LUTHER C. SPEIGHT & COMPANY
A Corporation of Certified Public Accountants and Management Consultants

Celebrating 10 Years

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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, 1998 AND 1997

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS

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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 Employees' Retirement System Combination Defined Benefit and Defined Contribution Pension Plan as of December 31, 1998 and 1997, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 1998, and the related statement of changes in accumulated plan benefits for the year 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, information regarding the City of New Orleans Employees' Retirement Systems' Defined Benefit/Defined Contribution Plan's net assets available for benefits as of December 31, 1998, and changes therein for the year then ended and its financial status as of December 31, 1998, and changes therein for the year then ended in conformity with generally accepted accounting principles.

Luther C. Speight & Co

New Orleans, Louisiana
June 11,1999

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Atlanta Office: 400 Colony Square Suite 200 Atlanta, GA 30361 phone (404) 870-9045 fax (404) 870-9005

EMPLOYEES' RETIREMENT SYSTEM, CITY OF NEW ORLEANS
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	December 31, 1998	December 31, 1997
ASSETS		
INVESTMENTS AT FAIR VALUE:		
Cash Equivalents	$ 15,041,672	$ 15,201,911
U.S. Government Obligations	57,175,510	49,331,610
Corporate Securities		
Bonds	61,573,889	45,228,390
Mortgages	17,587,519	33,393,721
Equities	202,482,353	173,414,869
TOTAL INVESTMENTS (at Fair Value)	353,860,943	316,570,501
RECEIVABLES:		
Contributions	392,024	97,039
Accrued Interest & Dividends	1,818,817	1,586,318
Due from the City of New Orleans	0	135,199
Due from broker for securities sold	159,529	1,151,783
TOTAL RECEIVABLES	2,370.370	2,970,339
PREPAID EXPENSES	466,034	415,965
CASH	17,478	24,571
TOTAL ASSETS	$ 356,714,825	$ 319,981,376
LIABILITIES		
Due to Terminated employees	$ 141,087	$ 123,567
Due to Broker for Securities Purchased	340,715	0
Due to City of New Orleans	74,754	0
Accrued Management and Custodial Fees	431,339	405,403
Accounts Payable	160,541	310,395
TOTAL LIABILITIES	1,148,436	839,365
NET ASSETS AVAILABLE FOR BENEFITS	$ 355,566,389	$ 319,142,011

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

	December 31, 1998	1997
ADDITIONS TO NET ASSETS		
Investment Income:		
Interest	$ 12,640,045	$ 12,139,264
Net Appreciation in fair value	28,291,582	33,457,252
Commission Recapture	98,964	84,962
Securities Lending	65,155	61,037
	41,095,746	45,742,515
Less: Investment Expenses	(1,311,793)	(1,487,117)
Net Investment Income	$ 39,783,953	$ 44,255,398
Contributions:		
Employer	8,739,480	9,063,207
Employees	3,481,930	3,036,531
Transfers from S&WB	*69,039*	25,915
Payments for Military Services	24,038	14,131
Transfers from State System	0	4,377
Total contributions:	12,314,487	12,144,161
TOTAL ADDITIONS TO NET ASSETS	$ 52,098,440	$ 56,399,559
DEDUCTIONS FROM NET ASSETS		
Retirement Allowances	10,508,391	10,442,683
Ordinary Disability Retirements	1,230,473	1,226,349
Accidental Disability Retirement	575,494	576,514
Separation Retirements	340,771	336,928
Refunds to Members	1,042,980	828,724
Transfers to the State Retirement System	97,442	377,886
Transfers to the Sewerage and Water Board	35,385	69,323
Transfer to M.P.E.R.S.	8,784	12,871
Lump Sum Benefits Due to Death of Members	298,884	374,111
Cost of Living Benefits	1,465,548	1,458,386
Drop Withdrawal	48,956	0
Transfers to the Firefighters Retirement System	20,954	0
TOTAL DEDUCTIONS FROM NET ASSETS	15,674,062	15,703,775
NET INCREASE	36,424,378	40,695,784
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of Year	319,142,011	278,446,227
END OF YEAR	$355,566,389	$319,142,011

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT SYSTEM, CITY OF NEW ORLEANS
STATEMENT OF ACCUMULATED PLAN BENEFITS
DECEMBER 31, 1998 AND 1997

	1998	1997
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS		
Vested benefits:		
Participants currently receiving payments	$136,470,701	$111,952,824
Other participants	84,720,619	81,779,814
	221,191,320	193,732,638
Nonvested benefits	33,010,711	32,226,032
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS	$254,202,031	$225,958,670

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT SYSTEM, CITY OF NEW ORLEANS
STATEMENT OF CHANGES IN ACCUMULATED PLAN BENEFITS
YEAR ENDED DECEMBER 31, 1998

ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT BEGINNING OF YEAR	$ 225,958,670
Increase (decrease) during the year attributable to:	
Benefits accumulated*	42,289,310
Benefits paid	(14,045,949)
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT END OF YEAR	$ 254,202,031

* Includes interest and effects of actuarial gains and losses.

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

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 55 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 members 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, 1998 and 1997, EMPLOYEES' RETIREMENT SYSTEM membership consisted of:

	December 31	
	1998	1997
Retirees and beneficiaries currently receiving benefits	1,714	1,694
Terminated employees entitled to benefits but not yet receiving them	113	96
	1,827	1,790
Current employees:		
Vested	1,508	1,548
Non-Vested	2,344	2,444
TOTAL CURRENT EMPLOYEES	3,852	3,992
TOTAL ACTIVE EMPLOYEES	5,679	5,782

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 and debt securities are reported at fair value. Investment income is recognized as earned gains and losses on sales and exchanges of fixed income securities and 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 reason 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, 1998 and 1997 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 CONTRIBUTION MADE

The Employees' Retirement Systems' funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as 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.

F. CASH

As of December 31, 1998, 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
Bank One # 700301613	$ 0	$447,585	$447,585
Liberty Bank #2214369	$17,478	$ 10,164	$100,000
Total	$17,478	$457,749	$547,585

G. INVESTMENTS

The following table presents the fair values of investments at December 31, 1998 and 1997. Investments that represent 5% or more of the Plan's net assets are separately identified.

	1998	1997
Investments at Estimated Fair Value:		
Cash Equivalents	$ 15,041,672	$ 15,201,911
U.S. Government Obligations	57,175,510	49,331,610
Corporate Securities:		
Bonds	61,573,889	45,228,390
Mortgages	17,587,519	33,393,721
Equities	202,482,353	173,414,869
Total	$ 353,860,943	$ 316,570,501

During 1998 and 1997, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $ 28,291,582 and $ 33,457,252.

	Appreciation/(Depreciation)	
	1998	1997
Cash Equivalents	(160,239)	(5,496,864)
U.S. Government Obligations	7,843,900	26,061,819
Corporate Securities		
Bonds	16,345,499	(1,527,804)
Mortgages	(24,805,062)	(16,778,683)
Equities	29,067,484	31,198,784
Total	28,291,582	33,457,252

H. 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 15 and 16.

I. COST-OF-LIVING BENEFITS BONUS

Retired members, for 34 consecutive years were paid a cost-of-living bonus benefit. The 1998 bonus, which totaled $1,465,548 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.

J. COSTS OF PLAN ADMINISTRATION

The City of New Orleans absorbs significant costs of the plan administration. Those costs include salaries, fixed assets, office supplies etc. for the department administering Plan operations.

TREND INFORMATION

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

Historical trend information since 1990 is designed to provide information about the EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS' progress made toward 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)
1998	355,566,389	309,660,485	114.00	(45,905,904)	76,199,531	(60.00)

* Pension Benefit Obligation for 1998 includes Actuarial Adjustment of $55,458,454.

REVENUE BY SOURCE

Year	Employee Contributions	Actuarial Required Employer Contributions	Investment Income	Total
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
1998	3,481,930	8,739,480	39,783,953	52,005,363

EXPENSE BY TYPE

Year	Benefits	Refunds	Other/Transfers	Total
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	460,082	15,703,777
1998	14,468,517	1,042,980	162,565	15,674,062

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 City of New Orleans Employees' Retirement System (the Plan) as of and for the year ended December 31, 1998, and have issued our report thereon dated June 11, 1999. 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 its 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 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 reportable conditions that are also considered to be material weaknesses. However, we believe that all of the reportable conditions described above are material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Luther Speight & Co

New Orleans, Louisiana
June 11, 1999

STATUS OF PRIOR YEAR FINDINGS

	UNRESOLVED	RESOLVED
1) Bank reconciliations were not prepared as of year-end. The reconciliations were prepared during the course of our audit fieldwork.	X	
2) The retirement system does not have a comprehensive financial reporting system in place related to its accounting information.	X	
3) There were no interim financial statements prepared within the audit period.	X	
4) Investment subsidiary ledgers were not adequately maintained.	X	

CURRENT YEAR FINDING

5) CONDITION: There appears to be inadequate staffing in the office of the City of New Orleans Employees' Retirement System.

CRITERIA: It is industry standard to staff an organization at a level that is sufficient to ensure that the objectives and day-to-day operations of that organization are being achieved.

EFFECT: Various duties such as filing, typing of minutes to Board meetings, bank reconciliation, and general ledger maintenance are not being performed timely.

CAUSE: We were unable to determine the causes for this condition.

Celebrating 10 Years

LUTHER C. SPEIGHT & COMPANY

A Corporation of Certified Public Accountants
and Management Consultants

June 11, 1999

To the Senior Management, Audit Committee, and
Board of Directors of City of New Orleans Employees' Retirement System

In planning and performing our audit of the financial statements of the City of New Orleans Employees' Retirement System for the year ended December 31, 1998, we considered the Plan's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated June 11, 1999, on the financial statements of the City of New Orleans Employees' Retirement System.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Plan personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Luther C. Speight & Company CPA's and Consultants

New Orleans Office: 10001 Lake Forest Blvd Suite 404 New Orleans, LA 70127 phone (504) 244-9400 fax (504) 244 8240
Atlanta Office: 400 Colony Square Suite 200 Atlanta, GA 30361 phone (404) 870 9045 fax (404) 870-9005

CURRENT YEAR FINDINGS/COMMENTS

1) Untimely Bank Reconciliations

During our audit, we noted that bank reconciliations were not being performed timely and consistently throughout the 1998 fiscal year. Bank reconciliations are a significant control mechanism for ensuring the accuracy and validity of cash transactions. Therefore, in the absence of timely reconciliations, various errors involving cash may occur and not be detected. The results of our testwork indicated a total of $33,385 in stale-dated checks and an undetected payroll tax transmission error. We believe that this situation may be easily remedied if the bank reconciliation function is performed each month in accordance with the procedures that we described to the Plan's staff.

2) Inadequate Filing

Filing of the Plan's retirement forms is not occurring in a timely and consistent manner. During our testwork of Participant Data, we noted that many forms were missing for participants and were informed that there was a box of unfiled information. We observed the box, which included various forms used in the retirement process with various different names. Errors in retiree benefit payments as well as participation in the retirement plan may occur with pertinent forms unfiled in the Plan's office. The results of our testwork disclosed 8 of 60 participant files that did not contain the required forms for retirement.

3) Inadequate Staffing

The Plan's office has experienced employee turnover in the past few years especially in the accounting area. To date, they have been unable to secure replacements for these positions due to several factors. Consequently, there are tasks that are not being performed timely or at all. They are the filing of retiree information, bank reconciliations, and typing of Board meeting minutes. Management should implement an interim plan for accomplishing these tasks until permanent staff is secured.

4) Computer Back-Up System

During the reporting period, there was a computer crash in the Plan's office, which resulted in complete loss of the accounting transactions for the period. A back-up copy of the data did not exist, consequently the financial statements to that point had to be reconstructed using source documents. Back-up procedures regarding all computer file information must be documented and implemented immediately to prevent future occurrences of lost files.

5) The Year 2000 Issue

The Year 2000 Issue results from the inability of a computer program to process year-date data accurately beyond the year 1999. Except in recently introduced year 2000 compliant programs, computer programs consistently have included abbreviated dates (that is, dates that excluded the first two digits of the year) with the assumption that those two digits would always be 19. Unless corrected, that shortcut may create widespread problems on January 1, 2000. On that date, some computer programs may recognize the date as January 1, 1900, and either process data incorrectly or stop processing it altogether.

The Year 2000 Issue may affect computer applications before January 1, 2000, when systems currently attempt to perform calculations into the year 2000. Furthermore, some computer programs use several dates in the year 1999 (such as 01/01/99, 09/09/99, and 12/31/99) to mean something other than the date. As systems process data using those dates, they may produce erratic results or stop functioning.

The Year 2000 Issue presents yet another challenge: the algorithm used in some computer programs for calculating leap years may be unable to detect that the year 2000 is a leap year. Therefore, systems that are not year 2000 compliant may produce incorrect results.

We recommend that you begin to take immediate steps to identify, modify, and test all systems that may be impacted by the Year 2000 Issue. In addition, you should monitor your progress to ensure compliance before systems begin to fail, which may be evident before January 1, 2000. If the Plan fails to take timely and appropriate action, it may experience costly and significant computer program failures, which could prevent it from performing its routine processing activities. Depending on the extent of system failures, noncompliance could be catastrophic for the Plan.

In addition, the company should implement verification procedures to test the accuracy of information received from its vendors, service providers, bankers, customers, and other third-party organizations with whom it exchanges date-dependent information to ensure that those organizations also are year 2000 compliant. The Plan should satisfy itself that its operations or cash flows will not be affected by problems in those organizations relating to the Year 2000 Issue.

CITY OF NEW ORLEANS
EMPLOYEES' RETIREMENT SYSTEM

Marc H. Morial
Mayor

August 4, 1999

Mr. Daniel G. Kyle, Secretary
Legislative Audit Advisory Council
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Kyle:

In response to the management letter, dated **June 11, 1999**, from our auditors, Luther Speight & Company, the unresolved prior year findings and the current year findings associated with untimely bank reconciliations, inadequate filing, etc. can be attributed to inadequate staffing. Due to a number of terminations, dismissals and retirements, as well as budgetary problems, there have been as many as six vacant positions in the retirement office since last year, including three Accounting positions and the Assistant Manager position. The Board of Trustees, Civil Service, and the administration are working toward a solution to the Retirement office's staffing problems. A combination of hiring permanent and temporary personnel and outside contractors will be used to clear the findings associated with inadequate staffing.

Additionally, listed below in bold are responses to specific prior year and current year findings:

Prior Year Findings

2) The retirement system does not have a comprehensive financial reporting system in place related to its accounting information. **The retirement system has been working on a plan to use the City's comprehensive financial reporting package AFIN; additionally, the new Pension Accounting System (PAS), which is currently being implemented, has a general ledger package, which will fully integrate the accounting for the system; however, the general ledger portion of the PAS will most likely not be available until mid-2000.**

Mr. Daniel G. Kyle, Secretary
August 4, 1999
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3) There were no interim financial statements prepared within the audit period. **An interim statement was presented to the Board in January 1999; with the assistance of the accounting firm, this effort will continue.**

Current Year Findings

1) Untimely Bank Reconciliations- **Although a formal bank reconciliation is not completed monthly because of the lack of staff and/or the lack of the timesaving interfaces to update the general ledger, a very detailed proof of cash is performed monthly. This procedure which has always been in place is now completed as soon as the bank statements are received and has timely detected errors.**

4) Computer Back up System- **In early 1998, the computer, which had the 1997 general ledger files on its hard drive, crashed. Since that time, all employees have been required to either work in the network drive or back up their files on the network. The network administrator has documented back up procedures which includes periodic back up of all servers on the network.**

If you have any questions, do not hesitate to contact me at (504) 565-6600.

Sincerely,

Marina M. Kahn
Director

MMK/BLJ/jhe

xc: Board members
Luther C. Speight & Co.

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