

CITY OF BASTROP



ADVISORY SERVICES REPORT  
ISSUED NOVEMBER 12, 2008

**LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

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LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

November 12, 2008

**THE HONORABLE CLARENCE W. HAWKINS,  
MAYOR, AND MEMBERS OF THE BOARD  
OF ALDERMEN**  
Bastrop, Louisiana

My staff applied our *Checklist of Best Practices in Government* in providing advisory services for the financial operations of the City of Bastrop (city). In addition, we reviewed your resolution of the audit findings reported in the city's June 30, 2007, audited financial statements.

Attachment I contains our findings and recommendations resulting from our assessment and Attachment II provides the status of the June 30, 2007, audit findings. Management's response is presented in Appendix A.

Our recommendations are intended to assist you in your efforts to (1) improve controls over the city's financial operations; (2) implement good business practices; and (3) ensure the city'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 city'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:dl

BASTROP08



## Findings and Recommendations



The following are the findings and recommendations resulting from our advisory services. Management (mayor and aldermen) of the city should consider the costs of implementing the recommendations compared to the benefits they will provide. For those recommendations not implemented, if any, management should be aware of the risks.

We reviewed these findings and recommendations with management of the city to provide management an opportunity for its response. Management's response is presented in Appendix A.

### **Financial Management**

Our assessment revealed certain weaknesses in the financial management of the city. Without an effective financial management system, the mayor and aldermen cannot effectively exercise its fiduciary responsibilities of managing the town's finances.

1. **Written Policies and Procedures** - The city'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 procedures aid in the continuity of operations and for staff cross-training.

Recommendation: Management should develop and implement written policies and/or procedures, in accordance with applicable Louisiana laws, related to the following:

- Ethics, including issues such as nepotism and prohibited activities (e.g., related party transactions) and requiring that an annual certification letter be signed by the mayor, aldermen, and all employees attesting to their compliance with the ethics policy
- Investments, including procedures ensuring that bank balances and investments are fully secured
- Receipts/collections, including receiving, recording, and preparing bank deposits
- Payroll recordkeeping, including formal records for employee time, attendance, leave, and overtime
- Capital assets, including recording, tagging, inventorying, and safeguarding assets
- Traffic tickets, including safeguarding, issuing, and accounting for tickets/citations
- Computer, including backing up and storing computer files and general controls for the computer system
- Retention of public records, including e-mail communications

2. **Budgeting Process** - Management failed to fully comply with the Local Government Budget Act [Louisiana Revised Statute (R.S.) 39:1301 et seq.] and the city's charter as follows:

- **Public Inspection of Budget** - The city's 2009 budget was made available for public inspection on June 18, 2008, which is 13 days prior to the beginning of the fiscal year (July 1, 2008). This is contrary to state law<sup>1</sup> which requires the budget to be made available at least 15 days prior to the beginning of the fiscal year.
- **Budget Adoption Instrument** - An ordinance (No. 08-4172) was the legal instrument used by management to adopt the city's 2009 budget; however, the ordinance did not define the authorities of the mayor and board to make changes within the budget as required by law.<sup>2</sup>
- **Publication and Enforceability of Budget Ordinance** - The ordinance used to adopt the 2009 budget was published one week in the official journal rather than three weeks as required by the city's charter (Section 21). The charter also provides that ordinances are not enforceable until 10 days after their final publication.
- **Budget Message** - The city's 2009 budget did not include a budget message from the mayor as required by state law.<sup>3</sup>
- **Fund Balances Not Shown in Budget** - The estimated fund balances at the beginning and end of the fiscal year are not shown in the 2009 budget as required.<sup>4</sup>

Recommendation: We recommend that management adopt the city's 2009 budget in strict accordance with the Local Government Budget Act and the city's charter.

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<sup>1</sup> R.S. 39:1306.A requires the budget to be completed and submitted to the board and made available for public inspection (as provided for in R.S. 39:1308) no later than 15 days prior to the beginning of each fiscal year.

<sup>2</sup> R.S. 39:1305 (D) states, "The budget adoption instrument for any municipality, parish, school board, or special district shall be an appropriation ordinance, adoption resolution, or other legal instrument necessary to adopt and implement the budget. The adoption instrument shall define the authority of the chief executive and administrative officers of the political subdivision to make changes within various budget classifications without approval by the governing authority, as well as those powers reserved solely to the governing authority."

<sup>3</sup> R.S. 39:1305 (C)(1) requires "a budget message signed by the budget preparer which shall include a summary description of the proposed financial plan, policies, objectives, assumptions, budgetary basis, and a discussion of the most important features."

<sup>4</sup> R.S. 39:1305C (2)(a) requires a statement for the general fund and each special revenue fund showing the estimated fund balances at the beginning of the year; estimates of all receipts and revenues to be received; revenues itemized by source; recommended expenditures itemized by agency, department, function, and character; other financing sources and uses by source and use; and the estimated fund balance at the end of the fiscal year.

### **Segregation of Duties**

Both the purchasing director and payroll clerk perform duties that are incompatible for a proper system of checks and balances. Without adequate segregation of duties, errors or fraud could occur and not be detected, increasing the risk of loss or theft of town assets.

**Purchasing** - Without supervisory review, the purchasing director (1) receives invoices from vendors; (2) matches purchase orders to invoices; (3) adds/deletes vendors in the computer system; (4) records transactions in the computer system to create payables (5) prepares and prints the checks; (6) uses a signatory stamp to sign the checks; and (7) mails the checks.

**Payroll** - Without supervisory review, the payroll clerk (1) records employee work hours in the computer system to calculate payroll; (2) adds/deletes employees in the computer system, including making changes to pay rates, deductions, et cetera; (3) prepares and prints the checks; (4) uses a signatory stamp to sign the checks; and (5) distributes the checks.

Recommendation: Management should reassign certain duties of the purchasing director and payroll clerk to ensure there is an adequate crosscheck of duties. For example, management should reassign the duties of making any changes (e.g., adding/deleting vendors and employees) in the computer system and the duties of printing and mailing/distributing checks. We also recommend that management strengthen controls by discontinuing the use of the manual signatory stamp and require that all checks have handwritten signatures.

### **Wal-Mart Cards**

There were no written policies or procedures for how the city's 14 Wal-Mart charge cards were distributed or how their usage is controlled and documented.

Recommendation: Management should centralize control of the Wal-Mart charge cards and review the necessity for having 14 cards. In addition, management should develop written policies and procedures establishing the circumstances when and to whom the cards will be issued and the responsibilities of the department head and user of the card for controlling and providing documentation of usage.

### **Accounting for Tickets/Citations**

The numerical sequence of traffic tickets/citations is not being accounted for by the city police department or the city court. R.S. 32:398.2.D provides, in part, that the chief administrative officer shall require police officers to return to him a copy of every traffic citation which was issued and all copies of every traffic citation for which an entry was made but not issued to the alleged violator.

Without an accounting, there is no way to determine whether citations were issued, lost, or voided. Proper accounting for tickets is important to ensure (1) fines are collected or appropriate action is taken; (2) compliance with relevant Louisiana laws; and (3) assets/cash is not misappropriated.

Recommendation: Upon issuance of ticket books to police officers, the police department should record the police officer's name and every individual ticket number (in the ticket books) issued to the officer. New ticket books should be issued (in numerical order) to an officer only after previously issued books have been accounted for and all issued citations have been received from the police officer.

Also, management should consider networking/interfacing the ticket tracking software of the police department and the city court to eliminate the duplication of work currently being performed. Computer "read" and "write" access to the case information should be restricted by management to only those persons in the police department and city court that need such access to perform their jobs.

### **Receipts/Collections**

Controls over receipts/collections need to be improved.

**Cash Drawer** - There was one cash drawer in the city clerk's office from which all clerks were performing their daily collection work.

Recommendation: To improve accountability and control over cash, management should require the establishment of separate cash trays for each clerk and prohibit the clerks from working out of each others cash tray. Each cash tray should be maintained under lock and balanced on a daily basis.

**Collections by City Departments** - Monies collected by the Police, Fire, and Parks/Recreations departments were not always remitted to the city clerk's office on a daily basis for deposit into the city's bank account.

Recommendation: The city should improve controls over receipts by centralizing the collection function. We recommend that management require all payments for city services, including all fees and fines, to be paid and collected at the city clerk's office.

### **Capital Assets**

The detailed listing of the city's capital assets was not current, as the listing was last updated through June 30, 2007 (over one year ago). In addition, a physical inventory of capital assets was not performed by the city during the 2008 fiscal year.

Recommendation: Management should designate an employee to manage the city's capital assets and implement procedures to ensure that (1) the detailed listing is periodically updated for assets purchased and disposed; (2) all assets are tagged for identification purposes and cross-referenced to the detailed listing; and (3) an annual physical inventory of capital assets is performed and any differences are investigated and resolved on a timely basis.

### **Payroll**

In addition to the payroll clerk performing duties that are incompatible for a proper system of checks and balances, our assessment of payroll revealed other control weaknesses.

**Time/Attendance Records** - Administrative employees in the city clerk's office were not preparing written records to document their time and attendance at work. Also, supervisors in the fire and police departments prepared time records for its administrative employees and the records did not reflect the specific time/hours worked each day (e.g., 8:30 a.m. - 4:30 p.m.) nor were the records signed by the employees certifying that they worked the total number of hours shown.

Recommendation: Management should require all administrative employees to prepare and sign their time/attendance records and submit to their supervisor for approval. Time records should clearly document the time worked (or leave taken) for each day in the pay period.

**Employment Eligibility Form** - The city did not have the U.S. Department of Homeland Security - Form I-9, Employment Eligibility Verification, on file as required for all employees hired after November 6, 1986. Form I-9, when properly completed, is documentation that the employer verified the employee's identity and established that he/she is eligible to accept employment in the United States.

Recommendation: All employees hired after November 6, 1986, should complete the Form I-9 as required, and the city should verify their identity and establish that they are eligible for employment with the city.

### **Confiscated Evidence**

Controls over confiscated evidence (e.g., weapons and drugs) need to be improved. Failure to maintain adequate control over evidence increases the risk that evidence could be stolen, lost, or disposed of improperly.

Recommendation: Management should:

- Establish policies and procedures for confiscated evidence, including recording, maintaining, inventorying, and disposing of the evidence.

- Ensure that a physical inventory of evidence is performed periodically during the year and compared to written records. Any differences should be investigated and resolved immediately.
- Ensure that access to the evidence lockers is restricted to personnel responsible for receiving and releasing confiscated evidence. A sign-in/sign-out log should be maintained to document all access, including the dates, names, and reasons for access.

### **Disaster Recovery Plan**

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 operations of the city in the event of a disaster.

## Summary of Audit Findings



The following represents a summary of the audit findings reported in the June 30, 2007, audited financial statements (reported by the city’s independent auditor) and the disposition of those findings based on our inquiries and general observations as of April 17, 2008. Management’s response is presented in Appendix A.

<b>June 30, 2007, Audit Findings</b>	<b>Disposition as of April 17, 2008</b>
1. <b>Lack of Segregation of Duties</b> - The segregation of duties is inadequate to provide effective internal control.	<u>Unresolved.</u> - (See finding, <i>Segregation of Duties.</i> )
2. <b>Noncompliance With Local Government Budget Act</b> - The budget was not monitored and written notification made by the chief executive or administrative official to the governing authority that budget amendments were necessary. Also, management failed to include the beginning fund balance of the General Fund when preparing the budget.	<u>Partially Resolved</u> - The budget for 2008 was amended; however, the budget did not include the beginning and ending fund balance as required. (See finding, <i>Budgeting Process.</i> )
3. <b>Delinquent Loan Receivables</b> - The city did not take legal action to enforce repayment of the loans made to local businesses upon the parties failing to meet the defined economic impact credits and/or ceasing operations, nor has the City opted to mature all remaining unpaid installments of the promissory notes upon the failure to pay any installment when due.	<u>Resolved</u> - The city collected the balance due on one loan and is in the process of filing suit on the other loan.
4. <b>Controls Over Expenditures</b> - Purchase orders were not always issued and there were purchase orders dated after the invoice date.	<u>Resolved.</u> Our assessment revealed that purchase orders were being issued and were issued timely.
5. <b>Internal Control Over Financial Reporting</b> - Management did not prepare the city’s annual financial statements and related notes in accordance with accounting principles generally accepted in the United States of America.	<u>Unresolved.</u> Management did not prepare the city’s annual financial statements and related notes.

June 30, 2007, Audit Findings	Disposition as of April 17, 2008
<p>6. <b>Other Control Deficiencies -</b></p> <ul style="list-style-type: none"> <li>Bank accounts were not reconciled monthly.</li> </ul>	<p><u>Resolved.</u> The bank accounts were reconciled monthly through June 30, 2008.</p>
<ul style="list-style-type: none"> <li>The trial balances of the general fund and sewer use fee fund did not balance as of June 30, 2007.</li> </ul>	<p><u>Unresolved.</u> The trial balances for the general fund and the sewer user fee fund did not balance as of June 30, 2008. The city is researching the differences and will record the necessary adjustments.</p>
<ul style="list-style-type: none"> <li>The matter as to who was the recipient of the excess funds from a previous bond issuance was not resolved.</li> </ul>	<p><u>Unresolved.</u> The city has not determined to whom those funds belong.</p>
<ul style="list-style-type: none"> <li>The city paid \$13,200 in late payment penalties to the Internal Revenue Service.</li> </ul>	<p><u>Resolved.</u> The city made timely tax payments to the Internal Revenue Service in 2008.</p>
<ul style="list-style-type: none"> <li>Incorrect amounts were reported on line 1 of the quarterly payroll tax Form 941 filed during the year ended June 30, 2007.</li> </ul>	<p><u>Resolved.</u> Quarterly payroll tax reports for fiscal year 2008 reflected the correct amounts.</p>
<ul style="list-style-type: none"> <li>Employees were allowed to accumulate or be paid for excess compensated time.</li> </ul>	<p><u>Resolved.</u> The leave balance report did not reflect excess compensatory leave accumulated.</p>
<ul style="list-style-type: none"> <li>An escrow account set up by bond counsel for the city was not interest-bearing nor timely terminated per the legal documents providing for such an account.</li> </ul>	<p><u>Resolved.</u> This escrow account was closed.</p>
<p>7. <b>Delinquent Audit Report</b> - The city failed to submit its 2007 audit report to the Legislative Auditor within 6 months of the end of the fiscal year as required by law.</p>	<p><u>Not Determinable</u> - The due date for the city's audit report for fiscal year ending June 30, 2008, is December 31, 2008.</p>

## Management's Response





*City of Bastrop*  
*Post Office Box 431*  
*Bastrop, Louisiana 71221-0431*  
*318-283-0250*

November 10, 2008

Louisiana Legislative Auditor  
Mr. Steve J. Theriot, CPA  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Re: 2008 Best Practices, City of Bastrop

Dear Mr. Theriot:

**2008-1 Written Policies and Procedures**

The city's policies and procedures are being updated to clearly state what should be done, how it should be done, who should do it, and when it should be done to ensure proper checks and balances as well as aid in the continuity of operations and for staff cross-training. Policies and procedures will include the payroll, accounts payable, cash receipts, inventory, general ledger and closing month.

Ethics certification letters will be signed by the mayor, alderpersons and all employees annually.

Financial accounting records will be backed up and the tapes will be taken home by the City Clerk or Assistant City Clerk daily.

The city will start establishing a Records Retention schedule during this year.

## **2008-2 Budgeting Process**

The City of Bastrop will adopt the city's 2009 budget in accordance with the Local Government Budget Act and the city's charter.

### **Segregation of Duties**

**Purchasing** – (1) the Assistant Purchasing Director receives invoices from vendors; (2) matches purchase orders to invoices; (3) City Clerk will add vendors in the computer system; (4) the Purchasing Director will record transactions in the computer system to create payables (5) the Assistant City Clerk will prepare and print the checks; (6) the Human Resource Clerk will use a signatory stamp to sign the Checks; and (5) City Clerk will mail the checks.

**Payroll** - (1) the Human Resource Clerk will add new employees in the computer system, including making changes to deductions, pay rates, etc; (2) the City Clerk will record employee work hours in the computer system to calculate payroll; (3) Assistant City Clerk will prepare and print the checks; (4) Purchasing Director will use a signatory stamp to sign the checks; and (5) City Clerk will distribute the checks.

### **Wal-Mart Cards**

The City of Bastrop has reduced the number of Wal-Mart charge cards from 14 to 9 cards. Management has established a credit card policy.

### **Accounting for Tickets/Citations**

The Training Officer will issue (2) two ticket books to a police officer. The Training Officer will record each officer's name and every individual ticket number (in the ticket books) issued to the officer. New ticket books will be issued (in numerical order) to an officer only after previously issued books have been accounted for and all issued citations have been received from the police officer.

The City of Bastrop is preparing to network the ticket tracking software of the police department and the city court to eliminate the duplication of work currently being performed. Computer "read" and "write" access to the case information will be restricted by management to only those persons in the police department and city court that need such access to perform their jobs.

## **Receipts/Collections**

**Cash Drawer** – Separate cash drawers have been set up to improve accountability and control over the cash. Each cash drawer is under lock and balanced on a daily basis.

**Collections By City Departments** – We are reviewing the collection procedures of all payments to be centralized at the City Clerk's office.

## **Capital Assets**

The Purchasing Director has been designated to manage the city's capital assets. Assets will be tagged and placed on the inventory at the time of purchase as well as updating for disposals. An annual physical inventory of the capital assets will be performed and any differences will be investigated and resolved on a timely basis.

## **Payroll**

**Time/Attendance Records** – All employees (excluding elected officials) prepare and sign a time sheet and submit it their department head for approval.

**Employment Eligibility Form** – All employees hired after November 6, 1986 have completed the Form I-9 as required, and the city has verified their identity and established that they are eligible for employment with the city.

## **Confiscated Evidence**

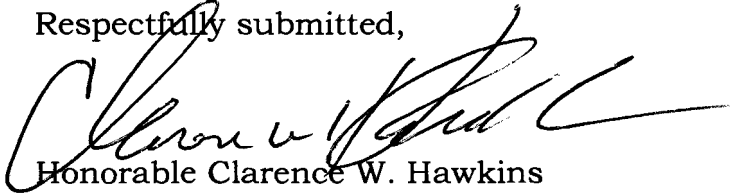
The city will establish policies and procedures for confiscated evidence, including recording, maintaining, inventorying, and disposing of the evidence. An annual physical inventory of evidence will be performed. The Police Chief and Chief of Detectives will be the only employees to have access to the evidence lockers to receive and release confiscated evidence. A sign-in/sign out log will be maintained to document all access, including the dates, names, and reasons for access.

## **Disaster Recovery Plan**

The City of Bastrop plans to write a disaster recovery/business continuity plan to be prepared in the event of a disaster.

I hope the information provided fulfills your requirements, as mandated by state law.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Clarence W. Hawkins", written in a cursive style.

Honorable Clarence W. Hawkins  
Mayor