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October 27, 2004

Honorable Clarence Fields, Mayor,
and Board of Aldermen
City of Pineville
Pineville, Louisiana

We performed a limited review of the financial records of the City of Pineville for the fiscal year ended June 30, 2002, to September 7, 2004. The scope of our work was significantly less than those required by *Government Auditing Standards* in the audit of the city's financial statements; therefore, we are not offering an opinion on the city's financial statements, the city's system of internal control, nor assurance as to compliance with laws and regulations.

As part of our review, we noted certain matters that we wanted to bring to the attention of the mayor and board for consideration. We offer the following comments and suggestions:

We reviewed corrective actions the city implemented as a result of the fiscal year 2003 financial audit addressing a potential illegal act of purchasing tax sale property by the city tax collector and inadequate segregation of duties in the human resources department.

Purchasing tax sale property - The city took corrective action by replacing the former tax collector. The city should also require the current tax collector to certify annually his/her understanding of and agreement to follow Louisiana Revised Statute (R.S.) 47:2194. In addition, the city should consider a third party review of all tax sales to ensure the activities of the sale are held within the limits of the law.

Segregation of duties - The city implemented new procedures in the human resources department by having payroll records approved by the finance director. However, the city did not adopt, in writing, the operational changes within the human resources department. The city should provide a clear written understanding of operational procedures and personnel responsibilities thereby ensuring proper segregation of duties.

We reviewed corrective actions the city implemented as a result of the April 19, 1999, legislative audit report. The following is a list of the findings from the April 19, 1999, report and our review of the corrective actions taken by the city.

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Utility fees improperly assessed - Former Mayor Fred Baden and members of his staff did not assess all residential and commercial customers' fees in accordance with city ordinances. In addition, the administration under billed and failed to properly assess customers receiving utility services.

In 1999, the city took corrective actions by installing approximately 500 meters on homes and businesses that previously were not metered. The city maintains an updated listing of sewerage customers it serves within Water District #3. Meter readers have been issued hand-held electronic readers programmed to detect any significant variations in water usage. The city has amended section 24-40 of the Code of Ordinances allowing adjustments to water consumption charges caused by leaks or other unresolved billing errors.

Utility billings appear to be accurate and in agreement with the fee schedule outlined in the city ordinances. The city has not taken legal action against customers and/or their agents that connected to its utilities without proper authorization.

Improper use of leave and incentive payments - Mrs. Roxan Baden, wife of former Mayor Fred Baden, received special leave benefits when she became a full-time employee of the city while Mr. Baden was in office. The city also authorized the payment of annual incentive payments to city employees in violation of the state constitution.

The city consulted its attorney and decided to take no legal action in this matter. The current mayor has supervisory oversight of leave accruals and pay rate increases. We reviewed select payroll and human resource records for several employees. The records indicate leave accruals and raises are being approved in accordance with city policy and in compliance with the city ordinance.

Sale of city assets and other revenues not deposited in city account and improper donations of city assets - Donations from businesses and individuals, receipts from the sale of scrap iron, and contributions from employees were not received, deposited, or recorded as public funds by the city. In addition, the city disposed of fixed assets belonging to the city in a manner that appeared to violate the Louisiana constitution.

Currently, the city requires all donations to be made payable to the City of Pineville. The proceeds are deposited into the city's general fund. Proceeds from the sale of scrap iron and excess materials used for construction are deposited into the city's general fund. Scrap sale receipts are collected in check form made payable to the City of Pineville.

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City department heads confirmed they have not engaged in solicitations, accepted donations, or independently sold or donated department assets.

The city is currently following its procedures of requiring that the council declare all fixed assets surplus before the assets are publicly auctioned. The proceeds for auctioned items are deposited into the city's general fund. However, we discovered the city continues to donate surplus fixed assets to local municipalities prior to auction in possible violation of Article 7, Section 14(A) of the state constitution. We recommend the city auction all surplus fixed assets or dispose of the assets through cooperative endeavor agreements.

The city records new inventory by periodically contacting departments and confirming new purchases of fixed assets. However, the city does not perform a physical verification of new assets. We recommend the city assign an employee to identify, record, and tag all capital assets at the time of purchase.

Purchase of retirement credit for city employees - In September 1995, the city entered the Municipal Employees Retirement System of Louisiana and paid \$1,873,886 to purchase the employee and employer share of prior service credit for 127 of its unclassified employees and elected officials. The purchase for prior service credit was financed by the city issuing \$2,000,000 of certificates of indebtedness, to be repaid over a one-year period, and costing taxpayers \$3,039,550. The purchase was in violation of Article 7, Section 14 of the state constitution. Subsequent to issuing the April 1999 report, the city consulted its attorney and decided to take no action in this matter.

Unauthorized salary increase for the mayor - The Board of Aldermen increased the monthly compensation for former Mayor Baden by adopting a resolution instead of an ordinance as required by R.S. 33:404.1. The city consulted its attorney and decided to take no action in this matter as it relates to the former mayor. However, the city is currently following R.S. 33:404.1 requiring the Board of Aldermen to fix the compensation of the mayor by ordinance.

Work on private property - Former Mayor Baden accepted the donation of approximately 3,000 feet of right-of-way from a Pineville church for a proposed public street and instructed city workers, using city and Louisiana National Guard equipment, to begin construction of the proposed street without obtaining the required approval from the board.

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The city consulted its attorney and decided to take no action in this matter. The current administration is seeking the authorization of the board before accepting donations of property.

We reviewed the findings documented by the city court's external auditor in the agreed-upon procedures report as of August 15, 2003. The report identified missing funds in the amount of \$3,749. We noted in the city court's letter to the Legislative Audit Advisory Council dated October 14, 2003, that you determined the contributing factors causing operational deficiencies to be employees not following established internal controls, physical security weakness of the work stations, and inadequate staffing of the work center. During our review, we noted that you have implemented the following corrective measures:

Internal controls - All defendants receive pre-numbered, handwritten and pre-numbered, computer-generated receipts subsequent to paying fines. Only cash or money orders are accepted. The criminal court clerk runs a payment recap sheet for the day and compares it with handwritten receipts. Deposits are made daily. Monthly payment recap sheets are compared with daily sheets and bank statements. Each employee has a different password to access the computer system.

Physical security of work stations - A front office has been constructed for the deputy clerks. There is a computer, pre-numbered receipt book and locked cash drawer for transactions. Only the chief deputy criminal clerk and two deputy clerks have a key to the drawer.

Staffing - Before the investigation by the Louisiana state police, there were only two clerical employees handling criminal transactions. Presently, there are two deputy clerks and a chief deputy criminal clerk available for daily operations.

All controls appear to be adequate and operating as documented. We recommend daily and monthly payment recap sheets are initialed and dated after review.

Subsequent to preliminary discussions with your staff, we found no discrepancies in procedures in the following areas. However, the city does not have written operating policies and procedures for those areas.

Purchasing - A written purchasing policy should include, at minimum, how purchases are initiated, the use of purchase requisitions, preparation and approval process of purchase orders, checks and balances to ensure compliance with the bid law, and

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documentation regarding all bids. We noted the city verifies receipts with invoice costs and determines if the purchase is in the best interest of the city.

Disbursements - A written policy should be adopted outlining a proper system of checks and balances. This will assist in maintaining the appropriate segregation of duties. For example, preparing checks and reconciling bank accounts should be completed by different employees. We noted disbursements are supported by adequate documentation such as invoices, receiving reports, and purchase orders.

Budgeting - A written budget policy and detailed written procedures for preparing, adopting, monitoring, and amending the budget are important for the city in complying with the budget laws and providing management with guidelines necessary in managing the city's budget.

Travel - A written travel policy should provide specific guidance as to allowable reimbursement relating to business, conference, and seminar travel. Travel should be reasonable, necessary, and beneficial to the city. The city should provide for specific reimbursements of travel or adopt Louisiana Policy and Procedure Memorandum 49, state travel policy. We noted the city verifies compliance with unwritten travel policy.

Investments - Louisiana law requires the city adopt an investment policy that details and clarifies investment objectives and procedures and constraints necessary to reach those objectives. According to R.S. 33:2955, the city is allowed to invest only in specific obligations. We noted the city has an adequate unwritten policy of investing through a third-party administrator.

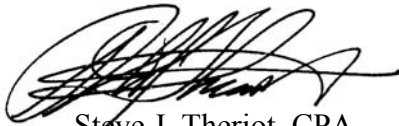
The city should adopt written operating procedures for all financial business operations including, but not limited to, credit cards and cellular phones. In addition, the city should adopt a written ethics policy and require annual certification of compliance by all employees and board members. Formal written operational policies and procedures are necessary in providing a clear understanding as to what, how, and when specific actions should be performed. Policies and procedures should also identify personnel responsible for executing specific tasks.

This letter is intended for the information and use of the management of the City of Pineville. Though we offered management the opportunity to respond to this letter, no response has been received. Under Louisiana Revised Statute 24:513, this letter is distributed by the Legislative Auditor as a public document.

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If you have any questions, please contact me at (225) 339-3839 or Mr. Daryl Purpera at (225) 339-3807.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve J. Theriot", with a large, stylized flourish at the end.

Steve J. Theriot, CPA
Legislative Auditor

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