we were transitioning from no system to training employees to operate new computerized accounting system software a vehicle accidentally plunged through the walls of town hall and significantly damaged the building as well as computer system equipment. This incident disrupted work flow and for over 6 months we had to revert back to processing and accounting for most business transactions manually. Then Hurricane Rita in 2005 significantly damaged the town hall building and computer system equipment. Again, we had to revert to a manual accounting system another 6 months. We could have recovered sooner but our insurance carrier was slow to respond due to Hurricane Katrina.

To ensure the town audit report is submitted to the Legislative Auditor on time in the future, town management and the Certified Public Accountant consultant who compile town financial statements plan to submit such statements for audit no later than August 31st of each year, as recommended. Also, the CPA plans to complete all adjusting entries for the general ledger and ensure general ledger balances and subsidiary ledger balances are reconciled by July 31st of this year and each year thereafter. In addition, the CPA will help program the computerized accounting system to automatically generate monthly entries for routine items such as depreciation expense, interest expense, etc.; thereby assuring financial statements presented to the Board of Aldermen represent the town's financial condition and operation more accurately.

In addition, the town has discussed the development of a disaster recovery plan with a vendor that is familiar with such matters and who provides the town computer equipment and networking services.

Noncompliance with Budget Laws

As recommended, the Mayor will prepare the 2008 budget and future budgets in accordance with the Local Government Budget Act. The Board of Aldermen will adopt the 2008 budget and future budgets by ordinance instead of by resolution.

Lack of Financial Management

To ensure accurate financial statements, town management and the CPA will post accounting adjustments into computerized general ledger accounting system for the prior two years by July 31st of this year and the CPA will make adjusting entries as required. Also, the CPA will assist town management in preparing the budget, which may be amended by ordinance in accordance with the Local Government Budget Act.

To eliminate deficit spending, the town is working with the CPA to see where costs may be reduced for both the General Fund and the Utility Fund. In addition, we will provide the Board of Aldermen recommendations where we believe fees for services should be increased or the Aldermen may decide to eliminate services in some instances.

The town's Code of Ordinance manual is over thirty years old and we have been working this past year to review and revise the manual where appropriate. Also, as we develop written operating policies and procedures we will reference them to the associated ordinance. Finally, written operating policies and procedures shall cover all departmental functions, including administration.

In order to segregate duties in the accounting department as well as improve controls over purchasing, the two town clerks are being trained to use the accounting software for functions such as purchasing and accounts payable, accounts receivables and collections, account reconciliations, financial reporting, etc. The clerks started using the computerized accounting purchase system May 1, 2008 and purchase requisitions are being approved by the Mayor or his assistant. The Mayor shall review and approve all vendor invoices along with supporting documentation prior to payment.

Customer Utility Accounts

Presently, the town uses the QuickBooks accounting software (general ledger) for financial accounting and reporting along with the Continental Utility Solution, Inc. software for the billing and collections functions. The Continental system serves as a subsidiary ledger and we agree with the auditor's recommendation that the general ledger accounts receivables for utilities and customer meter deposits account balances should be reconcile to the subsidiary ledger monthly. However, the use of fully integrated accounting software instead of the current hybrid system would go a long way to help improve controls over general ledger and subsidiary ledger account balances since such systems customarily keep detail listings of subsidiary ledger transactions for the general ledger. Therefore, the Mayor and Board of Aldermen may decide to purchase a more integrated and user-friendly accounting system. Until then, the clerks will monthly reconcile balances from the Continental subsidiary ledger to the QuickBooks general ledger.

As recommended, the Aldermen have discontinued granting extensions of time for customers to pay utility bills and the Mayor shall ensure the town's cut-off policy is followed. Also, town management will began withholding from employee pay checks money to cover delinquent accounts and extending time for employees to pay utility accounts will be discontinued. Additionally, the town contracted with a Baton Rouge based collection agency several years ago to collect past due payments and has began legal action to collect delinquent accounts.

Purchases and Disbursements

We agree with the auditor's recommendation that all town officials/employees should file employee expense reports, instead of using the MasterCard credit card monthly invoice billing to document reimbursement of expenses made for business purposes of the town. We are now using an employee business expense report form provided by the auditor to report such expenditures and will cross reference the business purpose of all expenditures shown on the credit card invoice to an employee business expense report or vendor invoice. In addition, officials/employees will only be reimbursed for expenditures that serve a public purpose.

As recommended, the town will comply with the Louisiana public bid law and will do so although we already know, for example, that there is only one company in our area that will provide fuel to the town in bulk volume.

We have complied with the auditor's recommendation to notify the town attorney about developing a written contract with the town and will require all other agencies that provide professional services to execute a written agreement with town.

Receipts/Collections

Management will review the costs/benefit of the auditor's recommendation that the town should install a separate cash tray for each of the three clerks since costs for office renovations and computer system upgrades could be significant. Soon, we plan to build a new city hall and will direct the town engineer to include in the office design several cash trays that can be locked and thus, only assessable to one clerk at a time.

Payroll

As recommended, all supervisory personnel shall review and signature approve payroll time cards and Leave Slips of employees they directly supervise. The clerks shall attach Leave Slips, which documents employee time off to the employee's time card. In addition, we may consider upgrading payroll software that will adequately account for and provide reports of employee time off. Further, Form I-9, Employment Eligibility Verification, have been completed for all employees.

Employee vs. Independent Contractor

As recommended, we have requested the town attorney to review the matter where the individual that operates the water plant and sewer treatment plant may do so as an independent contractor. The appropriate action will be taken upon completion of the town attorney's review and recommendation.

Noncompliance with Debt Agreement

Instead of issuing two checks of \$80.00 each for deposit into the bond reserve fund and the bond contingency fund each month, town management has authorized the bank to transfer these amounts automatically from the Enterprise Fund utility bank account to bond fund accounts.

Ordinance Book

The town clerk will ensure all ordinances are file in the town's ordinance book.

Capital Assets

As recommended, town management will annually complete a physical inventory as well as update the list of all town capital assets. Capital assets not located will be reported to the Board of Aldermen and with their approval removed from the inventory list.

Vehicle Decals

As recommended, town management will ensure all town vehicles are properly identified with appropriate decals in accordance with state law.

Traffic Tickets

The town clerk shall keep all traffic ticket books locked in the town safe and assure the numerical sequence of tickets/citations are accounted for monthly as recommended. In addition, the clerk shall report traffic violations to the Louisiana Department of Safety as required by state law.

Confiscated Evidence

As recommended, the chief of police shall conduct a physical inventory of confiscated items on hand and obtain appropriate approval to destroy or return such items to the owner. In addition, the chief of police shall solicit from the court or district attorney the amount of time for keeping items confiscated as evidence and afterward, present a written policy and procedure covering this matter to the Mayor and Board of Aldermen for approval.

Disaster Recovery and Business Continuity

As stated above, town management is discussing a disaster recovery/business plan with the vendor that is familiar with such matters and who provides the town computer equipment and networking services. Once the plan is finalized, we will test it annually and make revisions where appropriate.