

TOWN OF RICHWOOD



ADVISORY SERVICES REPORT
ISSUED JULY 16, 2008

**LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

July 16, 2008

**THE HONORABLE STEPHEN HUNTER,
MAYOR, AND MEMBERS OF THE BOARD
OF ALDERMEN**

Richwood, Louisiana

My staff applied our *Checklist of Best Practices in Government* in providing advisory services for the financial operations of the Town of Richwood (town). In addition, we reviewed former Mayor Edward Harris' resolution of the audit findings reported in the town's June 30, 2007, audited financial statements.

After meeting with the current and former mayors, on June 17, 2008, to review our findings and recommendations, my office became aware of significant payments made by the former mayor for vacation pay, severance pay, and attorney fees. As I understand, the town is currently reviewing the propriety of those payments.

Attachment I contains our findings and recommendations resulting from our assessment and Attachment II provides the status of the June 30, 2007, audit findings. The former mayor'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

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Findings and Recommendations

The following are the findings and recommendations resulting from our advisory services. Management (mayor and aldermen) of the town 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 of not implementing such controls.

We reviewed these findings and recommendations with management of the town to provide management an opportunity for its response. Former Mayor Edward Harris' response is presented in Appendix A.

Open Meetings Law

The town did not fully comply with the Open Meetings Law [Louisiana Revised Statute (R.S.) 42:4.1 et seq.]. Our assessment revealed that written public notice is not given for "pre-meetings" of the board (a meeting held before the regular board meeting) nor is a summary of the minutes of such meetings published as required by state law.

The Louisiana Attorney General (A.G.) has opined in Opinion 80-939 that a "pre-meeting" is considered a public meeting if it is conducted with a quorum present and includes discussion of town business. The Open Meetings Law requires, in part, that the town give written notice to the public of the agenda, date, time, and place of the meeting, and R.S. 43:144 requires the town to publish the minutes of public meetings.

Recommendation: The board's "pre-meetings" must fully comply with the Open Meetings Law or not be held. Should such meetings continue to be held by the board, management must ensure that proper notice is given to the public, an agenda is posted, and a summary of the minutes are published.

Local Government Budget Act

Management of the town failed to fully comply with the Local Government Budget Act.

Budget and Amendments Not Adopted by Ordinance - The town's 2008 budget was adopted by a resolution of the board instead of by an ordinance as required by law. R.S. 33:406A (3) requires the town, a Lawrason Act municipality, to adopt its annual budget by ordinance. An ordinance carries the effect of law while a resolution merely expresses an opinion.

Furthermore, we also understand that amendments to the budget have historically been adopted by resolution. The A.G. has opined in Opinion 00-462 that budget amendments of a Lawrason Act municipality must be adopted by ordinance.

Recommendation: The board of aldermen should comply with state law and take immediate action to properly adopt the town's 2008 budget by ordinance. In the future, town budgets and any amendments should be adopted by ordinance without exception.

No Budget Message - The 2008 budget did not include a budget message as required by law. R.S. 39:1305C (1) requires 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 by state law. 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.

Fund Balances Not Shown in Budget - The estimated fund balances at the beginning and end of the fiscal year are not shown in the 2008 budget as required [R.S. 39:1305C (2)(a)].

Recommendation: Management of the town should ensure that the estimated beginning and ending fund balances are shown in the budget as required by law.

Publication of Ordinances

Ordinances adopted by the board of aldermen are not published as required by state law. R.S. 33:406D (2) requires the clerk to publish (once in the official journal) ordinances adopted by the board within 20 days of their adoption and before their effective date. In addition, the A.G. has opined in Opinion 87-670 that ordinances adopted by the board must be published in their entirety.

Recommendation: The town should comply with state law by ensuring that the clerk publishes ordinances within 20 days of adoption and before the effective date.

Financial Statements and Budget Comparisons

Financial statements are not prepared monthly for all funds of the town nor are monthly budget-to-actual comparison schedules prepared and presented to the board of aldermen for review. Without complete financial information on all funds, including budget-to-actual comparisons, the board of aldermen cannot effectively exercise its fiduciary responsibilities of managing the town.

Recommendation: In addition to the monthly financial statements for the general fund, the board should be presented with monthly financial statements for all other funds of the town, including budget comparisons and warnings of any corrective action (e.g., amend the budget) needed.

Plan for Future Operations

The town does not have a formal plan for both short- and long-term spending to ensure it will operate within its available funding and maintain a reasonable fund balance/net assets for the general fund.

Recommendation: We suggest that management of the town:

- Develop and adopt an operating plan (in writing) that includes both short- and long-term goals/objectives which will guide the annual planning and budgeting process
- Monitor the plan, at least quarterly, to assess whether operations are on target with the plan
- Monitor the financial statements and budget monthly to ensure that operations are within the available funding and that a reasonable fund balance/net assets is being maintained

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 procedures aid in the continuity of operations and for staff cross-training.

Recommendation: We recommend that management develop and implement written policies and/or procedures related to:

1. 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, each alderman, and all employees attesting to their compliance with the ethics policy
2. Financial reporting, including the nature, extent, and frequency of reporting financial information to management
3. Budgeting, including procedures for preparing, adopting, monitoring, and amending budgets
4. Investments, including procedures for investing excess cash and ensuring that bank balances and investments are fully secured
5. Receipts/collections, including receiving, recording, and preparing deposits

6. Disbursements, including processing, reviewing, and approving expenditures
7. Procurement/purchasing, including how purchases are initiated and approved and checks and balances to ensure compliance with the public bid law
8. Payroll recordkeeping, including formal records for employee time, attendance, leave, and overtime
9. Capital assets, including recording, tagging, and safeguarding assets, including conducting physical inventories
10. Traffic tickets, including safeguarding, issuing, and accounting for tickets/citations
11. Confiscated items, including recording, maintaining, inventorying, and disposing of confiscated evidence
12. Computer, including backing up and storing computer files and general controls for the computer system
13. Retention of public records, including e-mails

Traffic Tickets/Citations

Improper Disposition of Citations - Contrary to state law (R.S. 32:398.2.B), not all citations are being disposed of by trial or an acceptance of a plea in open court. We determined that the former mayor, police chief, and a town employee (designated as the “court administrator”) were reducing and/or dismissing citations even though they have no judicial and prosecutorial powers under the law (R.S. 33:441.B).

A magistrate (judge) appointed by the board conducts the mayor’s court for the town. The A.G. has opined in Opinion 93-313 that a mayor retains no authority to dismiss citations once a magistrate has been appointed to preside over mayor’s court. The opinion further provides that a police chief has no authority to dismiss a citation once it has been issued.

We advise management that state law (R.S. 32:398.3.A) provides penalties if a citation is dismissed incorrectly and the A.G. has opined in Opinion 98-426 that a violation of R.S. 32:398.3 may constitute malfeasance for a public official who disposes of traffic citations in an unlawful manner.

Recommendation: The town should comply with state law by ensuring that all traffic citations are presented and disposed of in open court by the magistrate. Since the town has appointed a magistrate to preside over mayor’s court, the mayor has no authority over the court and should be strictly prohibited from reducing/dismissing citations. In addition, under no circumstances

should the police chief or other town employees (e.g., court administrator) be allowed to reduce or dismiss tickets.

No Accounting for Tickets/Citations - 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 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.

Purchases and Disbursements

Our assessment of purchases and disbursements revealed control weaknesses.

Visa Debit Card Charges - There was little control over the former mayor's use of the town's Visa debit card and records are missing. State law (R.S. 44:36.A) requires town officials and employees to exercise diligence and care in preserving public records.

During the nine-month period from July 2007 through March 2008, the former mayor used the debit card 30 times for purchases totaling \$2,280, all of which was paid for out of the police department checking account.

We selected six charges for review and determined that there was no documentation of the business purpose(s) for any of the charges and all original itemized receipts were missing. We were informed that the charges were for the former mayor's travel (hotels and meals) and the purchase of gasoline and electrical supplies.

Recommendation: The town should discontinue using the Visa debit card. In the future, the mayor should file expense reports for reimbursement of travel made for business purposes of the town. The expense reports should include all appropriate documentation/receipts supporting the business nature of the expenditures, in particular the business purpose for lodging and meals, including the names of all individuals participating. All other purchases (e.g., gasoline and supplies) should be processed and paid using the normal purchasing procedures of the town.

Meals and Mileage Reimbursement Rates - Town employees are reimbursed for meals and vehicle mileage at higher amounts/rates than those adopted by the board (Ordinance 93-02).

A comparison of the board's adopted rates with the actual rates being paid is as follows:

	Adopted Rates	Actual Rates Paid
Breakfast	\$4.50	\$8.50
Lunch	\$10.00	\$12.50
Dinner	\$12.00	\$15.00
Mileage	\$0.21 per mile	\$0.35 per mile

Recommendation: The town should comply with the municipal ordinance or take the appropriate action to amend the ordinance.

Invoice Review and Approval - Paid invoices/bills of the town did not reflect the former mayor’s review and approval.

Recommendation: To improve controls over disbursements, the mayor should document his review and approval on all invoices before being paid by the town clerk.

Leave Records and Benefits

Our assessment revealed that the town needs to improve controls over leave records and benefits.

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

Recommendation: Management of the town should require that accurate written records be maintained to account for annual and sick leave earned and taken by all employees, and the leave records be reviewed and approved, each pay period, by an appropriate supervisor. In addition, employees should be provided with a summary of their leave activity (e.g., beginning leave balance + leave hours earned during the period – leave hours taken during the period = ending leave balance) each pay period.

Leave Benefits - The town may have improperly paid \$2,533 of leave benefits (annual and sick) to a former employee.

The town paid the employee (now deceased) more leave benefits than the payroll records show he had accumulated and was eligible for under the town’s personnel policy (Ordinance 93-02):

- In February 2008, the town paid the employee for 80 hours of annual/vacation leave which is 40 hours (\$444) more than records show he had accumulated to date.
- From December 2007 to February 2008, the town paid the employee a total of 456 hours of sick leave which is 188 hours (\$2,089) more than records show he had accumulated.

Recommendation: Management may consider consulting with legal counsel to explore options available, if any, to the town. In the future, the mayor and clerk should ensure that any payments to employees for leave benefits are accurate and made in accordance with the ordinance.

Confiscated Evidence

A periodic physical inventory of confiscated evidence (e.g., weapons) is not performed by the police department nor is a log being maintained to document access to the evidence lockers. Failure to maintain adequate control over evidence increases the risk that evidence will be lost, stolen, or disposed of improperly.

Recommendation:

- Policies and procedures should be established for confiscated evidence, including recording, maintaining, inventorying, and disposing of the evidence.
- A complete physical inventory of evidence should be performed periodically during the year and compared to the written records maintained. Differences should be investigated and resolved immediately.
- Access to the evidence lockers should be limited to authorized personnel in charge of receiving and releasing confiscated evidence. There should be a sign-in/sign-out log maintained to document access, including the dates, names, and reason for access.

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.

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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 town's independent auditor) and the disposition of those findings based on our inquiries and general observations as of April 17, 2008.

June 30, 2007, Audit Findings	Disposition as of April 17, 2008
<p>1. Recording and Depositing Sewer Fees - The town did not record all monthly transactions related to the billing and collection of sewer fees, and the sewer fees were being deposited into the wrong bank account.</p>	<p><u>Partially Resolved</u>. The town is depositing the sewer fees in the correct bank account; however, the town is not recording the monthly (1) gross sewer billings; (2) sewer payments to the City of Monroe; or (3) collection fees paid to the third-party collection agency.</p>
<p>2. Local Government Budget Act - The town did not amend its 2007 General Fund budget when actual expenditures exceeded budgeted expenditures by more than 5% as required by law.</p>	<p><u>Not Determinable</u>. The town does not prepare a General Fund financial statement with budget-to-actual comparisons; therefore, we were unable to determine if actual expenditures exceeded budgeted expenditures by more than 5%.</p>
<p>3. Controls Over Traffic Tickets - The town did not have adequate controls in place to properly account for the issuance and final disposition of all traffic tickets.</p>	<p><u>Unresolved</u>. The town is not accounting for the numerical sequence of tickets; therefore, we were unable to determine whether citations were issued, lost, or voided.</p>
<p>4. Unrecorded Liability - The town's financial report did not disclose a liability to the mayor for certain payments he made on behalf of the town.</p>	<p><u>Resolved</u>. The town reimbursed the former mayor in full and the former mayor informed us that he has not made any further payments on behalf of the town.</p>

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Management's Response



TOWN OF RICHWOOD

"An Equal Opportunity Service Provider and Employer"

Edward L. Harris, Mayor

5130 Brown Road - Richwood Louisiana 71202-7004 - Phone: (318) 322-2104 - Fax: (318) 323-3254

June 24, 2008

Louisiana Legislative Auditor
Steve J. Theriot, CPA
P. O. Box 94397
Baton Rouge, LA 70204-9397

RE: Response to advisory recommendations

Dear Mr. Theriot:

In reply to your request regarding your advisory services report of the Town of Richwood, I have addressed each of these items below in the order provided:

Open Meeting Law

It has been the practice of the mayor to provide public notice and an agenda of all pre-meetings. If there should be pre-meetings in the future, the pre-meetings will fully comply with the Open Meeting Law in the publication of minutes.

Budget and Amendments Not Adopted by Ordinance

The town utilized R.S. 39:1305 (D), "The budget adoption instrument for any municipality . . . shall be by appropriation ordinance, adoption resolution, or other legal instrument . . ."

In the future, the Town of Richwood's budget will be adopted by ordinance and amended by the same utilizing R.S.33:406 A (3).

No Budget Message

In the future the Mayor will prepare and sign a budget message along with the annual budget as required by state law.

Publication of Ordinances

The town has practiced publishing Ordinances in full title within twenty (20) days. In the future, the town's clerk will have ordinances published within twenty (20) days of its adoption in its entirety.

Financial Statements & Budget Comparisons

It is the current proactive of the town to provide to board with monthly expenditure reports. In the future, the town will present to council monthly general financial statements of the General Fund and all other Funds of the Town of Richwood, including budget comparisons and warnings of any corrective action needed.

Plan for Future Operations

The town will develop and adopt a long and short term operational plan with objective and goals to guide annual planning and budgeting process; moreover, the town's staff will monitor the plan quarterly, as well as monitor the financial statements and budget monthly to ensure that operations are within available funding and that a reasonable fund balance is being maintained.

Written Policies and Procedures

The town maintains that it has adequate practices in place to prevent internal improprieties, but does concede that all policies and practices being utilized should be written in a centralized location. The town has recently addressed issues of ethics and personnel. The town will provide a written comprehensive police and procedure manual addressing accounting protocol, continuity, ethics, financial reporting in nature and frequency, procedures for investments, procurement, systems of checks and balances for internal controls, record keeping of payroll, capital assets recording and safeguarding, protocol for evidence and traffic citations, retention of all public records, and a business continuity plan.

Improper Disposition of Citations

No reduction/dismissal of citations will be done except in accordance to state law.

No Accounting for Tickets/Citations

No ticket books will be issued to police officers until the previously issued book has been accounted for and citations been received in a numerical sequence.

Visa Debit Card

The purpose for using the visa card was for weekend emergencies that occurred within the Richwood Police Department, such as emergency purchases of gasoline, batteries, tires, etc.,. Nevertheless, the Town of Richwood will discontinue using the visa debit card.

Meals and Millage Reimbursement Rates

The town has adopted a new personnel manual covering leave and benefits providing consistency with other local governments and agencies. Additionally, as a part of the Employee Personnel Manual, the town adopted the State travel policy.

Invoice Review and Approval

I respectfully disagree with the recommendation to sign each invoice. In my opinion we are already doing what you recommended. When the Mayor reviews and signs the Purchase Order Requisition that has the invoices attached; this clearly reflect that the Mayor has reviewed and approved the invoices before being paid by accounts payable.

Leave Records and Benefits

The town will keep accurate written records or do annual sick leave earned and taken by all employees; and that leave records are reviewed and approved each pay period by an appropriate supervisor. Moreover, the employees shall be provided with a summary of their leave activity each pay period.

Leave Benefits in Questions to a Deceased Employee

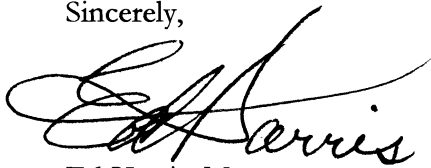
We will in the future ensure that any payments to employees for leave benefits are accurate and made in accordance with ordinance.

Disaster Recovery and Business Continuity

The town will write a disaster recovery/business continuity plan. It will be prepared and tested/revised annually. This plan will allow the town to operate in the event of a disaster, fire, or terrorist attack.

I hope that you find these responses suitable for public release. My staff and I would like to thank you for the service and advise you office has provided to the town of Richwood. Your services could not have come at a better time. Your staff member, Mr. Bobby Trahan, provided a very comprehensive review of the town's operation in an objective and professional manner. To this end, we would like to extend thanks to him.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ed Harris', written in a cursive style.

Ed Harris, Mayor

C: Council Members
Jay Nolan, Town's Attorney