

TOWN OF JONESBORO



COMPLIANCE AUDIT  
ISSUED JUNE 1, 2011

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

June 1, 2011

**THE HONORABLE LESLIE THOMPSON, MAYOR,  
AND MEMBERS OF THE BOARD OF ALDERMEN  
TOWN OF JONESBORO**  
Jonesboro, Louisiana

We have audited certain transactions of the Town of Jonesboro. 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 response. This report 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

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JONESBORO 2011



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We have visited the Town of Jonesboro (town) on four separate occasions (September 2009, August 2010, December 2010, and March 2011) to assess management's progress in resolving prior year audit findings. Our assessments revealed little progress was made by management and also revealed the following additional compliance and control findings that need to be immediately addressed and resolved by the board of aldermen and the mayor.

1. The town may have violated the Constitution<sup>1</sup> and Louisiana law<sup>2</sup> since it has made no collection efforts on delinquent utility accounts and has not held a tax sale for unpaid 2008 property taxes. In addition, the mayor may have violated Town Ordinance 562<sup>3</sup> by authorizing extended payment terms for town residents of unpaid utility balances.
2. The town was unable to provide documentation to support 172 expenditures totaling \$385,122, which may violate Louisiana law<sup>4</sup> regarding records retention.
3. The mayor did not keep adequate records of ticket sales for the 2010 gospel concert and could not demonstrate that all cash collected was deposited.
4. On August 26, 2010, the town sold and swapped real estate without a proper appraisal or board approval, which may violate Louisiana law.<sup>5</sup>
5. On December 23, 2010, the town hosted an inaugural ceremony at the Jackson Parish Community Center to celebrate the 2010 campaign victories of the mayor, chief of police, and board of aldermen. Since town (public) funds were used to pay for this event, the mayor may have violated Louisiana law<sup>7</sup> and the Constitution.<sup>1</sup>
6. Our assessment of the town's business/financial operations revealed significant deficiencies in the overall financial management of the town. Without an effective financial management system, the mayor and board cannot effectively exercise its fiduciary responsibilities of managing the town's finances. The problems that we encountered included:
  - Management's Noncompliance with Louisiana Audit Law
  - Management's Noncompliance with Local Government Budget Act
  - Management's Noncompliance with Public Bid Law
  - Management's Lack of Financial Oversight
  - Lack of Financial Accounting Expertise
  - Staff Not Adequately Trained on Accounting System
  - Accounting Records in Disarray and Not Complete
  - Town Bank Accounts Not Reconciled

- No Clear Accounting of Dedicated Taxes
- Lack of Controls Over Payables and Disbursements
- Customer Utility Accounts Not Reconciled
- Customer Water Meter Deposits Not Reconciled
- Ad Valorem Taxes Not Reconciled
- Written Policies and Procedures Not Complete
- Lack of Controls Over Capital Assets
- Lack of Controls Over Traffic Tickets
- No Disaster Recovery/Business Continuity Plan

The Town of Jonesboro (town) is located in Jackson Parish and has a population of 3,914 (Year 2000 Census). The town operates under the Lawrason Act, which is a mayor-board of aldermen form of government. The town has five elected aldermen who serve four-year terms. The mayor is elected at-large for a four-year term.

For two consecutive fiscal years (June 30, 2009 and June 30, 2008), the town's auditor issued a disclaimer of opinion on the financial statements of the town. The auditors tried to audit the town but could not complete the work because the town did not maintain adequate records of disbursements, properly reconcile bank accounts or accounts receivables and payables, nor were all transactions entered into the accounting records. Town records did not permit the application of adequate auditing procedures.

Since the 2009 audit report (disclaimer of opinion) was issued, the Legislative Auditor has visited the town on four separate occasions (September 2009, August 2010, December 2010, and March 2011) to assess management's progress in resolving the findings. Our assessment revealed that little progress was made by management in correcting the audit findings and also revealed additional compliance and control findings that need to be immediately addressed and resolved. This audit report outlines the latest findings and conditions in the town as well as recommendations on improving its operations.

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**Uncollected Funds**

The town may have violated the Constitution<sup>1</sup> and Louisiana law<sup>2</sup> since it has made no collection efforts on delinquent utility accounts and has not held a tax sale for properties with unpaid 2008 property taxes. Attorney General Opinion 08-0063, provides, in part, “This office has consistently opined that Art. VII, Sec. 14, which prohibits the donation of public funds, requires public agencies to make reasonable attempts to collect the amounts they are owed.” In addition, the mayor may have violated Town Ordinance 562<sup>3</sup> by authorizing extended payment terms for town residents of unpaid utility balances.

Delinquent Utility Accounts

The town operates a utility service for town residents to provide water and sewer service to homes and businesses. As of January 2011, the town’s utility accounts have balances due at greater than 30 days of \$178,166. According to Mayor Leslie Thompson, there are no collection efforts by the town to collect on inactive customer utility account balances, which may violate the Louisiana Constitution.<sup>1</sup>

<b>Delinquent Utility Accounts as of January 11, 2011</b>				
<b>Account Status</b>	<b>Over 30 Days Due</b>	<b>Over 60 Days Due</b>	<b>Over 90 Days Due</b>	<b>Total</b>
Active	\$11,769	\$4,768	\$18,411	\$34,948
Inactive	5,602	8,105	129,511	143,218
<b>Total</b>	<b>\$17,371</b>	<b>\$12,873</b>	<b>\$147,922</b>	<b>\$178,166</b>

We spoke with Mayor Thompson regarding inactive past due accounts and he was not aware that the inactive account balances were as high as they are. He stated that the inactive past due accounts have not been submitted to a collection agency to pursue collections efforts. In addition, he stated that the town has not pursued any collection efforts because the town does not have the new mailing addresses for residents who may have moved or left the town. If residents with unpaid balances request new utility services, they must pay any outstanding balance before services are reconnected.

Of these inactive past due accounts, three are in Mayor Thompson’s name and one in his wife’s name, totaling \$101. We brought these accounts to the mayor’s attention and he stated that he was unaware of them and that they were from past residences. He was unsure how the

<sup>1</sup> **Article 7, Section 14 of the Louisiana Constitution** provides, in part, “That except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.”

<sup>2</sup> **Louisiana Revised Statute (R.S.) 47:2154** states, in part, “The tax collector shall seize, advertise, and sell tax sale title to the property or an undivided interest therein upon which delinquent taxes are due, on or before May first of the year following the year in which the taxes were assessed, or as soon thereafter as possible. The price shall be the amount of statutory impositions due on the property, costs, and interest.”

<sup>3</sup> **Town Ordinance 562** states, in part, “The charges herein fixed, established and levied shall be due and payable by each customer on the 15<sup>th</sup> day of the month following the month in which the bill was mailed by United States mail to the customer. If the same has not been paid on or before the 15<sup>th</sup> day of the month following the mailing, a penalty of (10%) shall be added to the bill for late payment charges. If the bill has not been paid on or before the 25<sup>th</sup> day of said month service shall be discontinued and a disconnect and reconnect charge shall be added, as provided herein.”

system did not catch it. Payment was made by the mayor on these accounts within days of being informed of them.

Property Tax

Town records indicate that there are 59 instances of unpaid 2008 property taxes totaling \$2,890. According to Mayor Thompson, there has been no attempt to collect these payments or determine whether a tax sale for these properties is needed, which may violate Louisiana law.<sup>2</sup>

Mayor Thompson stated that the unpaid taxes are due to errors made by town employees during the collection and posting process. He further explained it was the town's mistake and there was no way to verify whether payment had been made. He also stated that he never instructed anyone not to have a property tax sale, but that he did not push to have the sale due to the numerous errors on the town's part.

Former Town Clerk Vicki Stephens stated that the town did not hold a property tax sale for the delinquent 2008 property taxes because the town was unable to determine which citizens had not paid their property taxes. Ms. Stephens indicated that the errors were a result of town employees not posting all received payments to the town's records. These errors were not discovered until the first batch of delinquent notices was mailed and residents who paid their property tax began to complain.

Extended Payment Terms of Utility Accounts

According to town records, Mayor Thompson may have violated a town ordinance<sup>3</sup> by providing extensions and repayment agreements for unpaid utility bills to town residents. In addition, these programs provide residents an interest-free loan of public funds, which may violate the Louisiana Constitution.<sup>1</sup> Town Ordinance 562<sup>3</sup> states that customers' utility payments are due on the 15<sup>th</sup> day of each month and that if payment has not been received, a 10% penalty shall be applied to the customer account. If payment has not been received by the 26<sup>th</sup> of the month, services shall be discontinued and disconnected.

According to Mayor Thompson, he has implemented two options to assist town residents who have difficulties paying their utility bill: one being a hardship form allowing them an extension on the payment of their bill due to emergency financial situations, and the other is a payment option plan for those who have a past due balance on their account. By agreeing to a payment plan, town residents agree to pay their normal monthly bill amount in addition to an extra amount per month to be applied directly to the past due balance until it is paid in full. Mayor Thompson stated that he approves all hardship and payment option forms; however, a review of town records indicates that town employees have also approved these forms and, in some cases, the forms were not approved by the mayor or a town employee. If the town wishes to establish these programs they should insure that there is some type of objective criteria to identify the hardship, seek legal advice pertaining to compliance with law, and obtain board approval.

In addition, Mayor Thompson stated that at times residents contact him personally, asking that their water be turned back on even though they have a past due balance. In these situations, the mayor and the residents reach an agreement as to when they will pay their bill and Mayor Thompson instructs town employees to turn the residents' water back on.

We recommend the town:

- (1) attempt to collect all funds that have not been collected including property tax and outstanding utility balances and
- (2) follow the town ordinance regarding utility collections.

### **Missing Documentation**

We reviewed a sample of 435 town expenditures from December 2007 through December 2010 totaling \$1,102,803, to determine if documentation was available to support these expenditures. Adequate documentation consists of an invoice, receipt, or other detailed documentation indicating the items purchased. The town was unable to provide documentation to support 172 items totaling \$385,123, which represents 35% of our sample. Since the town did not maintain documentation detailing these expenses, it may have violated Louisiana law<sup>4</sup> regarding record retention.

### **Inadequate Internal Control Over Gospel Ticket Sales**

Town records indicate that for the 2010 gospel concert, 240 tickets were sold and \$3,675 was collected and deposited. According to Ms. Stephens and Mayor Thompson, the mayor and his wife, Ms. Yoshi Thompson, controlled the tickets and the cash for the 2010 concert ticket sales. Since Mayor Thompson and his wife had control and custody of the tickets and cash collected, but did not keep adequate records, the mayor could not demonstrate that all cash collected was deposited.

Town records indicate the town deposited \$3,675 for the 2010 gospel concert ticket sales. Tickets were sold days before the concert and at the door by town employees at three different price points: children's tickets were \$10, adult advance tickets were \$15, and adult tickets sold at the door were \$20. Mayor Thompson and his wife were responsible for distributing tickets and the collection and custody of cash. Since the mayor and his wife did not maintain records of tickets issued or the quantity sold at each price point, the mayor could not demonstrate that all cash collected was deposited.

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<sup>4</sup> R.S. 44:36 provides, in part, "All persons and public bodies having custody or control of any public record... such public records shall be preserved and maintained for a period of at least three years from the date on which the public record was made."

According to Ms. Stephens, the mayor's wife handled the custody and distribution of tickets and collected cash and unsold tickets from town employees. Mayor Thompson stated that town employees provided cash from ticket sales to him and his wife at town hall or brought it to their house after normal business hours. The mayor further stated that he kept the cash at his house or in a locked drawer in his office.

On the night of the concert, Ms. Stephens stated that the cash collected was given to Ms. Thompson by the ticket sellers at the door. Ms. Thompson stated she received \$75 the night of the gospel concert. Ms. Stephens further stated that the cash was taken to Mayor Thompson's home and returned to town hall on Monday and placed in the vault until the mayor's wife could be present to count the cash. Ms. Stephens stated that two or three weeks passed before Ms. Thompson was available to perform a cash count.

According to Mayor Thompson, employees who sold tickets were given a form to document the number of tickets sold and cash collected; however, the mayor could not provide these records. Since the mayor and his wife could not provide records of the quantity of tickets sold at each price point, we could not determine if all cash collected was deposited.

We recommend the town implement the following:

- (1) assign separate employees to be responsible for custody of tickets, record keeping of ticket sales, and custody of cash to include the deposit;
- (2) require all employees collecting funds at events to complete a reconciliation form and sign it;
- (3) require independent reconciliations of ticket sales to cash collected and deposited; and
- (4) use pre-numbered tickets with documentation of sold, unsold, and amounts collected.

### **Land Transactions**

On August 26, 2010, the town sold and swapped real estate without a proper appraisal or board approval, which may violate Louisiana law.<sup>5</sup> The town contracted for two appraisals before the sale of the property, but the final sale of property was of a different quantity of acreage and price per acre than either of the appraisals, and included a tract of property the town swapped with another entity. While the board did approve a sale of real estate, the town sold a different quantity of acreage at a different price than approved by the board, resulting in \$7,619 less than approved by the board. The tract of property swapped by the town never had an appraisal or board approval, but was swapped for a similar size adjacent tract to satisfy the buyer's needs and sold by the mayor immediately following the swap as part of the sale.

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<sup>5</sup> **R.S. 33:4712 (B)** provides, in part, "Before disposition can be made of property under the provisions of this Subpart, an ordinance must be introduced, giving the reasons for the action on the part of the governing authority, and fixing the minimum price and terms of the sale, lease, exchange, or other contract to be made with reference to the property."

Comparison of Appraisals, Board Approved Price, and Deed				
	First Appraisal	Second Appraisal	Board Approved Price	Property Sale Deed
Date	5/1/2010	6/3/2010	6/28/2010	8/26/2010
Acreage	3.695	4.24	3.695	3.574
Acreage Value	\$48,500	\$55,000	\$48,501	\$40,882
Price Per Acre	\$13,125.85	\$12,971.70	\$13,126.12	\$11,438.72

The town should seek legal advice as to whether it can rescind the land sale and land swap and should obtain a proper appraisal and board approval before any future real property transactions.

### Inauguration Celebration

On December 23, 2010, the town hosted an inaugural ceremony at the Jackson Parish Community Center to celebrate the 2010 campaign victories of the mayor, chief of police, and board of aldermen. The town paid \$2,400 for catered meals, \$158 for an advertisement in the town journal, and also hired a videographer.<sup>6</sup> Since town (public) funds were used to pay for this event, the mayor may have violated Louisiana law<sup>7</sup> and the Constitution.<sup>1</sup>

According to Mayor Thompson, he organized the event without board approval and felt it was a legitimate marketing expenditure to promote the town. The attorney general provides guidance with regard to the Louisiana Constitution<sup>1</sup> in Opinion 09-0018, which states that “the public entity must have the legal authority to make the expenditure” and outlines a three-prong test for the expenditure of public funds as follows:

1. There must be a public purpose that comports with the governmental purpose of the public entity.
2. When taken as a whole, the expenditure does not appear to be gratuitous.
3. There must be evidence demonstrating that the public entity has a reasonable expectation of receiving a benefit or value at least equivalent to the amount expended or transferred.

Given the Attorney General’s opinion and the three-prong test, the mayor could not explain the public purpose or benefit received by the town of the \$2,558 in expenditures associated with the inaugural ceremony.

<sup>6</sup> As of March 24, 2011, the town has not received an invoice from the videographer.

<sup>7</sup> R.S. 42:1461(A) provides, in part, “Officials, whether elected or appointed and whether compensated or not, and employees of any “public entity” . . . by the act of accepting such office or employment assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property, or other thing of value belonging to or under the custody or control of the public entity in which they hold office or are employed.”

The town should cease using public funds to pay for celebratory functions and seek legal advice regarding the recovery of the funds spent on the inaugural celebration.

### **Financial Management**

Our assessment of the town's business/financial operations revealed significant deficiencies in the overall financial management of the town. Without an effective financial management system, the mayor and board cannot effectively exercise its fiduciary responsibilities of managing the town's finances. The problems that we encountered included the following:

1. **Management's Noncompliance with Louisiana Audit Law** - For the past four consecutive fiscal years (2007 through 2010), management has failed to file the town's annual audit report with the Legislative Auditor's Office by the statutory deadline. The Louisiana Audit Law (R.S. 24:513) requires the town to file its annual audit report no later than December 31 of each year (six-months after the close of the fiscal year).

As of March 21, 2011, the 2010 audit report was delinquent and the Legislative Auditor had denied the town's request for an extension of time to file due to the town's significant unresolved accounting and auditing problems. In accordance with state law (R.S. 39:72.1.A), payment of funds appropriated by the state to the town had ceased until the town submits its 2010 audit report.

Recommendation: In the future, management should take every step to ensure that the town's annual audit report is filed with the Legislative Auditor's Office on or before December 31 of each year. Furthermore, 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 the town or any public officer, employee, or other person of the town to fines and penalties (R.S. 24:518).

For the town's upcoming June 30, 2011 audit, management should ensure that:

- All transactions during the current fiscal year are properly recorded, adequately supported, and accounts (e.g., bank accounts, accounts receivable, accounts payable) are properly reconciled within 60 days after year-end (not later than August 31, 2011). To ensure success, reconciliations should be performed monthly.
- Firm dates are established with the auditor for starting and completing the audit to ensure adequate time is available to submit the audit report by the December 31 deadline.

2. **Management's Noncompliance with Local Government Budget Act -** Management failed to adopt the town's 2010-2011 General Fund budget before the start of the current fiscal year as required by state law (Local Government Budget Act). R.S. 39:1309.A and R.S. 33:406.A (3) required the budget to be adopted by ordinance before July 1, 2010, the beginning of the town's current fiscal year.

Recommendation: Management should strictly comply with all provisions of the Local Government Budget Act. The town's annual budget should be adopted by ordinance before the beginning of each fiscal year (July 1) and the budget should contain all required information. All amendments to the budget are also required to be adopted by ordinance [R.S. 33:406.A (3)].

3. **Management's Noncompliance with Public Bid Law -** Our assessment revealed that the town purchases its gasoline from one vendor without obtaining competitive bids as required by law.

R.S. 38:2212.1 requires the town to solicit competitive bids for all purchases of materials and supplies exceeding \$30,000. The Louisiana Attorney General has opined (A.G. Opinion 02-122) that recurring purchases that exceed the bid limit must be advertised and let by public bid. During the one-year period from August 2008 to July 2009, the town's recurring gasoline purchases totaled approximately \$67,000 and the town did not solicit bids.

Recommendation: Management should consult with the town's legal advisor and the Louisiana Attorney General. Also, management should review annually all items purchased frequently and consider soliciting bids for such items to ensure the lowest possible prices and to ensure compliance with the bid law.

4. **Management's Lack of Financial Oversight -** Financial statements are not prepared monthly on funds (e.g., General Fund, Enterprise Fund) of the town nor are monthly budget-to-actual comparison schedules prepared and presented to the mayor and council for discussion. Our assessment also revealed that the financial transactions occurring during the first six months of the current fiscal year (July 2010 through December 2010) have not been posted into the accounting system to allow for such reports to be generated.

Without complete financial information on all funds on a timely basis, including budget-to-actual comparisons, the mayor and council cannot effectively exercise its fiduciary responsibilities of monitoring and managing the town's fiscal affairs.

Recommendation: The mayor should ensure that he and the council are presented each month with current financial statements (e.g., Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balance; Cash Flow Statement [Enterprise Fund]) for all funds of the town, including budget-to-actual comparisons and warnings of any corrective action needed to be taken (e.g., amending the budget).

5. **Lack of Financial Accounting Expertise** - The town needs an individual with strong financial accounting expertise who can implement and provide coordination and oversight of the various municipal accounting functions.

The mayor employs an administrative/accounting staff that is led by the town clerk; however, the staff did not appear to possess sufficient knowledge of government accounting practices, or the ability to implement, monitor, and manage multiple accounting processes and controls to ensure complete and accurate financial reporting on a timely basis.

For two consecutive fiscal years (June 30, 2009 and June 30, 2008), the town's auditor issued a disclaimer of opinion on the financial statements of the town. The auditors tried to audit the town but could not complete the work because the town did not maintain adequate records, properly reconcile bank accounts or accounts receivables and payables, nor enter all transactions into the accounting records. These issues still exist.

We previously advised the mayor on December 22, 2010, that the town should hire one person with financial/accounting expertise to, among other things, ensure that current transactions are properly being recorded and reconciled, and to consider hiring one additional qualified person to concentrate on reconstructing prior years' records. As of our last visit to town hall on March 22, 2011, the town had hired an accountant who had begun recording current year disbursements/checks in the accounting system.

Recommendation: The town should ensure through the services of an experienced certified public accountant that, among other things, (1) current transactions are properly recorded and reconciled; (2) daily and month-end accounting processes and controls are implemented; (3) bank reconciliations are brought up-to-date and prepared each month; (4) accurate financial statements with budget-to-actual comparisons are prepared monthly; and (5) prior years' financial records are reconstructed.

6. **Staff Not Adequately Trained on Accounting System** - The staff was not adequately trained to use the town's computerized accounting system.

As of our last visit to the town, new accounting software had been installed but no formal training had been provided to the staff. We understand that this new software is not fully utilized as the town's accounting system as the payroll and accounts payable functions are still being processed in the previous system.

Recommendation: Staff must be fully trained on using the new system to help ensure that the town's financial data is accurately recorded, processed, and reported on a timely basis.

7. **Accounting Records in Disarray and Not Complete** - Staff were not maintaining the town's financial and related records in an organized manner and certain records we requested could not be located for our review. Furthermore, the town has not prepared and submitted a records retention schedule to the state archivist (Louisiana Secretary of State Office) for approval as required by R.S. 44:411. Without an organized filing system, town records are at risk of being misplaced, lost, or accessible to unauthorized persons.

We found that records were in multiple places/offices and not filed in a central location; certain offices and floors were cluttered with records; and it was often time-consuming for the town's staff to find records we requested. During our last visit, we observed improved recordkeeping; however, cash receipt journals and accounts payable journals for two months in 2008 were still missing.

Recommendation: A centralized recordkeeping system should be implemented and the town clerk should ensure that records are promptly filed and organized in a logical manner to support all financial activities. Also, management should develop and submit a records retention schedule to the state archivist for approval in accordance with R.S. 44:411 and exercise diligence and care in preserving public records in compliance with R.S. 44:36.

8. **Town Bank Accounts Not Reconciled** - The master bank account and payroll bank account have not been properly reconciled since June 30, 2007. In addition, the master bank account has not been further reconciled to the separate cash balances shown in the general ledger (books) for the six individual funds that comprise the master account. The master bank is a "control" account that comprises the town's General Fund, Enterprise Fund, Street Sales Tax Fund, Street Ad Valorem Tax Fund, Fire Ad Valorem Tax Fund, and Meter Deposit Fund.

Reconciling the bank statement balances with the book balances is necessary to ensure that (1) all receipts and disbursements are recorded by the town (an essential process in ensuring complete and accurate monthly financial statements); (2) checks are clearing the bank in a reasonable time; (3) reconciling items (errors, unrecorded deposits and checks) are appropriate and are being recorded; and (4) the reconciled cash balance agrees to the general ledger cash balance.

**Master Bank Account** - Using the available records, we attempted to reconcile the entries recorded in the master bank general ledger account (books) to corresponding amounts listed on the bank statements for the two-year period beginning July 1, 2007 and ending June 30, 2009.

At June 30, 2009, the book balance was \$4,375,699 and the balance in the bank account was \$796,116, a difference of \$3,579,583. The following is a summary of the differences between the two balances at June 30, 2009:

- Checks and other withdrawals listed on the bank statements totaling \$495,971 were not recorded in the books, and deposits listed on the bank statements totaling \$219,258 were not recorded in the books. Therefore, the master bank cash balance in the books appears to be overstated by \$276,713 (\$495,971 - \$219,258).
- Cash receipts recorded in the books totaling \$3,363,990 were not identified on the bank statements. Subsequently, in the 2009 audit, a journal entry was recorded in the books to reverse/remove \$3,243,193 and record it to a different fund/account. There was no documentation available to determine the nature or resolution of the remaining cash receipts (\$120,797).
- Checks recorded in the books totaling \$255,595 have not cleared/posted on the bank statements. Of that amount, \$29,858 (381 checks) was outstanding for more than three months.
- Certain accounts payable entries in the books that decreased the master bank cash balance by \$50,883 were not identified on the bank statements or in the available check register reports. Also, certain accounts payable entries in the books that increased the cash balance by \$55,165 were not identified on the bank statements nor was there evidence to determine the purpose of these entries. The net effect of these “unidentified” accounts payable entries was to increase the master bank cash balance in the books by \$4,282 (\$55,165 - \$50,883). There may be larger errors in individual accounts than the net amount of \$4,282.
- Audit adjustment entries recorded in the books in 2008 increased the master bank cash balance by a total of \$195,403. We identified \$20,652 as a deposit on a bank statement and documentation for the remaining \$174,751 reflects that this entry was to reverse entries made by the town.
- Interest earnings posted on the bank statements totaling \$13,845 was not recorded in the books. Therefore, the master bank cash balance in the books appears to be understated by this amount.

**Payroll Bank Account** - We attempted to reconcile the entries recorded in the payroll bank general ledger account (books) to amounts listed on the payroll bank statements for the two-year period beginning July 1, 2007.

At June 30, 2009, the book balance was a deficit (\$92,517) and the balance in the bank account was \$844, a difference of \$93,361. The following is a summary of the differences between the two balances at June 30, 2009:

- Deposits listed on the bank statements totaling \$91,404 were not recorded in the books.
- Payroll checks recorded in the books totaling \$2,779 have not cleared/posted on the bank statements. Of that amount, \$1,743 (11 checks) was outstanding for more than three months.
- Bank charges listed on the bank statements totaling \$750 were not recorded in the books.
- A check for \$71 was listed on the bank statement but was not recorded in the books.

Recommendation: The mayor should take immediate steps to ensure that:

1. Reconciling differences noted are resolved and that the master bank cash balance and payroll cash balance in the town's books are appropriately corrected.
  2. Bank reconciliations are prepared within 10 business days (two weeks) after the monthly statements are received from the bank. We also advise management that state law [R.S. 10:4-406(d) (2)] allows the town only 30 days to examine bank statements and cancelled checks for unauthorized signatures or alterations. After 30 days, the town is precluded from asserting a claim against the bank for unauthorized signatures or alterations.
  3. Any future differences between bank and book balances are researched and resolved timely, including recording journal entries (in the books) soon after the bank reconciliations are completed.
9. **No Clear Accounting of Dedicated Taxes** - The town receives ad valorem (property) taxes dedicated for fire protection and streets and also receives a sales tax dedicated for streets; however, there was no clear accounting of the expenditures of these monies to ensure they were spent only for their dedicated purposes.

R.S. 39:704 states, "The proceeds of any special tax shall constitute a trust fund to be used exclusively for the objects and purposes for which the tax was levied. The records of the taxing authority shall clearly reflect the objects and purposes for which the proceeds of the tax are used."

Although the dedicated ad valorem taxes and sales taxes are deposited into the same bank account (Master Bank) as the General Fund monies, the town records the tax proceeds in individual funds (Street Sales Tax Fund, Street Ad Valorem Tax Fund, Fire Ad Valorem Tax Fund) in the general ledger. However, as described previously, the master bank account is neither reconciled to books nor

is it further reconciled to the separate cash balances of the individual funds that comprise the master account.

Furthermore, the town pays its bills out of the master bank account without consideration of the cash recorded in the individual funds that are restricted for dedicated purposes. Both the town clerk and accounts payable clerk said they do not know how much of the cash in the town’s master bank account is restricted.

Recommendation: Management should consider depositing dedicated tax monies into separate bank accounts. Management must be able to clearly demonstrate in the accounting records that the taxes were spent only for their dedicated purposes.

10. **Lack of Controls Over Payables and Disbursements** - Management and staff did not know the full extent of the town’s unpaid obligations and the town’s bills were not being paid on a timely basis for the period under review. Good controls require that appropriate documentation to support all payments is maintained, more than one individual be involved in the disbursement process, and bills be paid on a timely basis to avoid penalties and interest.

We visited town hall in mid-February 2011 to meet with the mayor, town clerk, and accounts payable clerk to determine the extent of the town’s unpaid obligations. During our assessment, we observed the following:

- Stacks of unpaid bills/invoices in several locations
- Missing files for federal and state payroll taxes, including related liabilities
- Incomplete vendor files and inaccurate *Vendor History* printouts

The stacks of unpaid bills provided to us totaled \$236,811 at February 18, 2011, and included significant delinquent amounts as follows:

	<b>Total Unpaid Balances</b>
Currently Due	\$136,070
Delinquent more than 30 days	41,163
Delinquent more than 60 days	51,592
Delinquent more than 120 days	7,986
<b>Total</b>	<b>\$236,811</b>

During our last visit to the town on March 22, 2011, the clerk informed us that the town’s unpaid bills had been reduced to approximately \$39,000.

Since the town’s records were incomplete and in disarray, we expanded our assessment and determined that the town has incurred significant additional obligations to vendors and for capital projects that management and staff were not aware.

- **Additional Unpaid Obligations - Selected Vendors**

According to our estimates and calculations on February 18, 2011, the town has approximately \$87,000 in additional obligations for which management and staff were not aware.

During our visit, the staff was not able to provide us with amounts owed by the town, if any, for (1) revenue bond reserve requirements; (2) federal and state payroll taxes; (3) employer and employee retirement contributions; and (4) the town’s commercial insurance coverages. We contacted those vendors/agencies and the following is a summary of our estimates of the town’s additional unpaid obligations at February 18, 2011:

	<b>Total Unpaid Balances</b>	<b>Total Delinquent Balances</b>
2008 Water Revenue Bond Reserve Payments	\$35,250	\$30,726
Internal Revenue Service	13,413	13,413
Municipal Employees’ Retirement System	13,000	13,000
Municipal Police Employees’ Retirement System	12,000	12,000
Louisiana Municipal Risk Management Assoc.	5,974	5,974
Louisiana Firefighters’ Retirement System	3,500	3,500
Louisiana Department of Revenue	3,674	479
<b>Total</b>	<b>\$86,811</b>	<b>\$79,092</b>

During our last visit to the town (March 22, 2011), the clerk informed us that all of these selected vendors/agencies had been paid in full except for the \$35,250 in bond reserve payments which was still owed.

In addition, our assessment revealed that since June 2006, the Internal Revenue Service has assessed approximately \$21,000 in penalties and interest on the town for either remitting tax payments late or submitting quarterly tax forms late. Furthermore, since January 2007, the Louisiana Department of Revenue has assessed the town approximately \$18,000 in penalties and interest.

- **Additional Unpaid Obligations - Capital Projects**

Although the staff informed us that the town was up-to-date in paying obligations incurred in connection with the capital improvement projects, we determined the town owes approximately \$400,000, all of which is delinquent.

The staff was not able to provide us with a listing of the capital improvement projects; therefore, we contacted the town’s engineer, obtained a listing, and determined that the town owes significant amounts in connection with the following projects as of February 18, 2011:

Projects	Total Unpaid Balances	Days Delinquent
1. Sewer System	\$185,143	22
2. Airport Perimeter Fence	175,870	90
3. Jogging Trail	31,160	48 - 123
4. Airport Lighting	11,106	35
5. Leon Street	4,876	96
<b>Total</b>	<b>\$408,155</b>	

During our last visit, the clerk told us that the town has not made any payments on these balances owed on capital projects.

Recommendation: Management should develop a formal plan that includes both short-and long-term spending to ensure it can operate within available funding. Strong controls should be implemented over the disbursement process to ensure that (1) more than one individual is involved in the process (e.g., receiving, recording, reviewing, approving, and paying); (2) documentation to support all bills and payments is complete and maintained intact; and (3) all bills are paid timely, including the amounts withheld/deducted from employee paychecks.

11. **Customer Utility Accounts Not Reconciled** - The total amount recorded as owed to the town by all sewer and water customers in the general ledger was not reconciled each month to the separate utility system (subsidiary ledger). The monthly reconciliation of these two independent systems is very important and essential for a good system of controls over customer transactions (e.g., billings, payments, and adjustments).

Recommendation: Balances owed by utility (water and sewer) customers should be recorded in the town’s general ledger each month and reconciled/agreed to the detailed customer listing. At the end of each month, the town clerk should generate the detailed *Customer Accounts Receivable Listing* report from the utility system and reconcile to the balance in the respective general ledger account. Any

difference in the balances should be investigated, resolved promptly, and documented in writing.

12. **Customer Water Meter Deposits Not Reconciled** - The town's recorded liability for repayment of customer meter deposits was not reconciled each month with the cash in the restricted bank account and with the detailed customer meter deposit balances in the utility system. Management has a fiduciary responsibility to properly account for customer meter deposits.

Recommendation: On a monthly basis, the town clerk should generate the detailed *Customer Meter Deposit Listing* from the utility system and reconcile to the cash maintained in the restricted bank account and to the respective liability balance recorded in the general ledger. Any difference in the balances should be investigated, resolved promptly, and documented in writing.

13. **Ad Valorem Taxes Not Reconciled** - Ad valorem (property) taxes owed the town by property owners are not being recorded and reconciled in the books each month. Reconciling the detailed listing by property owner to the accounting records is a control feature as these two records should agree at all times.

Recommendation: Balances owed by property owners should be recorded in the general ledger and reconciled to the Tax Rolls at the end of each month. Any difference in the balances should be investigated, resolved promptly, and documented in writing.

14. **Written Policies and Procedures Not Complete** - The town's written policies and procedures for its business/financial operations were not complete.

Written policies and procedures aid in the continuity of town operations and 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. In addition, written policies and procedures aid in the continuity of operations and for cross-training staff or training new staff.

Recommendation: Management should require the town clerk to initiate and oversee the development and implementation of written policies and/or procedures, in accordance with applicable Louisiana laws, related to the following key areas:

- Ethics, including matters such as prohibited activities (e.g., related party transactions) and requiring that an annual certification letter be signed by the aldermen and all employees attesting to their compliance with the ethics policy
- Financial reporting process, including the nature, extent, and frequency of reporting financial information to aldermen

- Procurement/purchasing process, including how purchases are initiated and approved and controls to ensure compliance with the public bid law
- Receipts/collections process, including receiving (e.g., by mail), recording, preparing bank deposits, and a formal review and approval process
- Payment process, including processing, reviewing, and approving disbursements
- Contracts process, including legal review and ongoing monitoring to ensure that services received comply with terms and conditions
- Payroll process, including processing, reviewing, and approving time/attendance records and payroll, including leave taken and overtime worked
- 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 institutions are appropriate [R.S. 33:2955(A) and R.S. 39:1221]
- Ongoing gasoline and diesel inventories, including procedures for dispensing and accounting for usage
- Storing, issuing, and accounting for traffic tickets/citations and misdemeanor summons
- Travel, including rates for business mileage, meals, lodging, and parking, and the filing of standard expense reimbursement reports
- Capital assets, including recording, tagging, inventorying, safeguarding, and disposing assets
- Credit cards, including the charges allowed and documentation required (e.g., itemized receipts, business purpose documented, persons participating)

15. **Lack of Controls Over Capital Assets** - The detailed listing of the town's capital assets was not current and a complete physical inventory of assets had not been performed during the year. 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: Management should ensure that the town's capital assets are tagged when purchased and inventoried at least annually, and that the detailed list is updated for additions/purchases and deletions/sales during the year.

16. **Lack of Controls Over Traffic Tickets** - The town was not accounting for the numerical sequence of traffic tickets. Without an accounting, there is no way to determine whether tickets were issued, lost, or voided.

Although there is a log maintained of the blank ticket books issued to police officers and a log maintained of citations turned-in to the court clerk, there is no comparison of both logs to ensure that all tickets are accounted for and properly disposed (e.g., payment received).

Recommendation: The numerical sequence of tickets/citations should be accounted for on a monthly basis. 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. We suggest that the court clerk reconcile the police department's traffic ticket log to the citations issued log to account for the numerical sequence.

17. **No Disaster Recovery/Business Continuity Plan** - The town did not have a written disaster recovery plan for all operations. 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.

Recommendation: We recommend that a written disaster recovery/business continuity plan be prepared for all town operations and be tested/revised annually.

**Additional Comments as of April 21, 2011:**

- The town's 2010 audit report has been received, which includes a disclaimer of auditor's opinion.
- The town has been taken off of the Late Reports list.
- The town has signed a contract for professional services with a chief financial officer.

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## Management's Response



## TOWN OF JONESBORO



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MAYOR

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### Town Of Jonesboro's Response To Legislative Auditor Executive Summary May 12, 2011

#### DELINQUENT UTILITY ACCOUNTS

A vast majority of these delinquent accounts are more than four years old. The present administration was not aware of the delinquencies until pointed out by the legislative auditors as a result of their investigations. I am concerned about the accuracy of some of these accounts. I was very surprised to see delinquent accounts in my name as I am sure others will be also. However, I chose not to challenge it and hope the other citizens who will receive notices will do the same. As per discussion with the Town's Attorney, Douglas Stokes, on May 10, 2011, it was recommended that we notify each of the delinquent account holders by certified mail requesting that the outstanding accounts be satisfied within the next several weeks. If the amount owed is too much to satisfy within 30 days, we will set-up payment arrangements that are acceptable to both parties. These notices will be mailed out on June 1, 2011. We will also attempt to identify the property owners who may owe taxes for year 2008, and put forth a reasonable effort to collect. Town Attorney also pointed out that the law may prohibits the collection of monies owed that are older than 36 months.

#### PROPERTY TAX-2008

I was informed that the Town's property tax software mal-functioned and that the error caused the town not to be able to determine which property owners had paid, and which had not. I was later informed that human error may also have contributed. I was informed that inexperience on the part of staff members may have contributed to the mass confusion that we experienced during that time. Improper posting may also have occurred; nevertheless, the town opted to discontinue the collection process in that we concluded that the possibility of harm to the town (potential lawsuit) and out-weighed the justification of moving forward. The complaints of the property-owners were over-whelming. The Town has corrected these problems and is scheduled to hold this year's tax sale on May 19, 2011. However the Town will exhaust every reasonable effort to collect any documented tax account owed during this period of time.

#### EXTENDED PAYMENT TERMS ON UTILITY ACCOUNTS

In an effort to assist town customers who suffer an unexpected economic hardship, I devised a program that would afford them a 30 day grace. This was not designed to allow any

customer to avoid a payment owed and it was non-discriminatory, and each customer was entitled to benefit from the program equally. However, I totally agree with the legislative auditors' recommendations and will have this matter brought before the council no later than June 14, 2011, so as to modify or maintain the Town's Ordinance as it related to this matter.

#### MISSING DOCUMENTATION

The Mayor has accepted the resignation of the individuals whose job description, in part, it was to be responsible for the maintenance of such documentation. The Mayor has replaced these individuals with more reliable personnel and as entered into a contractual agreement with a CPA firm and the Legislative Auditors to insure that proper training is received in this area so that records are properly filed and retained in the future. The Town has been able to retrieve several of these misplaced items and will continue in the weeks to come to retrieve and to file even more.

#### INADEQUATE INTERNAL CONTROL OVER GOSPEL TICKET SALES

The Mayor certainly understands the Internal Controls concerns of the auditors. While the council approved the budget that allowed for the concert to be held, it provided little to no assistance beyond that point. Therefore, I incorporated the assistance of my wife and several town employees. I had records of tickets sold and names of individuals who assisted with sales. I also let it be known that the individual responsible for sales were available for interview. However, because we want to avoid the very perception of impropriety, the Town will follow the recommendations of the legislative auditors to the letter, should the town opt to sponsor another concert in the future.

#### INAUGURATION CELEBRATION

The Town did not use public funds for a celebratory function. The Mayor did not organize the event without Board approval. Funds spent were authorized by budget approval which can only be done by Council. The purpose of the function was not only to allow the new office holders to take their oath of office which was not celebratory in intent, but to market our Town by the Mayor delivering a State Of The Town speech. The funds used were taken from the marketing line item of the town budget which had been approved by Council. The Lawrason Act which governs our town, states that budget approval of expenditures by Council is what authorizes the Mayor to use or expend such funds. The \$158 was spent to advertise and to insure that the entire town received an invitation and that it wouldn't appear to be discriminatory or celebratory. The videographer was

hired not to video the event but to show footage to the public of the many projects and accomplishments made by the Town over the past several years.

The Town believed that \$2400 to pay the caterer was a menial amount to pay to feed a crowd of approximately three hundred who were in attendance. The Town certainly believes that it had the legal authority to make the expenditures and that it met the requirement of the 3 prong test. There was a public purpose, as a whole it did not appear gratuitous and the town did have a reasonable expectation of receiving a benefit or value at least equivalent to the amount expended.

#### LAND TRANSACTION

The Town Council declared the land in question to be declared surplus. The Town Council also requested two separate. The Town's Attorney determined the ultimate cost per acre by multiplying the number of acres actually acquired by the average cost per acre using the highest appraisal quote. While the Mayor and Council thought the price calculation process to be logical and reasonable, the matter was never brought back to the table for a vote by the Council to accept the new Town's sale price. This was an honest but unfortunate oversight of the Mayor and Council. We have pondered for months to determine the best prescription to rectify this error. The Mayor determined that the only method to correct this error would be to reverse the land sale in its entirety, requiring the buyer to relinquish the land deed and the Town to reimburse the money to the buyer. The Mayor met with the Town's Attorney on May 10, 2011 in order to seek legal guidance as to how to rescind the sale. The matter was placed on the next regularly scheduled council agenda. The Town's Attorney was also been requested to be present in order to insure that the necessary steps are taken, and that the declaration, appraisal and re-advertising process is performed as prescribed by law.

#### MANAGEMENT'S NON-COMPLIANCE WITH LA AUDIT LAW

1. The Town has installed QuickBooks, a new software system and is currently training appropriate staff. Additionally, we have hired an accountant and have contracted with Ms. Tanya Wade, CFO. We have already begun implementing your recommendations and feel confident that we will meet all future deadlines.

#### MANAGEMENT'S NON-COMPLIANCE WITH LOCAL GOVERNMENT BUDGET ACT

2. The Mayor creates and presents the budget to Council for approval. I have done this timely in the past and will continue to do so. Adoption lies within the authority of the Council. In the past, Council's unwillingness to adopt within the required legal time frame created the violation. Now that we have a new Council that is willing to work more cooperatively with the Mayor, we are

confident that we will be able to comply with the provision of the local Government Budget Act in the years ahead.

#### MANAGEMENT'S NON-COMPLIANCE WITH PUBLIC BID LAW

3. The Town inherited this method of operation. I asked Ms. Linda McCready, Public Works Purchasing Agent, who has handled the purchase of gasoline for the Town for the last 27 ½ years. She informed me that the Town had never obtained complete bids as required by law. In fact, it was our obvious misunderstanding that the referenced bid law applied to single purchases. However, now that it has been brought to our attention, we will absolutely comply with protocol of the required law.

4. The Clerk is entering data into a new software system. This will be completed by May 28, 2011. The new system will allow for reports to be more obtainable and be generated for Council at each monthly regular scheduled meeting.

5. The Town has complied. We have hired an accountant in-house and we have contracted a Certified Fiscal Officer for purpose of oversight.

6. Management hired software professional to train staff on software system. Specialist is training staff to be more competent on old system and new system.

7. Management has changed the filing procedure since the installation of Quickbooks. We will comply with recommendations and procedures of submitting records retention schedule and diligence per R. S. 44:36.

8. Management has hired more competent personnel and a CFO. We feel that deficiencies will be corrected promptly.

9. A separate bank account has been set up for each fund thus allowing for clearer visibility, separation and accountability of fund sources and fund usages.

10. The recommended process is already being implemented. The responsibility of the CFO as per contract with the Town addresses this area. It is my understanding that the Town is current with all of its expenditures and vendors at this time.

11. This recommended process is also being implemented. The CFO is assisting with the creation and implementation of a system that will help us comply to this recommendation.

12. The CFO is also creating a system for the Town to comply with this recommendation.

13. The CFO is also creating a system for the Town to comply with this recommendation.

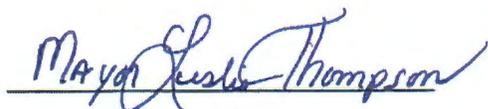
14. The Town has begun this process and submitted job descriptions, policies and procedures to CFO for its consideration.

15. Each department has submitted a list of their capital assets and it is the Town's intent to inventory at least annually to ensure that all capital assets are accounted for.

16. The Mayor is in communication with the Police Chief and Clerk of Court regarding this recommendation, which will be implemented within the next 30 days.

17. The Mayor is requesting to address the Jackson Parish Police Jury at their next scheduled meeting June 2011. At that time The Mayor will seek assistance to implement a Disaster Relief Plan for Jonesboro from the Police Jury and Mr. Paul Wasworth who is the designated head of Homeland Security for this area.

This concludes the Town of Jonesboro response to the Legislative Auditor Executive Summary.

A handwritten signature in blue ink that reads "Mayor Leslie Thompson". The signature is written in a cursive style and is positioned above a horizontal line.

Mayor Leslie Thompson