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**EMPLOYEES' RETIREMENT SYSTEM**

***OF THE CITY OF NEW ORLEANS***

**FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date SEP 2 3 1998

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**

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LUTHER C. SPEIGHT & COMPANY

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# INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council of the City of New Orleans, Louisiana

We have audited the accompanying statements of net assets available for benefits of the City of New Orleans Employee Retirement System as of December 31, 1997 and 1996, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the City of New Orleans Employee Retirement System as of December 31, 1997 and 1996, and the changes in the financial status for the years then ended in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of Funding Progress, Revenue by Source and Expense by Type are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplemental schedules have been subjected to auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Luther C. Speight & Co

New Orleans, Louisiana
June 4, 1998

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## EMPLOYEE'S RETIREMENT SYSTEM, CITY OF NEW ORLEANS
## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

| | December 31, 1997 | 1996 |
|---|---|---|
| **ASSETS** | | |
| INVESTMENTS (Note F): | | |
| Cash Equivalents | $ 15,201,911 | $ 20,698,775 |
| U. S. Government Obligations | 49,331,610 | 19,592,644 |
| Corporate Securities | | |
| Bonds | 45,228,390 | 46,756,194 |
| Mortgages | 33,393,721 | 50,172,404 |
| Equities | 173,414,869 | 138,538,937 |
| TOTAL INVESTMENTS (at Market Value) | 316,570,501 | 275,758,954 |
| RECEIVABLES: | | |
| Contributions | 97,039 | 39,357 |
| Accrued Interest – Stocks, Bonds | 1,586,318 | 1,582,290 |
| Due from the City of New Orleans | 135,199 | 122,542 |
| Prepaid Expense | 415,965 | 363,960 |
| Due from broker for securities sold | 1,151,783 | 522,973 |
| TOTAL RECEIVABLES | 3,386,304 | 2,631,122 |
| CASH | 24,571 | 499,477 |
| TOTAL ASSETS | $319,981,376 | $ 278,889,553 |
| **LIABILITIES** | | |
| Due to Terminated Employees | $ 123,567 | $ 58,083 |
| Accrued Management and Custodial Fees | 405,403 | 337,310 |
| Other Accounts Payable | 310,395 | 47,933 |
| TOTAL LIABILITIES | 839,365 | 443,326 |
| NET ASSETS AVAILABLE FOR BENEFITS | $319,142,011 | $278,446,227 |



See accompanying notes to the financial statements

## EMPLOYEES' RETIREMENT SYSTEM, CITY OF NEW ORLEANS
## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
## FOR THE YEARS ENDED

| **ADDITIONS:** | December 31, 1997 | December 31, 1996 |
|---|---|---|
| Investment Income: | | |
| Interest | $ 12,139,264 | $ 10,905,303 |
| Net Appreciation (depreciation) in fair market value | 33,457,252 | 10,620,848 |
| Commission Recapture | 84,962 | 66,072 |
| Securities Lending | 61,037 | 64,060 |
| Investment Expenses | (1,487,117) | (1,234,380) |
| Net Investment Income | 44,255,398 | 20,421,903 |
| Contributions: | | |
| Employer | 9,063,207 | 9,858,968 |
| Employees | 3,036,531 | 2,761,098 |
| Transfers from S&WB | 25,915 | 65,833 |
| Payments for Military Services | 14,131 | 12,899 |
| Transfers from State System | 4,377 | 80,949 |
| Total Contributions: | 12,144,161 | 12,779,747 |
| TOTAL ADDITIONS | 56,399,559 | 33,201,650 |
| **DEDUCTIONS:** | | |
| Retirement Allowances | 10,442,683 | 10,134,598 |
| Ordinary Disability Retirements | 1,226,349 | 1,125,089 |
| Accidental Disability Retirement | 576,514 | 585,849 |
| Separation Retirements | 336,928 | 349,520 |
| Refunds to Members | 828,724 | 787,137 |
| Transfers to the State Retirement System | 377,886 | 350,724 |
| Transfer to the Sewerage and Water Board | 69,323 | 1,165,621 |
| Transfer to M.P.E.R.S. | 12,871 | 159,985 |
| Lump Sum Benefits Due to Death of Members | 374,111 | 152,980 |
| Cost of Living Benefits | 1,458,386 | 1,414,345 |
| Other Administrative Expenses | 0 | 10,739 |
| TOTAL DEDUCTIONS | 15,703,775 | 16,236,587 |
| NET INCREASE | 40,695,784 | 16,965,063 |
| Cumulative effect on prior years resulting from changes in accounting principles | 0 | 39,698,150 |
| NET ASSETS | | |
| Beginning of Year | 278,446,227 | 221,783,014 |
| FUND BALANCE, END OF YEAR | $319,142,011 | $278,446,227 |



See accompanying notes to the financial statements

## NOTES TO THE FINANCIAL STATEMENTS

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### A. PLAN DESCRIPTION

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS (Retirement System) is a Combination Defined Benefit and Defined Contribution Pension plan established under the laws of the State of Louisiana. The City Charter provided that the Retirement Ordinance (Chapter 114 of the Code) continues to govern and control the Retirement System under the management of the Board of Trustees, and also for changes in the Retirement System by council action, subject to certain limitations for the purpose of providing retirement allowances, death, and disability benefits to all officers and employees of the parish, except those officers and employees who are already or may hereafter be included in the benefits of any other pension or retirement system of the city, the state or any political subdivision of the state.

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS became operative on July 1, 1947. It is supported by joint contributions of the City and employee members and income from investments. The City makes contributions for members during active service as well as for periods of service of member employed prior to July 1, 1947. In this way, reserves are accumulated from the city and employee contributions.

The general administration and the responsibility for the proper operation of the Retirement System and for making effective the provisions of the Retirement Ordinance are vested in the five member Board of Trustees of the Retirement System.

At December 31, 1997 and 1996, EMPLOYEES' RETIREMENT SYSTEM membership consisted of:

| | December 31 | |
|---|---|---|
| | 1997 | 1996 |
| Retirees and beneficiaries currently receiving benefits | 1,694 | 1,699 |
| Terminated employees entitled to benefits but not yet receiving them | 96 | 45 |
| | 1,790 | 1,744 |
| Current employees: | | |
| Vested | 1,548 | 1,539 |
| Non-Vested | 2,444 | 2,353 |
| TOTAL CURRENT EMPLOYEES | 3,992 | 3,892 |
| TOTAL ACTIVE AND RETIRED EMPLOYEES | 5,782 | 5,636 |

The City of New Orleans requires membership in the EMPLOYEES' RETIREMENT SYSTEM for all City of New Orleans regularly employed persons.
Membership includes:

1. Employees hired on or after July 1, 1947, who become members as a condition of employment, except for those over 65, unless they have 10 years prior service.

2. Employees hired before July 1, 1947 became members, unless they elected not to join.

3. Officials elected or appointed for fixed terms, however, membership is optional.

4. All officers and employees of various judicial and political offices, except those covered by another system and those for whom no contributions are made by respective offices.

Under the System, employees with 30 years of service, or who attain age 60 with 10 years of service, or age 65 irrespective of length of service are entitled to a retirement allowance, consisting of the following:

1. An annuity, which is the actuarial equivalent of the employee's accumulated contribution at the time of retirement; plus

2. An annual pension, which together with the above annuity, provides a total retirement allowance equal to 2% of average compensation times first 10 years, plus 2-1½% of average compensation times next 10 years, plus 4% of average compensation times creditable service over 30 years, maximum not to exceed 100% of average compensation. For service retirement prior to age 62 with less than 30 years of service, this amount is reduced by 3% for each year below age 62. For service retirement prior to age 55 with 30 years of service , this amount is reduced by 2% (1% for members who retire prior to January 1, 1983) for each year below age 55. For service retirements at age 55 with 30 or more years of service, this amount is not reduced.

Average compensation is defined as average annual earned compensation (which includes overtime earned prior to April 29, 1979 and tenure pay) of a member for the highest thirty-six successive months of service as a member, minus $1,200.

An additional pension equal to 2% of $1,200 times the first 10 years, plus 2-1½ % of $1,200 times next 10 years, plus 3% of $1,200 times next 10 years, plus 4% of $1,200 times creditable service over 30 years, for members who retired on or after January 1, 1983, will be provided if an employee retires on service retirement allowance after attaining age 55 while still a member. This ceases when the employee becomes eligible for Social Security. For service retirement prior to age 62 with less than 30 years of service, this amount is reduced by 3% for each year below age 62 (1% for each year below age 55) for service accrued prior to January 1, 1983.

If a member dies after retirement and before receiving the amount of this accumulated contributions in annuity and pension payments, the lump sum balance of his contributions is paid to his beneficiary.

When an active employee dies, a death benefit, equal to the employee's accumulated contributions, with interest, is paid to the beneficiary designated by the employee or, in the absence of such designation, to his estate. Should the employee have completed three or more years of creditable service, there shall be paid additionally a lump sum of benefit equal to one-fourth of the earnable compensation of such deceased employee for the year immediately preceding the date of death, plus 5% of said earnable compensation for each additional year of creditable service, excluding credit for military service purchased, and shall not exceed the earnable compensation of the employee for the year immediately preceding the date of death. If the employee at the date of his death was eligible for retirement and leaves a surviving spouse, the surviving spouse is entitled to elect to receive retirement benefits equal to the amount which would have been paid, had the member retired on the date he died and had he elected option 2 of a reduced retirement allowance payable throughout life with the provisions that, upon his death, his reduced retirement allowance would be continued throughout the life of his surviving spouse as beneficiary. The surviving spouse who elects this option will not be entitled a refund of the accumulated contributions, including interest, of the deceased member nor to additional lump sum death benefit.

Any amounts which may be paid or payable under the provisions of any Workmen's Compensation Statute or similar law to a member or to a dependent or a member on account of accidental disability or accidental death shall, in such a manner as the Board shall approve, be offset against and payable in lieu of any benefits payable out of the funds provided by the City under the provisions of the Retirement system on account of the same accidental disability or on account of death.

Upon written application of a member in active service or of the head of his department, any member who has had 10 or more years of creditable service may be retired by the Board on an ordinary disability retirement allowance if an physician nominated by the Board shall certify that the member is mentally or physically totally incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that the member should be retired. Upon retirement for ordinary disability, a member will receive a service retirement allowance, if eligible, otherwise the member will receive a disability retirement allowance which will consist of:

a) An annuity which shall be the actuarial equivalent of the employee's accumulated contributions at the time of retirement; and

b) An annual pension, which together with the annuity in (a), shall be 75% of the service allowance that would have been payable upon service retirement at the age of sixty-five, had the member continued in service to the age sixty-five. Such allowance is to be computed on the average compensation, plus the sum of $1,200 provided, however, that the minimum annual retirement allowance will be $300 per year.

Upon the application of a member or the head of his department, any member whom the Board finds has been totally and permanently incapacitated for duty as the natural and proximate result of an accident sustained in service as an active member and occurring while in the actual performance of his duty at some definite time and place without willful negligence on his part may be retired by the Board; provided, that a physician nominated by the Board will certify that the member is mentally or physically totally incapacitated for the further performance of duty, that such incapacity is likely to be permanent, and that the member should be retired. Upon retirement for accidental disability, a member will receive a service retirement allowance, if eligible, otherwise he will receive an accidental disability retirement allowance which will consist of:

a) An annuity which is the actuarial equivalent of his accumulated contributions at the time of retirement; and

b) An annual pension equal to the difference between his annuity and 65% of his earnable compensation

Any employee whose withdrawal from active service occurs prior to his attainment of the age of sixty, who has completed at least 10 years of creditable service, may remain a member of the Retirement System by permitting his accumulated contributions to remain on deposit with the System.

Should the member have served at least 10 years before such separation, he will be entitled to receive a full service retirement after sixty which he may elect, subject to the reductions applicable to retirement before the age of sixty-two, which will be based upon the amount earned and accrued at the date of withdrawal from service.

Upon withdrawal without 10 years of creditable service, the employee is entitled to the return of his accumulated contributions with interest or the employee may allow contributions to remain on deposit for a maximum of five years.

Effective July 16, 1974, provisions were made for reciprocal transfers of service and funds between this System and the Employees' Retirement System of the Sewerage and Water Board of New Orleans. In the event an employee transfers from one employer to the other, service credits are transferred from the employee's previous account plus earned interest and all employer contributions, plus agreed-upon interest, are transferred.

The Plan was amended on April 1, 1997. The Plan extended membership to the District Attorney's Office.

A detailed plan agreement has been published and made available to all plan participants. Their agreement contains all information regarding the plan's benefits, amendments, actuarial assumptions and contribution requirements.

## B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the plan:

**Basis of Accounting** - The accompanying financial statements are prepared on the accrual basis of accounting. Contributions are recognized as revenue in the period in which employee services are performed.

**Method Used to Value Investments** - The Plans equity securities are reported at market value. Fixed income securities are reported at amortized cost with discounts or premiums amortized using the "straight line method". Investment income is recognized as earned gains and losses on sales and exchanges of fixed income securities are recognized on the transaction date.

## C. PENSION BENEFIT OBLIGATION

The amount shown below as the pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help assess the funding status of the Employees' Retirement System on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employees' retirement systems.

The measure is independent of the actuarial funding method used to determine contributions to the Employees' Retirement System.

The pension benefit obligation was determined as part of the actuarial valuations at December 31, 1997 and 1996 based on reports dated January 1, 1998 and 1997 respectively. Significant actuarial assumptions used in the latest valuation are as follows:

- Life Expectancy of Participants - 1971 Group Annuity Mortality Table.
- Retirement Age Assumptions - Based on the results of the 1990-1995 periodic actuarial experience study.
- Investment Return - 7%
- Projected Salary Increases - Based on U.S. Department of Commerce, adjusted for projected increases in the standard of living.

## D. CHANGE IN ACTUARIAL VALUATION

Beginning with the January 1, 1996 actuarial valuation, the actuarial valuations will be prepared using the "Frozen Entry Age Actuarial Cost Method" of funding. Prior to the change in the funding method, the Plan had been funded using the "Entry Age Normal Cost Method".

Under the Frozen Entry Age Actuarial Cost Method, the normal cost of the plan is designed to be a level percentage of payroll, calculated on an aggregate basis, spread over the entire working lifetime of the participants. The future working lifetime of the participant is determined from each participant's hypothetical entry age into the plan assuming the plan had always been in existence, to his expected retirement date.

For the first year the actuarial accrued liability is the amount of total liability not covered by future entry age normal costs and is called the frozen actuarial liability since it is not affected by actuarial experience gains or losses in future years. This amount is composed of actuarial value of benefits already funded (assets) and those not yet funded (unfunded frozen actuarial liability).

Once established, and for valuations in subsequent years until fully amortized, the unfunded frozen actuarial liability is affected by the normal cost, the valuation interest rate and plan contributions. The normal cost must then become the balancing item as the allocated annual portion of the remaining actuarial present value of retirement benefits. As a result, normal cost will fluctuate from year to year to account for actuarial experience.

The amortization period, which ends December 31, 2003 is being maintained. Beginning with January 1, 1992 actuarial valuation, the amortization amount was "frozen" and is equal to the 13 year remaining amortization amount over the period January 1, 1992 through December 31, 2003.

## E. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Employees' Retirement Systems' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of employer payroll contribution rates are determined using the "Entry Age Normal Actuarial Funding Method". The Employees' Retirement System also uses the "Percentage of Payroll Method" to amortize the unfunded liability over a thirty year period effective July 1, 1974.

Employees contribute 4% of their earnable compensation in excess of $1,200 per year. Earnable compensation is the annual compensation paid to an employee which includes overtime and/or supplementary pay earned prior to April 29, 1979. Effective April 29, 1979, it is defined as annual compensation paid to an employee plus tenure pay.

Significant actuarial assumptions used to complete contribution requirements are the same as those used to compute the standardized measure of the pension benefit obligation discussed in Note C.

1997

**ACCUMULATED PLAN BENEFITS**

*Actuarial present value of accumulated plan benefits*

| | |
|---|---|
| Vested benefits: | |
| Participants currently receiving payments | $ 111,952,824 |
| Other participants | 81,779,814 |
| | 193,732,638 |
| Non-Vested benefits | 32,226,032 |
| *Total actuarial present value of accumulated plan benefits* | $ 225,958,670 |

**CHANGES IN ACCUMULATED PLAN BENEFITS**

| | |
|---|---|
| Actuarial present value of credited projected benefits at the beginning of year | $212,353,311 |
| Increase (decrease) during year attribute to: | |
| Plan Amendments | 0 |
| Changes in Assumptions | 0 |
| Benefits accumulated, interest and gains (losses) | 27,390,668 |
| Benefits paid | (13,785,309) |
| Actuarial present value of credited projected benefits at year end | $225,958,670 |

## F. CASH AND INVESTMENTS

As of December 31, 1997, the Employees' Retirement System had the following cash accounts and related FDIC insurance and/or other types of collateral to secure the plans accounts:

| Institution and Account | Book Balance | Bank Balance | Amount of Depository Ins. or Collateral |
|---|---|---|---|
| LIBERTY 2214369 | $ 24,571 | $26,775 | $26,775 |
| **Total** | $ 24,571 | $26,775 | $26,775 |

Investments made by the EMPLOYEES' RETIREMENT SYSTEM are summarized below:

Investments at Estimated Market Value

| | December 31, 1997 | 1996 |
|---|---|---|
| Cash Equivalents | 15,201,911 | 20,698,775 |
| U. S. Government Obligations | 49,331,610 | 19,592,644 |
| Corporate Securities | | |
| Bonds | 45,228,390 | 46,756,194 |
| Mortgages | 33,393,721 | 50,172,404 |
| Equities | 173,414,869 | 138,538,937 |
| TOTAL | 316,570,501 | 275,758,954 |

Net Appreciation (Depreciation) In Market Value

| | Year Ended December 31, 1997 |
|---|---|
| Cash Equivalents | (5,496,864) |
| U. S. Government Obligations | 26,061,819 |
| Corporate Securities | |
| Bonds | (1,527,804) |
| Mortgages | (16,778,683) |
| Equities | 31,198,784 |
| TOTAL | 33,457,252 |

## G. TREND INFORMATION

Trend information which gives an indication of the progress made in accumulating sufficient assets to pay benefits when due, are presented on pages 13 and 14.

## II. COST-OF-LIVING BENEFITS BONUS

Retired members, for 33 consecutive years were paid a cost-of-living bonus benefit. The 1997 bonus, which totaled $1,458,386 was calculated for each individual at the rate of 3% of the current benefit for the each year of retirement, with a maximum the greater of $600 or $75 times each year of retirement. *It was provided from the earnings on investments in excess of 6%.* The Board plans to continue the cost-of-living bonus benefit as long as interest earnings are sufficient.

# SUPPLEMENTARY INFORMATION

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**
**HISTORICAL TREND INFORMATION**
**(Unaudited)**

Historical trend information since 1989 is designed to provide information about the EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS' progress made accumulating sufficient assets to pay benefits when due is presented in the following schedule:

**SCHEDULE OF FUNDING PROGRESS**

| Year | Actuarial Value of Assets (1) | Actuarial Accrued Liability (AAL) (2)* | Percent Funded by Employer (1÷2) (3) | Unfunded AAL (UAAL) (2-1) (4) | Annual Covered Payroll (5) | UAAL as a Percentage of Covered Payroll (4÷5) (6) |
|---|---|---|---|---|---|---|
| 1990 | 152,897,042 | 164,100,632 | 93.17 | 11,203,590 | 63,285,914 | 17.70 |
| 1991 | 163,689,677 | 168,476,350 | 97.15 | 4,786,673 | 66,205,279 | 7.23 |
| 1992 | 174,340,893 | 174,852,648 | 99.70 | 511,755 | 70,163,161 | 0.01 |
| 1993 | 194,704,398 | 180,044,150 | 108.14 | (14,660,248) | 65,578,056 | (22.35) |
| 1994 | 205,126,988 | 185,685,601 | 110.47 | (19,441,387) | 66,910,493 | (29.05) |
| 1995 | 221,783,014 | 226,348,016 | 97.98 | 4,565,002 | 68,492,113 | 6.66 |
| 1996 | 278,446,227 | 247,902,452 | 112.32 | (30,543,775) | 70,480,255 | (43.34) |
| 1997 | 319,142,011 | 274,538,774 | 116.00 | (44,603,237) | 76,090,614 | (59.00) |

* Pension Benefit Obligation for 1997 includes Actuarial Adjustment of $48,580,104.

## REVENUE BY SOURCE

| Year | Employee Contributions | Actuarial Required Employer Contributions | Investment Income | Total |
|---|---|---|---|---|
| 1990 | 2,471,806 | 8,947,779 | 6,178,486 | 17,598,071 |
| 1991 | 2,697,920 | 9,019,773 | 13,127,442 | 24,845,135 |
| 1992 | 2,904,482 | 9,258,071 | 12,006,674 | 24,169,227 |
| 1993 | 2,790,849 | 9,274,320 | 22,385,320 | 34,450,489 |
| 1994 | 2,646,225 | 9,238,967 | 13,367,184 | 25,252,376 |
| 1995 | 2,921,784 | 10,629,702 | 18,240,535 | 31,792,021 |
| 1996 | 2,761,098 | 9,858,968 | 20,421,903 | 33,041,969 |
| 1997 | 3,036,531 | 9,063,207 | 44,255,398 | 56,355,136 |

## EXPENSE BY TYPE

| Year | Benefits | Refunds | Other/Transfers | Total |
|---|---|---|---|---|
| 1990 | 12,380,502 | 959,172 | 0 | 13,339,674 |
| 1991 | 13,162,350 | 884,881 | 5,269 | 14,052,500 |
| 1992 | 12,803,048 | 714,963 | 0 | 13,518,011 |
| 1993 | 12,862,616 | 1,037,761 | 186,607 | 14,086,984 |
| 1994 | 12,927,298 | 1,665,775 | 297,357 | 14,890,430 |
| 1995 | 13,345,749 | 1,141,519 | 863,462 | 15,350,730 |
| 1996 | 13,773,120 | 787,137 | 1,676,330 | 16,236,587 |
| 1997 | 14,414,971 | 828,724 | 460,080 | 15,703,775 |

LUTHER C. SPEIGHT & COMPANY

A Corporation of Certified Public Accountants
and Management Consultants

Celebrating 10 Years

# REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Council of the City of New Orleans, Louisiana

We have audited the financial statements of the Employees' Retirement System of the City of New Orleans (the Plan) as of December 31, 1997 and 1996, and for the years then ended, and have issued our report thereon dated June 4, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Compliance

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of the Plan's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Plan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items **1), 2), 3), 4), and 5)**.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

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misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider all of them to be material weaknesses.

This report is intended for the information of the audit committee, management, and the City of New Orleans. However, this report is a matter of public record and its distribution is not limited.

Luther C. Speight & Co.

New Orleans, Louisiana
June 4, 1998

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS**

**SCHEDULE OF FINDINGS**

**STATUS OF PRIOR-YEAR FINDINGS**

| | UNRESOLVED | RESOLVED |
|---|---|---|
| 1) There were no interim financial statements prepared within the audit period. | X | |
| 2) Investment subsidiary ledgers were not adequately maintained. | X | |
| 3) Investment activity source documents (ie. Confirmations and investment statements) were not maintained in an orderly fashion. | | X |

**CURRENT YEAR FINDINGS**

4) CONDITION: Bank reconciliations were not prepared as of year-end. The reconciliations were prepared during the course of our audit fieldwork.

CRITERIA: It is industry standard that cash accounts are reconciled at year --end.

EFFECT: Cash did not reconcile to the amount represented as the book balance.

CAUSE: Lack of adequate accounting staff.

5) CONDITION: The retirement system does not have a comprehensive financial reporting system in place related to its accounting information.

CRITERIA: It is industry standard that the general ledger and financial statements are prepared utilizing an accounting software program designed for that purpose.

EFFECT: General ledger accounts were out of balance at the end of the year.

CAUSE: The retirement system had not yet acquired and implemented a comprehensive accounting software program

# DEPARTMENT OF FINANCE

Employees' Retirement System
Management Corrective Action Plan
December 31, 1997

Finding #1 - No interim financial statements prepared

Management is currently unable to hire and maintain competent staff due to authorized salary limitations. Therefore, the preparation of interim financial statements, for which we already have procedures in place to accomplish will be outsourced until appropriate staff is secured.

Finding #2 - Investment subsidiary ledgers non maintained

This finding is a repeat finding from the prior year audit that was resolved during the current mid-year conversion from the FNBC custodian to the Bank One custodian. Investment subsidiary ledgers are currently provided by the Retirement Systems' new investment custodian (Bank One), as a result of management communication with the bank for more user informative statements. These statements now include gain/losses, amortization of bond discounts/premiums, individual descriptions of all investment transactions, etc. However, management will incorporate checking the clerical accuracy of those statements, as well as reconciling the balances for each month. These statements will then serve as the Investment subsidiary ledger.

Finding #3 - Investment source documents not maintained in an orderly manner.

Management currently maintains investment transaction confirmations, and all money manager statements is a file by month and by money manager. Please note that this finding was reported RESOLVED by the auditors.

Finding #4 - Bank reconciliation not prepared as of year end

Again, management has procedures in place to accomplish this task on a monthly basis, however, the shortage of staff due to salary authorized limitations, is not conducive to having this done in a timely manner. Consequently, we have contracted a CPA firm to provide these services on a monthly basis as well as at year end.

Finding #5 - No comprehensive financial reporting system in place

Management has hired consultants to study the Employees Retirement Systems' usage of the City of New Orleans' current accounting system (AFIN), for all of its financial transactions. Until the detailed are worked out on the conversion to this system, our currently financial statements will be maintained in an accounting software package (i.e. Peachtree), by a contracted CPA firm. Certainly, during the conversion this data and all previous financial data will be uploaded into the online accounting system (AFIN). The conversion December 31, 1998, completion date.

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