

TOWN OF GIBSLAND



INVESTIGATIVE AUDIT
ISSUED FEBRUARY 13, 2013

**LOUISIANA LEGISLATIVE AUDITOR
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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

February 13, 2013

**THE HONORABLE ODIS KEY, MAYOR,
AND BOARD OF ALDERMEN
TOWN OF GIBSLAND**
Gibsland, Louisiana

We have audited certain transactions of the Town of Gibsland. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the propriety of certain financial transactions.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*.

The accompanying report presents our findings and recommendations as well as management's responses. This is a public report. Copies of this report have been delivered to the District Attorney for the Second Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KK/ch

GIBSLAND 2013

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EXECUTIVE SUMMARY

Mayor Improperly Administering the Town

Town of Gibsland Mayor Odis Key appears to have violated state law by intentionally disregarding requirements of the Local Government Budget Act (LGBA) and the Lawrason Act in the performance of his duties as mayor as follows:

1. Mayor Key stated that he operated the Town for an entire fiscal year without a board-adopted budget and that expenditures exceeded the 50 percent appropriation limitation specified in the LGBA.
2. Mayor Key stated that he hired an administrative assistant and assigned her the duties of the municipal clerk after the board of aldermen would not approve her as the municipal clerk.
3. Mayor Key signed a \$5,000 contract with Mr. Hersy Jones, Jr., for consulting services without obtaining board approval as required by state law.

Inadequate Financial Management

Mayor Key has not established an effective system of financial management. Without an effective system, the mayor and board cannot effectively exercise their fiduciary responsibilities of managing the Town's finances. The problems we identified during our visits included the following:

- No Monthly Financial Statements and Budget Comparisons
- Collection of an Expired Sales Tax
- Bank Reconciliations Not Current
- Accounts Payable Not Reconciled
- Payments Owed to Contractors Are Delinquent
- Management Not Monitoring the Funding and Payment of USDA Loans
- Uncollected Utility Receivables
- Improper Use of Customer Meter Deposit Monies

Inadequate Internal Controls

Mayor Key has not established and implemented an adequate system of internal controls to ensure that Town operations are conducted in an effective and efficient manner. Internal controls play an important role in preventing and detecting fraud and protecting the Town's resources.

BACKGROUND AND METHODOLOGY

The Town of Gibsland (Town) is located in Bienville Parish, has a population of 979 (Year 2010 Census), and was incorporated under the provisions of the Lawrason Act¹ which is a mayor-board of alderman form of government. The Town provides public safety, public works, utility services, and administrative services to its residents.

This audit was initiated after concerns were raised when the Town's auditor issued a disclaimer of opinion on the Town's financial statements for the year ended June 30, 2011. The disclaimer of opinion was rendered because the Town did not (1) maintain adequate records of disbursements; (2) properly reconcile bank accounts; and (3) properly reconcile accounts receivable or payable. As a result, the Town was placed on the Legislative Auditor's noncompliance list (noncompliant with the state Audit Law) and the Town is currently ineligible to receive funds that flow through the state.

The procedures performed during this audit consisted of:

- (1) interviewing employees of the Town and other persons as appropriate;
- (2) examining selected documents and records of the Town;
- (3) performing observations;
- (4) gathering and examining documents and records from external parties; and
- (5) reviewing applicable state laws and regulations.

FINDINGS AND RECOMMENDATIONS

Mayor Improperly Administering the Town

Town of Gibbsland Mayor Odis Key appears to have violated state law² by intentionally disregarding requirements of the Local Government Budget Act³ (LGBA) and the Lawrason Act^{4,5} in the performance of his duties as mayor as follows:

- 1. Mayor Key stated that he operated the Town for an entire fiscal year without a board-adopted budget and that expenditures exceeded the 50 percent appropriation limitation specified in the LGBA.³**
- 2. Mayor Key stated that he hired an administrative assistant and assigned her the duties of the municipal clerk after the board of aldermen would not approve her as the municipal clerk.**
- 3. Mayor Key signed a \$5,000 contract with Mr. Hersy Jones, Jr., for consulting services without obtaining board approval as required by state law.^{5,6}**

1. Mayor's Deliberate Noncompliance with LGBA

Mayor Key may have violated state law³ by administering/operating the Town without an adopted general fund budget for the entire 2012 fiscal year^A (July 1, 2011 through June 30, 2012) and spending more than 50 percent of the budgeted/appropriated expenditures in the last adopted general fund budget.^B Mayor Key stated he was aware of the LGBA's 50 percent limitation,³ but he chose to continue operating the Town beyond what was allowed by state law.³

State law⁷ requires that all action necessary to adopt and otherwise finalize and implement the budget for a fiscal year be taken in an open meeting and completed before the end of the prior fiscal year. According to board minutes and Town records, the Town's general fund budget for the 2012 fiscal year was never adopted as required. The minutes show Mayor Key submitted the 2012 budget to the aldermen on November 14, 2011 (4 ½ months after the start of the fiscal year), but the aldermen did not approve it. According to three aldermen,^C the budget was not approved because it was from a prior year. Alderman Timmy Cato further stated that Mayor Key could not explain the numbers in the budget. There was no evidence in the minutes for the remainder of the fiscal year that Mayor Key submitted another 2012 budget to the board for approval.

^A According to Alderman Marketris Jones, as of December 12, 2012, the Town does not have a budget for the 2013 fiscal year.

^B We used the general fund budget adopted for the 2010 fiscal year (July 1, 2009 through June 30, 2010) to calculate the amount deemed reappropriated in 2012 because the Town could not find a copy of the general fund budget adopted for the 2011 fiscal year. Budgeted expenditures in the 2010 fiscal year totaled \$163,118; therefore, the amount deemed reappropriated in the 2012 fiscal year totaled \$81,559 (\$163,118 x 50%).

^C Marketris Jones, Katherine Mixon, and Timmy Cato.

State law³ also provides that if, at the end of any fiscal year, the Town has not adopted a budget for the ensuing fiscal year, then 50 percent of the amounts appropriated (for expenditure) in the last adopted budget can be reappropriated in the ensuing fiscal year until the Town adopts its budget. According to the Town's general fund bank statements, the Town spent \$220,329 in the 2012 fiscal year, which is almost three times more than the amount (\$81,559)^B allowed by state law.³

By operating the Town without an adopted budget and knowingly spending more than 50 percent of expenditures appropriated in the last adopted budget, Mayor Key may have violated state law.²

2. Mayor Circumvented State Law by Operating Town
Without Board Approved Municipal Clerk

State law⁸ requires the mayor of a Lawrason Act municipality to appoint a clerk, subject to confirmation by the board of aldermen, at the first regular meeting of the board of aldermen succeeding each regular municipal election. The duties of the clerk are defined in state law⁹ and include, among other things, that the clerk will (1) record the proceedings of the mayor and board of aldermen; (2) be the custodian of the municipal seal; (3) keep the municipal docket; (4) keep other books and records as may be provided for by ordinance; and (5) keep a book of all deeds to individuals and the list of lands sold to the municipality by the tax collector.

According to the January 2011 minutes, at the first meeting of the board of aldermen following the regular municipal election, Mayor Key appointed Ms. Regina White to be the municipal clerk, but she was not confirmed by the board of aldermen. Mayor Key stated that after the board of aldermen did not confirm Ms. White, he hired her as his administrative assistant and she did the job of the municipal clerk. Mayor Key further stated that when Ms. White decided to leave employment, he hired Ms. Trisherica Webb in January 2012 as an office intern.

In February 2012, Mayor Key recommended Ms. Webb (an office intern at the time) to the board for approval as the municipal clerk, with the understanding that if she were not approved, she would "fill in" as the mayor's assistant. According to the minutes, the board of aldermen tabled (i.e., did not vote on) the mayor's appointment of Ms. Webb as municipal clerk or as the mayor's assistant. Even though the aldermen did not approve Ms. Webb as municipal clerk or as the mayor's assistant, Mayor Key stated he appointed her as his assistant and she performed the duties of the municipal clerk.

Mayor Key may have violated state law² by intentionally operating the Town without a board approved municipal clerk. Mayor Key stated he used Ms. Webb as the municipal clerk despite the fact that the board did not approve her as required by state law.^{4,8}

Mayor Key eventually proposed a candidate that the aldermen approved and she was hired on September 17, 2012, to be the municipal clerk. However, this person resigned in December 2012.

We spoke with Ms. Webb and asked her to review the list of municipal clerk duties as prescribed by state law.⁹ She stated that she performed all of these duties since she started in January (2012) and was “pretty much” the municipal clerk.

Since Mayor Key intentionally operated the Town without board approval^{4,8} of the municipal clerk, he may have violated state law.²

3. Mayor Signed A Contract Without Obtaining Board Approval

Mayor Key signed a \$5,000 contract with Mr. Hersy Jones, Jr., for consulting services without obtaining approval from the board of aldermen as required by state law.^{5,6}

On April 19, 2012, without board approval, Mayor Key signed a \$5,000 consulting contract with Mr. Hersy Jones, Jr. Although state law⁵ gives the mayor the power to sign all contracts on behalf of the Town, Attorney General (AG) Opinion 12-0074⁶ provides that the mayor cannot execute a contract that expends public funds in the absence of an ordinance or resolution by the board authorizing him to do so. The board minutes do not show approval of this consulting contract.

According to the consulting contract, Mr. Jones was to:

- (1) submit monthly reports on the status of services rendered and hours expended;
- (2) develop and implement accounting and office procedures;
- (3) provide necessary training; and
- (4) assist the mayor in developing effective working relationships with businesses to spur economic development.

Mayor Key advanced \$2,500¹⁰ (50% of contract) to Mr. Jones on the day that the contract was signed (April 19, 2012) and paid the remaining \$2,500 (on May 21, 2012) to Mr. Jones without ensuring that he performed all of the work/services that were required under the contract.^D On June 5, 2012, the board minutes show the aldermen discussed Mr. Jones’s contract with the Town and adopted a resolution to disapprove all payments to Mr. Jones.

Mr. Jones stated he did not prepare monthly progress reports as was required in his contract, but did send a couple of invoices to the Town and that he could provide us with copies. However, when we asked him for a copy of the invoices, Mr. Jones changed his statement and said that the contract (itself) was actually the invoice because it required a \$5,000 payment upfront.¹⁰

Our audit also revealed that Mayor Key disregarded the board’s June 5, 2012, resolution and paid Mr. Jones four more times totaling \$720. According to Mr. Jones, the extra payments were for a “new arrangement” he had with Mayor Key to process the Town’s payroll. Mayor

^D The contract called for a nonrefundable retainer fee of \$5,000 due on the date the contract was signed, but instead, Mayor Key made two payments of \$2,500 each that were one month apart.

Key stated these payments were for mileage expenses Mr. Jones incurred. According to Ms. Webb (the employee performing the municipal clerk duties at the time), she could not recall if Mr. Jones processed the payroll and thought the extra payments were for mileage expenses.

In summary, by signing a contract and incurring costs without board approval, Mayor Key may have violated state law.^{5,6} Also, because Mayor Key did not comply with the provisions of the LGBA³ and the Lawrason Act,⁴ he may have violated state law.²

Inadequate Financial Management

Mayor Key has not established an effective system of financial management. Without an effective system, the mayor and board cannot effectively exercise their fiduciary responsibilities of managing the Town's finances. The problems we identified during our visits included the following:

- **No Monthly Financial Statements and Budget Comparisons** - The municipal clerk was not preparing financial statements and budget-to-actual comparisons on funds of the Town each month. Without having and reviewing such financial information each month, it is difficult for Town management to realize/know when corrective action is needed (e.g., implementing spending cuts to avoid a deficit).
- **Collection of an Expired Sales Tax** - Although the Town's 1% sales tax expired in 1996, the Town continued (for approximately 16 years) to improperly collect this sales tax. (Note: On December 8, 2012, the voters approved a 1% sales tax for the duration of 10 years, beginning in January 2013.)
- **Bank Reconciliations Not Current** - The Town's bank accounts were not reconciled up-to-date; there was no independent review performed of the reconciliations; and there were no explanations for "uncleared transaction" entries totaling approximately \$42,000 on the reconciliation dated June 30, 2012. In September 2012, the Town contracted with an accountant to provide assistance with bank account reconciliations beginning from July 2011.
- **Accounts Payable Not Reconciled** - The Town maintains two sets of accounts payable records with different balances. One showed \$7,000 as being owed and the other showed a balance owed of \$137,000. It was not clear what both balances represented.
- **Payments Owed to Contractors Are Delinquent** - According to the Coordinating and Development Corporation (CDC) grant administrator, the Town was delinquent in paying \$92,000 to contractors for work related to the street grant, physical accessibility grant, and water well repairs. The Town is on the Legislative Auditor's noncompliance list and is therefore currently ineligible to receive funds that flow through the state. As of December 18, 2012, the Town had not paid the contractors.

- **Management Not Monitoring the Funding and Payment of United States Department of Agriculture (USDA) Loans** - Town management and staff were uncertain as to (1) the current status (e.g., balances and payment amounts due) of the five loans the Town received from the USDA [four loans are in the name of the Town, and one loan is in the name of Sewer District No. 1 of the Town]; (2) how the loan payments were to be funded and paid; and (3) what Town bank accounts were established to repay the loans. The five loans originally totaled \$1.1 million and as of September 28, 2012, the payoff totaled approximately \$600,000. The Town's annual loan payments to the USDA total approximately \$63,000.

Subsequent to our exit meeting with Mayor Key on January 14, 2013, the Legislative Auditor received a letter (see Appendix A) from Mr. Richard Hoffpauir, Community Programs Director of the USDA-Rural Development State Office, who noted that the Town is currently delinquent on two of the loans. Also in the letter, Mr. Hoffpauir noted that they have been unsuccessful in getting financial information from the Town and stated, "The Town has simply been unresponsive to the information requests made by Rural Development."

- **Uncollected Utility Receivables** - The Town was owed a significant amount of money (\$55,000) from utility customers, and there is little effort being made to collect. As of August 2012, active utility customer balances totaled approximately \$27,000 and inactive accounts totaled approximately \$28,000.
- **Improper Use of Customer Meter Deposit Monies** - Town staff informed us that meter deposit monies were being spent to fund the general operations of the Town. As of June 2012, Town records indicated that meter deposits collected from customers totaled approximately \$25,000. However, monies maintained in the meter deposit bank accounts in June 2012 totaled only \$8,000, a shortage of \$17,000.

Inadequate Internal Controls

Mayor Key has not established and implemented an adequate system of internal controls to ensure that Town operations are conducted in an effective and efficient manner. Internal controls play an important role in preventing and detecting fraud and protecting the Town's resources.

In addition to the Town lacking comprehensive, written policies and procedures to guide its employees when carrying out their daily responsibilities, we noted control deficiencies in the areas of:

- (1) payroll processing;
- (2) purchasing and disbursements;
- (3) utility billing;

- (4) gifts and donations;
- (5) retention of public records (e.g., budgets and ordinances);
- (6) credit cards;
- (7) capital assets;
- (8) travel;
- (9) ethics training; and
- (10) disaster recovery planning.

Recommendations:

The Mayor should:

- 1. Comply with all provisions of the Lawrason Act, including operating the Town with a board approved municipal clerk and obtaining authorization from the board before signing/executing contracts.
- 2. Comply with all applicable provisions of the Local Government Budget Act (LGBA).
- 3. Request documentation from Mr. Jones as required by the contract to prove he was entitled to receive payment.
- 4. Ensure that a general fund budget for the 2013 fiscal year is prepared and presented to the board of aldermen for adoption and comply with R.S. 39:1312 (which allows 50% of the last appropriated fiscal budget to be re-appropriated in the ensuing fiscal year) and not exceed the legal limitation until a budget is adopted for the 2013 fiscal year.
- 5. Ensure that copies of all adopted Town budgets (and supporting documents) and ordinances (R.S. 33:406) are maintained in accordance with the public records law (R.S. 44:36).
- 6. Ensure development of a written, LGBA-compliant budget process including a budget calendar specifying the date(s) that each key step in the budget must be completed.
- 7. Review with legal counsel all requirements of the LGBA and obtain the training needed to ensure compliance with the LGBA.
- 8. Consider requesting board approval to hire a CPA to assist in the preparation of the Town's budget. A careful review of both revenue and expense estimates

should be performed to ensure that all budget estimates are realistic and fully supportable.

9. Consider requesting board approval to hire a CPA to develop a plan to address and resolve the Town's financial management and internal control deficiencies noted. Such a plan should address the development of an accounting system that will produce reliable financial reports and allow management to obtain a better understanding of the Town's financial position.
10. Ensure that the municipal clerk prepares accurate and complete financial statements and budget comparisons each month on Town funds. We advise that this financial information be formally presented to the board of aldermen at their monthly meetings and the discussion be documented in the minutes. Aldermen should consider such financial information in their decision-making process.
11. Ensure that all bank accounts are reconciled up-to-date (and are maintained up-to-date each month) and that any differences are immediately investigated for propriety. For proper checks and balances, someone independent of this function should be responsible for reviewing and approving (initial and date) the bank reconciliations and ensuring that there are no unusual reconciling items.
12. Ensure that the two sets of accounts payable records are reconciled and the differences explained and resolved.
13. With assistance from the CDC grant administrator, identify all amounts owed to grant contractors and develop payment plans.
14. Meet with appropriate UDSA representatives to gain a full understanding of the Town's five loan obligations and ensure that all required bank accounts have been opened and are adequately funded.
15. Ensure that utility services are promptly terminated on all customers who do not pay their bill by the due date and take aggressive action to collect delinquent accounts, including legal action when necessary.
16. Immediately cease the practice of using customer meter deposit monies to fund Town operations. The customer utility deposit bank account(s) should be immediately restored to the total of balances refundable to the customers.
17. Ensure the development, adoption, and implementation of policies and procedures for all Town business/financial operations (e.g., bank reconciliations, accounts receivables, collection of delinquent accounts) to provide guidance to employees. We emphasize that this process should be a collaboration involving the mayor's office, the board of aldermen, and the Town's accounting advisors.

18. Ensure that adequate internal controls are implemented in the following areas:

Payroll/Personnel

- Segregate duties related to key payroll functions (e.g., mayor's assistant was performing all tasks related to payroll such as entering changes, entering timesheet data, and generating weekly payroll).
- Require that all employees have personnel folders on file at Town hall that contain all relevant payroll data (e.g., salary/wage information, completed tax withholding forms).
- Review to ensure that all payments to employees are made in accordance with applicable law and Town personnel policies and procedures.

Purchasing/Disbursements

- Require purchase orders to be matched to receiving reports and invoices, and require the mayor to document his review/approval of such documentation prior to payment.
- Ensure that payables records are reviewed and reconciled monthly and that a complete, up-to-date listing of aged accounts payable can be produced and work with the board to ensure spending controls are implemented so the Town can pay its obligations as they become due.

Accounts Receivable (Utility Billing)

- Ensure that staff is reconciling the Town's detailed accounts receivable balance to its general ledger accounts receivable balances at least monthly.
- Establish separate locking cash drawers for each clerk who collects monies and prohibit them from working out of each other's drawer. The cash drawers should always remain locked when not in use.

Gifts and Donations

- Develop and adhere to a written policy which prohibits making gifts and donations (e.g., purchase of flowers) that may violate Article 7, Section 14 of the state's Constitution.

Credit Cards

- Obtain all Town credit cards and secure under lock in Town hall. Access and use of the credit cards should be limited and tightly controlled.
- Discontinue incurring monthly interest charges (e.g., rate is 29.99% on the Office Depot account) by paying the balances in full each month.

Capital Assets

- Review and ensure the Town's capital asset listing is complete, updated each year, and complies with requirements of state law.

Travel

- Develop, adopt, and implement a written travel policy using state travel regulations as a guide for all official travel of the Town.
- Review travel expenses of Town officials and employees for compliance with policy before reimbursement is made. Evidence of the review and approval should be documented in writing and reimbursement should be made timely.

Ethics

- Develop, adopt, and implement an ethics policy and related training. A recent change in state law (R.S. 42:1170) requires all public servants (elected officials and public employees) to receive one hour of ethics training each year.

Disaster Recovery/Business Continuity Plan

- Develop a disaster recovery plan and test it annually. The plan should include steps required to restore key data files from secured back-up media in the event data is lost.

LEGAL PROVISIONS

¹ **Louisiana Revised Statute (R.S.) 33§321** states, “All municipalities shall be governed by the provisions of this Part except those municipalities governed by a special legislative charter or a home rule charter or plan of government adopted pursuant to Article VI of the Constitution of Louisiana.”

² **R.S.14§134** states, in part, “malfeasance in office is committed when any public officer or public employee shall:
(1) Intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; or
(2) Intentionally perform any such duty in an unlawful manner...”

³ **R.S. 39§1312** states, “If, at the end of any fiscal year, the appropriations necessary for the support of the political subdivision for the ensuing fiscal year have not been made, then fifty percent of the amounts appropriated in the appropriation ordinance or resolution for the last completed fiscal year shall be deemed reappropriated for the several objects and purposes specified in such appropriation ordinance or resolution.”

⁴ **R.S. 33§404 A(3)** states, in part, “The mayor shall have the following powers, duties, and responsibilities: Subject to applicable state law, ordinances, and civil service rules and regulations, to appoint and remove municipal employees, other than the employees of a police department with an elected chief of police. However, appointment or removal of a nonelected chief of police, the municipal clerk, the municipal attorney, or any department head shall be subject to approval by the board of aldermen....”

⁵ **R.S. 33§404 A(4)** states, in part, “The mayor shall have the following powers, duties, and responsibilities: To sign all contracts on behalf of the municipality.”

⁶ **Attorney General Opinion 12-0074** states, in part, “La. R.S. 33:404(A)(4) specifically addresses the mayor’s role in municipal contracts, providing that the mayor has the power, duty and responsibility “[t]o sign all contracts on behalf of the municipality.” Please note that the mayor cannot execute a contract that expends public funds in the absence of an ordinance or resolution by the board of aldermen authorizing him to do so. See Atty. Gen. Op. Nos. 09-0181, 05-0221, 04-0052, 93-283. However, once authorized, the mayor can enter into a contract, as he is solely authorized to sign and execute contracts on behalf of the municipality. La. R.S. 33:404(A)(4); see also Atty. Gen. Op. No. 07-0018.”

⁷ **R.S. 39§1309 (A)** states, in part, “ All action necessary to adopt and otherwise finalize and implement the budget for a fiscal year shall be taken in open meeting and completed before the end of the prior fiscal year....”

⁸ **R.S. 33§386 (A)** states, in part, “At the first regular meeting of the board of aldermen succeeding each regular municipal election, the mayor, subject to confirmation by the board of aldermen, shall appoint a clerk, tax collector, except as provided for in R.S. 33:381(D), and all other necessary officers whose election is not provided for in R.S. 33:381. In the event of a vacancy, the mayor, subject to confirmation by the board of aldermen, shall appoint a successor to any such office.”

⁹ **R.S. 33§421 (A)** states, in part, “The clerk shall keep a book to be labeled “Municipal Minutes, City of _____,” or “Town of _____,” or “Village of _____,” as the case may be, in which he shall record the proceedings of the mayor and board of aldermen, and keep the same fully indexed alphabetically, so that all entries on the minutes can be easily found. The clerk shall be the custodian of the municipal seal, which each municipality shall adopt and provide. The clerk shall keep a book, to be styled “Municipal Docket, City of _____,” or “Town of _____,” or “Village of _____,” as the case may be, upon which he shall enter each claim against the municipality, and each subject matter to be acted upon by the mayor and board of aldermen. After each meeting he shall make up such docket for the next regular meeting. He shall examine the statutes of the State and the ordinances of the

municipality to ascertain subject matter required or proper to be acted upon at the following meeting, and shall docket all such matters. He shall keep such other books and records as may be provided for by ordinance, and shall file in his office and preserve all records and papers appertaining to the business of the municipality. He shall keep a book to be styled "Tax Record, City (or town, or village) of _____," in which he shall enter all deeds to individuals, and the list of lands sold to the municipality by the tax collector, showing (a) description of the land, (b) as whose property sold, (c) date of sale, (d) amount of taxes, costs, and damages due, and to whom the costs are owing, (e) when redeemed, (f) by whom redeemed, (g) date of redemption, and (h) amount paid therefor."

¹⁰ According to AG Opinion 06-0155, payments should not be made prior to the work being performed. Since Mayor Key advanced some payments to Mr. Jones, this may be a violation of Article 7, Section 14 of the Louisiana Constitution, which prohibits donations such as advance payments.

APPENDIX A

Letter from United States Department of Agriculture -
Rural Development Office



United States Department of Agriculture
Rural Development
State Office

January 16, 2013

Louisiana Legislative Auditor
Attn: Ms. Joy Irwin
1600 North Third Street
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Ms. Irwin:

In recent days we have noted the Town of Gibsland is delinquent on two of four Rural Development loans. Loans outstanding are noted as follows:

	Payoff	Interest Rate	Installment	Behind
Loan 01	\$180,896.84	5.0	\$23,800.00	\$23,550.00
Loan 02	\$107,903.42	5.0	\$11,750.00	\$12,100.00
Loan 03	\$ 50,243.30	5.0	\$ 5,450.00	\$-0-
Loan 08	\$257,001.27	4.5	\$16,888.80	\$-0-

Rural Development has been unsuccessful in getting current financials from the Town. The Rural Development public body "Loan Resolution" calls for periodic reporting as well as maintaining mandated reserves.

Based on a recent news story, it appears there may have been some legal issues whereby an investigation was referred to the local law enforcement authority. Rural Development mandates fidelity bonds but has had no success in gaining information from the Town. The Town has simply been unresponsive to the information requests made by Rural Development.

Any insight you can provide to Rural Development would be greatly appreciated.

Sincerely,

RICHARD B. HOFFPAUIR
Community Programs Director

cc: Natchitoches Area Office, Rural Development
State Director, Rural Development

3727 Government Street • Alexandria, Louisiana 71302
Telephone: (318) 473-7920 • Fax: (318) 473-7829 • TDD/TTY: (318) 473-7655 • Web: <http://www.rurdev.usda.gov/la>

Committed to the future of rural communities.

"USDA Rural Development is an Equal Opportunity Provider, Employer, and Lender".
To file a complaint of discrimination, write USDA, Director, Office of Civil Rights, 1400 Independence Avenue,
S.W., Washington, D.C. 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

APPENDIX B

Management's Responses



TOWN OF GIBSLAND

P. O. Box 309
Gibsland, Louisiana 71028
(318) 843-6141 • Fax (318) 843-9409

January 23, 2013

VIA FACSIMILE 225-339-3987
AND REGULAR MAIL

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Response to Legislative Auditor Investigative Findings

Dear Mr. Purpera:

This letter shall serve as my written response to the Investigative Audit Report regarding the Town of Gibsland dated January 14, 2013. If you have any questions or comments, please call me. The Board of Alderman previously approved the Town retaining a Town Counsel and an Accountant to assist the Town. I have reviewed the findings in the report and sought advice to assist the Town in becoming compliant.

Recommendation 1:

As the Mayor, I have reviewed the Lawrason Act and I agree to comply with the requirements of the Lawrason Act. In particular, I agree to ensure that contracts requiring the spending of public funds will be approved by the Board of Aldermen before signing them. I understand that a Town Clerk is required by law and much needed. I agree to keep presenting candidates to the Board of Alderman and pledge to work with the Board until a consensus is reach.

Recommendation 2:

As the Mayor, I agree to comply with all applicable provisions of the Local Government Budget Act.

Recommendation 3:

We have requested the needed information from Mr. Jones and anticipate receiving it no later than 30 days.

Recommendation 4:

The budget for the fiscal year ending June 30, 2013 has been presented to the Board of Aldermen at the December 12, 2012 meeting. We anticipate the adoption for the budget at the February 5, 2013 regular Board of Aldermen meeting.

Recommendations 5 - 9:

The Town's budget and supporting documents and ordinance shall be maintained in accordance with the public records law. With approval of the Board of Aldermen, we have retained Samuel W. Stevens, III, CPA to assist the Town in preparing a budget for fiscal year 2012 and 2013. Mr. Stevens has also agreed to assist the Town in adopting appropriate the financial management procedures and internal controls.

We have also reviewed the budget process with the Town's Attorney and the requirements of the Louisiana Government Budget Act. It is my intention to fully comply with the budget process as required by all Towns.

Recommendation 10:

Until such time as a Municipal Clerk is approved by the Board of Aldermen, I and my assistant shall ensure that monthly reports regarding financial statements, including income and expenses, are prepared and given to the Board each month so that they will be able to use this information in making decisions. Once the Board has approved a Municipal Clerk, the Clerk shall continue these duties.

Recommendation 11:

Each month, all of the Town's bank records shall be reconciled on a form provided and/or approved by Mr. Stevens. Any differences, abnormalities, or unusual transactions shall be noted and investigated. Until such time as a Town Clerk is appointed, either I or my Administrative Assistant shall perform these duties. Once a Town Clerk is appointed, the Town Clerk shall perform the reconciliation.

The reconciliation and bank records shall be reviewed by a second person who does not have daily responsibility with the bank records. Any differences, abnormalities, or unusual transactions reviewed and/or discovered by the second reviewer shall be noted on the reconciliation sheet and shall be investigated. This independent reviewer shall sign the reconciliation sheet indicating review of same. It is my hope that the Mayor Pro Tempore will conduct these independent reviews. If he's unable or unwilling to undertake these duties, then Mr. Stevens or any subsequently retrained CPA shall perform these functions.

Recommendation 12:

We have requested Mr. Stevens' assistance in reconciling the two sets of accounts payable and the differences be determined and clarified. Any and all necessary correcting entries will be made with proper explanations.

Recommendation 13:

I and/or my assistant will contact the Coordinating Development Corporation representative to discuss the status of grant/loan matters and determine the amounts owed, if any, to contractors. This information will be reported to the Board of Aldermen and a plan developed for repayment of same.

Recommendation 14:

I and/or my assistant will contact the USDA representatives and confirm the Town's obligations on the current five loans, including payment terms, funding terms, and other necessary information. We will also work with our bank to ensure that all required bank accounts are open and adequately funded as required by the bonds and loans.

Recommendations 15-16:

The Town will enforce late payments and take appropriate actions including disconnection of services as necessary. I am going to recommend increasing the disconnection fee for services to cover the expenses associated with employees having to perform these services and to encourage payment.

I have instructed the Water Department Clerk and office staff to immediately stop the practice of transferring water deposit money to other accounts or otherwise using said funds. I have further instructed the Water Department Clerk and office staff to review the records to determine any deposit money that must be restored to the water deposit account. Once that has been determined, the funds will be placed back in the deposit account.

Recommendations 17-18:

I and my Administrative Assistant have met with Town Attorney and CPA to discuss proper procedures to ensure proper financial and operational procedures. Mr. Stevens is assisting us in developing policies that will be discussed and adopted by the Mayor and Board of Alderman. These procedures will include proper payroll policies, purchase order procedures, reconciling payables and utilities billing, controlling access to Town credit cards, preparation of a list of capital assets and proper management of all town assets, proper employee policies including travel regulations and expenses, disaster recovery plan including the recovery of business data, prohibition of making gifts and donations in violation of the State Constitution, and other policies as needed.

I am advising all employees and officials of their obligations under the Louisiana Code of Governmental Ethics and the website address of the Commission on Ethics which contains the locations of available classes and the ability to take the required class online. Employees have been notified of their obligations to take one hour of ethics each year. The Board of Aldermen have been advised of their obligation to take one hour of ethics and one hour of training each year in Campaign Finance Disclosure Act.

I have advised all employees that a certificate showing completing of these courses are required to be maintained by the Town. I have instructed my assistant to create a master file to maintain copies of these certificates and to check the

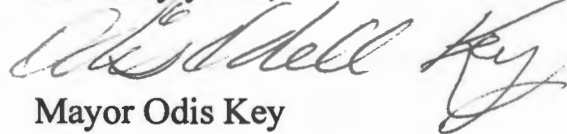
January 23, 2013

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certifications against the list of employees to ensure compliance with this requirement.

It is my intent to meet all requirements of my position as Mayor and help Gibsland move forward and prosper. If you need any additional information from me, please call me. With kindest regards, I am

Sincerely, yours,

A handwritten signature in cursive script, appearing to read "Odis Key".

Mayor Odis Key

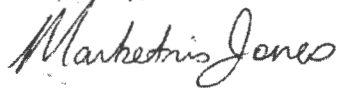
January 21, 2013

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Response to your report,

The board of Aldermen agrees with the Findings and Recommendations in the report dated January 14, 2013. We also agree that Mayor Key should follow the Recommendations as outlined in the Investigative audit report. This will ensure that the Gibsland Community is headed on the right path of growth and prosperity.

Sincerely,

A handwritten signature in cursive script that reads "Marketris Jones".

Marketris Jones
Mayor Pro Tempore
Town of Gibsland
Po Box 475
Gibsland, Louisiana 71028