

CADDO PARISH FIRE DISTRICT NO. 6



ADVISORY SERVICES REPORT
ISSUED APRIL 29, 2009

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

April 29, 2009

**MR. JIMMY COUVILLION, CHAIRMAN,
AND MEMBERS OF THE BOARD OF COMMISSIONERS
CADDOPARISH FIRE DISTRICT NO. 6**
Keithville, Louisiana

We visited the Caddo Parish Fire District No. 6 (fire district) to assess your resolution of a finding that has been reported in the fire district's audit report for three consecutive years. As commissioners, you have a legal and fiduciary responsibility to apply sound business judgment and practices in managing the fiscal operations of the fire district.

As we understand, on November 20, 1999, the voters approved the issuance of \$800,000 of general obligation bonds and the levying of ad valorem (property) taxes to repay this debt over a 10-year period. The audit reports for 2005, 2006, and 2007 disclosed that the fire district's general fund borrowed a portion of the property taxes and spent the monies for other than its dedicated purpose (bond repayment). According to the 2007 audit report, the general fund owes a total of \$206,012 to the debt service fund. Management's response, in all three audit reports, has been that the general fund would repay the monies to the debt service fund.

Our assessment was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards; therefore, we are not offering an opinion on the fire district's financial statements or system of internal control nor assurance as to compliance with laws and regulations. Management's response to our findings and recommendations is presented in Appendix A.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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Findings and Recommendations

The following are the findings and recommendations resulting from our advisory services. We reviewed our findings and recommendations with the chairman of the board of commissioners. The chairman’s response is presented in Appendix A.

1. **Since 2000, the board of commissioners has levied property taxes in excess of the annual debt service requirements of the bonds and the “excess” taxes collected have not been used to pay off the bonds early.** Article VI, Section 33 of the Constitution of the State of Louisiana of 1974 provides, in part, that political subdivisions shall levy and collect ad valorem taxes sufficient to pay principal and interest on bonds as they mature. Also, the Louisiana Attorney General (A.G.) has opined in A.G. Opinion 04-0226 that once a general obligation bond issue has been paid in full, any surplus taxes remaining should be returned pro-rata to the taxpayers, if practical.

The \$800,000 general obligation bonds are being repaid over a 10-year period beginning in 2001 (2001-2010) from ad valorem taxes levied beginning in 2000 (2000-2009). Using prior year audit reports and information from the fire district, the table below presents the annual property taxes levied compared to the annual debt service payments and the resulting “excess” taxes levied. According to our calculations, there has been \$361,599 of “excess” taxes levied on taxpayer properties as of January 21, 2009.

Year of Tax Levy	Annual Tax Levy (Mills)	(A) Annual Property Taxes Levied	Year of Debt Service Payments	(B) Annual Debt Service Payments	(A-B) Annual “Excess” Taxes Levied
2000	9.5	\$111,685	2001	\$110,200	\$1,485
2001	9.5	116,281	2002	107,450	8,831
2002	9.5	114,725	2003	103,325	11,400
2003	9.5	119,668	2004	104,130	15,538
2004	10.0	160,997	2005	100,110	60,887
2005	10.0	168,689	2006	101,235	67,454
2006	10.0	191,990	2007	102,089	89,901
2007	9.0	178,719	2008	102,648	76,071
2008	6.0	132,938	2009 ¹	102,906	30,032
Total		\$1,295,692		\$934,093	\$361,599

Rather than using the “excess” tax collections to pay off the bonds/debt early, the fire district’s general fund has been borrowing the tax monies and spending on other than its dedicated purpose (bond repayment).

Although more than sufficient taxes have been collected to pay off the bonds, the fire district only had \$102,257 in the bond savings account (as of January 21, 2009) which is not enough to pay the remaining bond principal and interest payments due under the bond issue.

¹ The 2009 debt service payments are due to be paid in March and August 2009.

Cash balance at January 21, 2009 - Debt Service Fund		\$102,257
Less remaining debt service payments:		
Year 2009 (principal and interest)	(\$102,906)	
Year 2010 (principal and interest)	(107,730)	
Total debt service payments		(210,636)
Cash shortfall at January 21, 2009 - Debt Service Fund		(\$108,379)

2. **In 2008, the general fund did not repay any of the \$206,012 previously owed to the debt service fund.** Furthermore, contrary to state law, the board of commissioners allowed the fire district’s general fund to borrow an additional \$99,000 in 2008 for its operations. Therefore, according to our calculations at December 31, 2008, the general fund owes a total of \$305,012 to the debt service fund (\$206,012 + \$99,000).

State law (Louisiana Revised Statute 39:704) provides in part that “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.”

Recommendations: We recommend that the board of commissioners do the following:

- Consult with legal counsel and consider requesting the legal opinion of the Louisiana Attorney General
- Comply with state law and cease spending the dedicated property tax monies for purposes other than the debt service
- Discontinue levying the ad valorem tax as more than sufficient taxes have been levied and collected to pay off the bonds (2009 is the final year of the 10-year tax levy)
- Develop and adopt a formal/written plan for the fire district’s general fund to repay the \$305,012 of property tax collections that were not properly spent. We suggest that the money be repaid as follows:
 - Repay \$108,379 from the general fund and deposit into the bond savings account to ensure there will be a total of \$210,636 available to pay the remaining bond principal and interest payments due under the bond issue
 - Return pro-rata the remaining \$196,633 to the taxpayers (\$305,012 - \$108,379 deposited into the bond savings account)
- Develop and adopt a formal/written plan to operate the fire district in the future within the constraints of its available funding.

Management's Response

CADDO PARISH FIRE DISTRICT NO. SIX

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**BOARD OF COMMISSIONERS
JAMES L. COUVILLION, CHAIRMAN
JERRY TAYLOR, SECRETARY-TREASURER
MIKE MC CULLOUGH**

DAMON JOHNSON, FIRE CHIEF

April 8, 2009

Ms. Joy S. Irwin, CPA
Director of Advisory Services
Louisiana Legislative Auditor
1600 North Third Street
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Management response to preliminary draft report

Dear Ms. Irwin:

The Board of Commissioners of Caddo Parish Fire District No. Six appreciates the concerns expressed by the Advisory Services Division for the Louisiana Legislative Auditor in the preliminary draft report.

The Board of Commissioners of Caddo Parish Fire District No. Six would prefer to let the findings as presented in the report stand as presented by the advisor. However, an explanation is needed on the summary of findings and the actual use of all funds.

The Board of Commissioners of Caddo Parish appreciates the opportunity to address the advisement and reference to the Attorney General's Opinion No. 04-0226 with regard to returning any surplus funds remaining in the bond accounts to the taxpayers if practical.

Response to recommendation for rebates of surplus funds

The surplus of funds generated through Public Improvement Bond tax needed beyond paying on time the principal and interest to Hancock Bank was transferred as needed to pay for annual maintenance and operation expenditures in excess of the tax revenues collected annually from the taxpayers for maintenance and operation of the District.

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Using as reference the Louisiana Legislative Auditor's online independent audit files, this District has incurred annual deficits from 2002 through 2007 audits. The year 2008 financial report reflects a deficit of \$117,290. The total annual deficits for this seven-year period is \$541,597. The reported excessive taxes levied on taxpayer properties as of January 21, 2009 as reported by the auditor is \$361,599. A subtraction of this amount reflects an excessive deficit spending of \$179,998 beyond the over collection of funds from the taxpayers for bond repayments.

To our knowledge, the District has not borrowed any outside funds. The \$179,998 of deficits reflect the District's failure to timely pay its annual debts for these years on an annual basis.

Board of Commissioners allowed borrowing of bond reserve funds.

The District has experienced a very large turnover of board members even prior to the year of bond sales in 2000. The result of this large turnover is a lack of knowledge, lack of interest and failure to take responsibility for implementing good management guidelines. The boards over this time period have had little input and have exhibited a lack of desire to participate in the financial decision process.

With reference to the auditor's statement, "Board of Commissioners allowed the fire district's general funds to borrow an additional \$99,000 in 2008 for its operations", the board has reviewed the actions taken under board rule for such borrowings, and has determined that no board rule exists authorizing such activity in 2008 nor 2007. Nor to the knowledge of the existing board members were there any discussion by the management staff about such borrowing of funds during board meetings. The history of board rule for such borrowing prior to 2007 would require further research if such board rule or the lack thereof becomes a greater issue.

Cancellation of bond tax for final year 2010

This is the recommendation by the auditor: "Discontinue levying the ad valorem tax, as more than sufficient taxes have been levied and collected to pay off the bond" (2009 is the final year of the 10 year tax levy).

The Board of Commissioners has a revised maintenance and operation budget for the balance of 2009 with a planned excess of \$20,000. By canceling the levying of tax for the repayment of the Bond debt, the Board of Commissioners realizes the District must finish the year 2009 without any deficits. The only available funds to pay the final installment of principal and interest in 2010 will be transferred from the new 2010 available

maintenance and operation funds. Using these funds will reduce the revenues available for fire protection and medical services during 2010. Therefore, a proposition will be on the October 17, 2009 Caddo Parish ballot asking the taxpayers to support the District by voting yes for additional millage and service fees. The sole purpose of securing additional revenues is to pay off the final bond payment and provide the district with additional funds to maintain existing services to the taxpayers. The cancellation of the 2010 levy forces the taxpayers to decide this year of 2009 as to the level of services they are willing to support in the future and the use of new maintenance and operation funds to pay off the final bond payment. If the taxpayers decline this opportunity to show support for the District, there will be a reduction in services provided in the remainder of 2010.

Recommendation to return pro-rata the remaining \$196,633 to taxpayers

In order to comply with this recommendation the new and old district taxpayers would have to agree to an additional tax to create such a fund to later be rebated to the property owner of record and not necessarily to the taxpayers that paid the majority of the tax in the first place.

Caddo Parish Fire District No. Six geographical boundaries are within the larger area of zip code 71047. To determine the possibility that a rebate could be issued if funds existed at that time for such, the board references the U. S. Census on population and occupation of dwellings.

RESIDENTS IN 1995

Population 5 years and over	10,257	100%
Same house in 1995	5,902	57.5
Different house in the U.S. in 1995	4,180	40.8
Same parish or county	2,620	25.5
Different parish or county	1,560	15.2
Same state	802	7.8
Different state	758	7.4
Elsewhere in 1995	175	1.7

Now almost 10 years has lapsed in time, since year 2000, such statistics, related to ownership, should be true today and at least some 42.5 percent of those that paid taxes on the bond issue after the first five years of payments are gone. The second five years from 2005 to 2010 in additional transfers of ownership suggest rebates properly paid to deserving property owners is not practical if such funds were in surplus or collected in the future for such distribution.

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Therefore, the Board of Commissioners, after a review of the auditor findings and recommendation and further research, fails to appreciate the feasibility and justification for the creation of a future plan to develop and adopt a formal written plan for the District to repay the \$305,012 of property tax collections that were not properly spent. The Board of Commissioners acknowledges the violation of the State Law, but realizes such suggested restitutions, if possible, would fail to contribute to the common good of the people, and, such payments, if possible, would not be made to those that the auditor suggests deserve such payments.

Develop and adopt a formal plan to operate the fire district in the future within the constraints of it's available funding.

The Board of Commissioners has recognized this as a first step towards preventing the poor decision making of the past and to assure that all taxpayer funds are spent for the purposes stated in present and future propositions placed on the ballot. As stated, the Board of Commissioners has in place a revised budget for the remaining months of 2009. This budget and it's actual revenues and expenditures will become the baseline for the future budgets, and it will be the platform for determining the increases in revenues need for the October 17, 2009 election. Therefore, the Board of Commissioners must make it their duty to the taxpayers that the District for the remainder of this year respect and adhere to the revised 2009 budget. The Board of Commissioners hereby pledges to perform and take seriously all of its duties toward the people of Caddo Parish Fire District No. Six in compliance with its responsibility to the appointing authority in and for Caddo Parish.

This board of record recognizes that it is most important to issue progress reports to the State Legislative Auditor and Caddo Parish Finance Director on all such matters and will establish by board rule financial procedures that must be complied with by the board and future board appointments. Such written procedures will require that not only future budgets are without deficits, but all budgets will be active and adjusted monthly to actual expenditures, preventing any future deficits from accruing at the end of a future year. This means that no hold over of expenditures can be held for payment using the next year's revenues.

Management changes towards board accountability of public funds

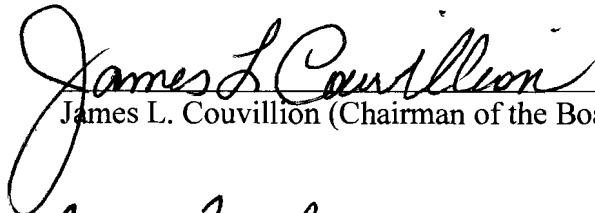
The district management, known as the Chief and Assistant to the Chief, have been the management for the fire district. This has been an ongoing accepted authority because the board appointments have been of poor quality. Decisions for spending public funds, such as bond reserves for maintenance and operation without giving through public election the opportunity to taxpayers to properly fund the district, were delegated to this management over the years without a board rule.

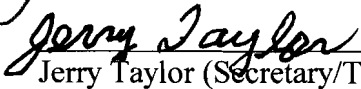
All final financial decisions and spending of taxpayer funds will rest with the Board of Commissioners. The Chief's administrative assistant position is eliminated. That position will be placed under the sole authority of the Board of Commissioners. The position will become known as Fire District Administrator. The position will take its direction from and report to only the Board of Commissioners. The financial condition and spending of ALL public funds will only be accomplished under the authority of the administrator. All general administrative responsibilities for the operations of Caddo Parish Fire District No. Six will be under the authority of the Administrator regardless of their geographical location within the District.

Revisions to district charter and manual of operations

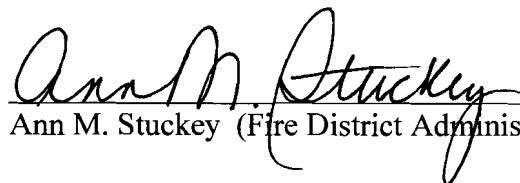
The necessary changes to both charter and operation manual will reflect the results of all issues addressed in this letter of response. The charter revisions will reflect the duties of the Board of Commissioners to the people of Caddo Parish Fire District No. Six.

In closing, the Board of Commissioners appreciates the concerns and interest taken in the financial affairs of Caddo Parish Fire District No. Six. The Board of Commissioners looks forward to moving ahead and taking the challenges that lie ahead and become better stewards towards proper spending of public funds in accordance to all statues so stated by the State of Louisiana Legislative Auditor Advisory Services.


James L. Couvillion (Chairman of the Board)


Jerry Taylor (Secretary/Treasurer, Board Member)


Mike McCullough (Board Member)


Ann M. Stuckey (Fire District Administrator)