



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

April 16, 2014

The Honorable Charles D. Mizell, Mayor
City of Bogalusa
202 Arkansas Avenue
Bogalusa, Louisiana 70427

Dear Mayor Mizell:

As you are aware, members of my Advisory Services staff visited the City of Bogalusa (City) to assess management's resolution of certain matters contained within the City's 2012 audit report. My staff completed its assessment and subsequently discussed the findings and recommendations with you and the Director of Administration.

This letter summarizes the results of our assessment which indicated that there are significant concerns about the fiscal operations of the City. Because of the severity of the issues, I am requesting that you provide my office with a detailed action plan from management on or before May 16, 2014. The plan must address the resolution of each issue bulleted below. Staff will evaluate the plan to determine what, if any, additional work will be necessary. Your response to each issue should include the following information:

- Name of the City personnel responsible for taking the corrective action.
- Corrective action taken or to be taken, including specific steps/procedures to be used to correct the finding/issue (e.g., budget to actual, cash flow analysis/projections, interim financial statements).
- The date the corrective action will be completed.

We encourage you to consider our recommendations as you prepare the plan and work to resolve the issues in the following areas:

Employee Retirement System

The following problems were noted in our assessment:

- At the time of our visit, the three-member Board responsible for managing the City of Bogalusa Employees' Retirement System (COBERS) had two vacancies and was not meeting on a consistent/regular basis.

- As of June 30, 2012, the COBERS had an Unfunded Actuarial Accrued Liability (UAAL) in excess of \$12.7 million.
- COBERS funding levels have fallen from 57.73% in 2003 to less than 36% in 2012. The May 2013 actuarial valuation stated, “...*the financial condition of the retirement system will continue to deteriorate if the recommended annual contributions are not timely made... If the recommended contributions are not made, the retirement system will eventually become insolvent.*”
- The City has not submitted the COBERS actuarial reports to the Legislative Auditor’s Office as required by La. R.S. 24:514(D).

Recommendations: The Mayor and City Council should work together to develop a comprehensive plan to address the problems involving the City employees’ retirement system. We recommend that management do the following:

1. Review the purpose, structure, responsibilities, and vacancies of the COBERS Board to ensure that it is functioning effectively and as intended.
2. Clarify the duties and responsibilities of the Board members, secretary, and treasurer to assist them in effectively carrying out their responsibilities.
3. Discuss the funding status and options with the City’s actuarial, accounting, and legal advisors and determine what changes are needed to strengthen the COBERS funding levels.
4. Identify and discuss strategies that may eventually provide adequate funding, and incorporate a goal of pension plan reform as part of the City’s strategic plan.
5. Ensure compliance with La. R.S. 24:514(D) by annually submitting the COBERS actuarial valuation to the Louisiana Legislative Auditor (between the first and 120th day following the close of the fiscal year of the retirement system).

\$1.1 Million Deficit in General Fund

The General Fund is the City’s primary operating fund, and it is essential that an adequate level of fund balance be maintained to mitigate risks and provide a backup for revenue shortfalls and/or unanticipated expenditures. However, according to the City’s 2012

audit report, the General Fund reported a deficit/negative fund balance (liabilities in excess of assets) totaling approximately \$1.1 million. As a result, the City is experiencing operating cash shortages and fiscal stress.

We could not tell if the \$1.1 million deficit had increased or decreased in 2013 because management did not have current financial statements available on the operations of the General Fund at the time of our visit. Furthermore, management did not have an up-to-date plan to eliminate the deficit and begin operating on a fiscally sound basis. We advise management that it has a fiduciary responsibility to properly and effectively manage the fiscal operations of the City.

Recommendations:

1. The Mayor and City Council should work together to update the City's 2008 *Cost Savings and Revenue Enhancement Plan* and focus on the elimination of this significant deficit in fund balance.
2. The Council should take budgetary actions (e.g., reduce expenditures and/or increase revenues) to ensure that sufficient year-end surpluses will be generated in the General Fund so that the fund balance can be replenished to an adequate level.
3. The Council should adopt a formal fund balance policy that defines the appropriate level of fund balance.
4. Each month, the Mayor and/or the Chief Financial Officer should present the City Council with current financial statements and budget comparisons for all funds of the City, including warnings of any corrective action needed.

Largest Expenditures - Salaries and Benefits

Employee salaries and fringe benefits comprise the City's largest expenditures and total approximately 75% of the City's General Fund budget (totaled \$7.4 million in the 2013 proposed budget). Included are pension costs/contributions to three local retirement systems (COBERS, Police, and Firefighters) that totaled over \$1.1 million in 2012. Also, the City pays 100% of the health plan premiums for all full-time employees, which cost the City approximately \$1.2 million in 2013.

Considering the magnitude of the City's financial problems, it is critical for management to review/analyze all expenditures (in the current year budget) and to focus on the economic sustainability of continuing to pay existing salaries and benefits.

Recommendations: We advise the Mayor and Council to re-evaluate the City's organizational and labor structures for savings opportunities and to conduct a comprehensive salary and fringe benefits review (with the help of a human resources consultant, if necessary). Management's review and fiscal considerations should address the following:

1. Sustainability of City services and workforce requirements under current economic conditions.
2. The legal and contractual obligations resulting from the City's salary and benefits policies and practices, and whether or not the obligations are sustainable under current economic conditions.
3. City policies and practices for providing compensated absences (e.g., annual leave and sick leave).
4. Policies and practices for paying cost-of-living adjustments to retirees.
5. Funding methods and sources, including whether the City's taxing structure can be revised to generate additional revenue/funding.

Improper Loans Not Repaid

The City's General Fund has not repaid \$610,000 (75%) of the \$811,030 that it improperly borrowed in 2006 and 2007 from the Debt Service Fund and Street Overlay Fund. According to the Director of Administration, there was a lack of revenue after Hurricane Katrina and it was necessary to borrow the "dedicated" funds to pay for operational expenses of the City.

Recommendation: The Mayor and City Council should work together to implement a formal plan for the General Fund to fully repay these loans.

Bond Reserve Accounts Not Funded as Required

The City's 2012 audit disclosed that the City was not in compliance with certain covenants in its revenue bond agreements. City staff informed us that, as of March 7, 2014, there was a cash funding deficiency/shortage in the bond reserve accounts for both the Revenue Refunding Bonds (Series 2012) and the Water Revenue Bonds (Series 2009) totaling \$465,927.

Recommendations: Management should strictly comply with all requirements of the City's bond agreements. The Mayor and Council should work together to implement a formal plan that ensures sufficient cash is transferred into the reserve accounts to eliminate all funding deficiencies.

Accounting System Not Fully Operational

In May 2013, the City suffered a computer system failure and management was not able to implement a fully functioning accounting system for the remainder of 2013. Without timely and complete financial/accounting information on all funds, management cannot effectively exercise its fiduciary responsibilities of managing the fiscal affairs of the City.

Recommendations: Management should develop and implement policies/procedures that require (1) periodic backup of the computer system, including all data; (2) off-site storage of backups; and (3) implementation of a disaster recovery and business continuity plan that will aid the City in a timely manner in the event of another computer failure or a disaster.

Lack of Controls over Credit Card Usage

Controls over credit cards need to be strengthened. Our assessment revealed that some employees are not turning in itemized receipts and/or not documenting the business purpose of purchases made using their City issued credit card. In addition, supervisory staff was not conducting a review of employee usage to ensure compliance with City policy.

Recommendations: The City's Director of Administration should ensure that:

- (1) employees submit itemized receipts for all purchases made using City credit cards;
- (2) all receipts include documentation of the business/public purpose of purchases; and
- (3) credit card purchases are reviewed each month for reasonableness and compliance with policy. Any irregularities or non-compliance issues should be immediately investigated and resolved.

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Thank you for your cooperation and that of your staff in this matter. Please submit your detailed action plan to my office by May 16, 2014. If you have any questions about this letter or your action plan, please call Michael Cragin or Mike Battle at 225-339-3800.

Sincerely,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive, with the first name being the most prominent.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/ch

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cc: City Council