

TOWN OF COLFAX



ADVISORY SERVICES REPORT  
ISSUED OCTOBER 29, 2008

**LEGISLATIVE AUDITOR  
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POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

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LOUISIANA LEGISLATIVE AUDITOR  
STEVE J. THERIOT, CPA

October 29, 2008

**THE HONORABLE GERALD HAMILTON, MAYOR,  
AND MEMBERS OF THE BOARD OF ALDERMEN**  
Colfax, Louisiana

We visited the Town of Colfax (town) to determine your resolution of findings reported in the town's June 30, 2007, audited financial statements. My staff also applied our *Checklist of Best Practices* in providing advisory services for the financial operations of the town.

Attachment I contains our findings and recommendations resulting from our assessment and Attachment II provides the status of the June 30, 2007, findings and recommendations. Management's response is presented in Appendix A.

Our recommendations are intended to assist you in your efforts to (1) improve controls over the town's financial operations; (2) implement good business practices; and (3) ensure the town's compliance with the Louisiana Constitution and state laws.

This assessment is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards; therefore, we are not offering an opinion on the town's financial statements or system of internal control nor assurance as to compliance with laws and regulations.

Respectfully submitted,

Steve J. Theriot, CPA  
Legislative Auditor

MDC:ESS:JSI:dl

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## Findings and Recommendations



The following are the findings and recommendations resulting from our advisory services. Management (mayor and aldermen) of the town should consider the costs of implementing the recommendations compared to the benefits they will provide. For any recommendations not implemented, the town should be aware of the risks.

We reviewed these findings and recommendations with management of the town to provide management an opportunity for its response. Management's response is presented in Appendix A.

### **Natural Gas Losses**

The town cannot account for the use of 26,548 MCF of gas purchased during the four-year period from 2004 through 2007, which we roughly estimate may have cost the town approximately \$200,000. During that four-year period, gas purchased by the town exceeded gas sales (to customers) by annual percentages ranging from 18% to 25%.

In the town's 2007 audit report, the auditor repeated a recommendation made in 2005 and 2006 that the town should take steps to determine the reason for the natural gas losses. Our assessment revealed that management has not identified the reason/cause(s) but has taken the following actions:

- Hired a consulting firm in December of 2007 to conduct a measurement audit of the town's natural gas operations
- Monitors the town's gas meters and compares with measurements and billings of the gas supplier
- Changing out old gas meters, increasing the odorant to more readily detect gas leaks, and monitoring/walking the pipelines to detect leaks and illegal connections
- Periodically meeting with the gas consultant, engineers, auditor, and others to review the impact and status of actions taken and to analyze the costs and benefits of performing additional activities

Recommendation: We encourage management to continue its efforts to identify the cause(s) of the natural gas losses. Resolution of this matter is critical because of the continuing negative impact it is having on the cash flow and financial position of the town.

### **Financial Management**

Our assessment revealed weaknesses in the overall financial management of the town. Without an effective financial management system, the mayor and aldermen cannot effectively exercise its fiduciary responsibilities of managing the town's finances.

1. **Financial Statements and Budget Comparisons** - Financial statements are not prepared monthly for all funds (general fund, utility fund, etc.) of the town nor are monthly budget-to-actual comparison schedules prepared and presented to the board of aldermen for review. Without complete financial information on all funds, including budget-to-actual comparisons, the board cannot effectively exercise its fiduciary responsibilities of managing the town.

Recommendation: In addition to the monthly cash, expense, and accounts payable reports, the clerk should present the board with monthly financial statements (e.g., Balance Sheet; Statement of Revenues, Expenditures, and Changes in Fund Balance) for all funds of the town, including budget comparisons and warnings of any corrective action (e.g., amend the budget) needed.

We suggest that the town computerize its budget development and monitoring process to readily provide actual to budget comparisons for revenue and expenditure accounts. In addition, the review of financial statements should be a regular agenda item for each board meeting and its discussion documented in the minutes.

2. **General Fund Deficit Spending** - Management does not have a formal plan for both short- and long-term spending in the general fund to ensure it will operate within its available funding and maintain a reasonable fund balance.

According to the town's audited financial statements, deficit spending totaling \$192,878 has resulted in the general fund over the past three years (2005-2007) as summarized below:

	Fiscal Year		
	2007	2006	2005
Revenues	\$559,783	\$520,626	\$564,666
Expenditures	(608,096)	(579,565)	(650,292)
<b>Deficit</b>	<b>(\$48,313)</b>	<b>(\$58,939)</b>	<b>(\$85,626)</b>

In addition, management has estimated the fund balance for the general fund to decrease to \$17,907 at June 30, 2009:

Fiscal Year Ending	Fund Balance	
June 30, 2007	\$200,982	(unaudited)
June 30, 2008	\$74,527	(estimated)
June 30, 2009	\$17,907	(estimated)

This decreasing trend in fund balance is concerning, especially considering monies are being transferred from the utility fund into the general fund to sustain operations.

Recommendation: Management should prepare a written plan to eliminate deficit spending in the general fund. Management should consider all available options to increase revenues and/or decrease expenditures in the operations of the general fund to ensure that the town will maintain a reasonable fund balance. We suggest that the plan be monitored monthly to assess whether the town is on target with the plan.

3. **Utility Fund Budget and Operating Losses** - Management does not prepare an annual budget for the operations (gas, water, and sewer services) of the utility fund. Good business practices dictate that an annual budget be prepared and adopted to serve as a roadmap for management in managing the fiscal operations of the town.

According to the town’s audited financial statements, losses totaling \$75,237 have resulted in the operations of the utility fund over the past three years (2005-2007), as summarized below:

	Fiscal Year		
	2007	2006	2005
Operating revenues	\$828,216	\$962,796	\$851,494
Operating expenditures	(894,841)	(967,056)	(855,846)
<b>Operating Loss</b>	<b>(\$66,625)</b>	<b>(\$4,260)</b>	<b>(\$4,352)</b>

Recommendation: We suggest that an annual budget for the utility fund be prepared and submitted to the board for approval, including a written plan to eliminate operating losses in the utility fund. Management should closely monitor variances between actual and budgeted amounts on a monthly basis, including the differences/variances in gas purchases and gas sales.

4. **Accounting System Upgrade** - The town’s accounting system is a mixed combination of manual and computerized components. The payroll system and accounts receivable system are computerized while the general ledger, accounts payable, and cash receipts transactions are manually recorded in journals and summarized in ledger books.

Recommendation: We recommend that the accounting system be upgraded to a fully computerized system, a system that could generate monthly financial statements including cumulative comparisons of actual to budgeted amounts, increase the accuracy of financial reporting, allow staff to better analyze financial data, and provide automated links between the general ledger and accounting subsystems. In addition, office automation tools such as spreadsheet software

should be implemented which can assist in financial analysis and reduce errors. Management should review the town's current manual accounting activities, and then work with its accounting and computer advisors to acquire, test, and implement financial and office automation software that can improve the effectiveness and efficiency of its accounting and financial reporting.

5. **Budget Adoption Instrument** - The budget adoption instrument accompanying the town's 2009 annual budget and 2008 amended budget did not define the authority of the mayor to make changes within various budget classifications without approval of the board of aldermen, as well as those powers reserved solely to the board, as required by state law [Louisiana Revised Statute (R.S.) 39:1305 D].

Since the town is operating under the Lawrason Act, the town is required to use an ordinance as the budget adoption instrument [R.S. 33:406 A (3)] and does not have the option of adopting the budget by resolution. An ordinance carries the effect of law, while a resolution merely expresses an opinion. The Louisiana Attorney General has also opined (A.G. Opinion 00-462) that budget amendments must also be adopted by ordinance.

Recommendation: In the future, management should ensure that the budget adoption instrument accompanying the town's budget (annual and amended) is in the form of an ordinance that clearly defines the authority of the mayor and the board of aldermen.

6. **Written Policies and Procedures** - The town's written policies and procedures are not complete. Written policies and procedures are necessary to provide a clear understanding of what should be done, how it should be done, who should do it, and when it should be done. Also, written policies and procedures aid in the continuity of operations and for cross-training staff and training new staff.

Recommendation: Management should develop and implement written policies and/or procedures, in accordance with applicable Louisiana laws, related to the following:

- a. Ethics, including issues such as nepotism and prohibited activities (e.g., related-party transactions) and requiring that an annual certification letter be signed by the mayor, each alderman, and all employees attesting to their compliance with the ethics policy
- b. Budgeting, including procedures for preparing, adopting, monitoring, and amending budgets
- c. Financial reporting, including the nature, extent, and frequency of reporting financial information to management

- d. Accounting system procedures for all computer system modules (e.g., Cash Receipts, Fund Accounting, Accounts Payable, and Payroll), including transaction authorization, entry, review, processing, reporting, data storage, backup, and database maintenance
- e. Receipts/collections, including receiving, recording, and preparing deposits
- f. Disbursements, including processing, reviewing, and approving expenditures
- g. Procurement/purchasing, including how purchases are initiated and approved and checks and balances to ensure compliance with the public bid law
- h. Contracts, including monitoring procedures to ensure that services received comply with terms and conditions of the contracts
- i. Cellular telephones, including accounting for business and personal use
- j. Payroll recordkeeping, including procedures for time cards and leave
- k. Capital assets, including recording, tagging, and safeguarding assets, including conducting physical inventories
- l. Credit cards, including charges allowed and documentation required
- m. Travel, including rates for business mileage, meals, and lodging, and the filing of standard expense reimbursement reports
- n. Traffic tickets, including safeguarding, issuing, and accounting for tickets/citations
- o. Confiscated items, including recording, maintaining, inventorying, and disposing of evidence
- p. Retention of public records, including e-mail communications
- q. Computer, including backing up and storing computer files and general controls for the computer system

**Purchasing/Expenditures**

Controls over purchasing/expenditures need to be improved.

1. **Purchasing Procedures** - There are no written procedures establishing the town’s requirements for the use and processing of purchase orders and related documents. The town does not maintain written procedures for who can authorize purchases and the dollar limits of such authorization, the process for reviewing receiving documents and matching to purchase orders and invoices, or the approvals required before expenditures are made.

Recommendation: Management should develop and implement written procedures to ensure that purchases are authorized and that purchase orders are consistently used, accounted for and matched to related documents, and reviewed and approved.

2. **Festival and Parade Expenditures** - The town may have violated Louisiana’s Constitution<sup>1, 2</sup> and state law by spending public funds on the Pecan Festival without having a cooperative endeavor agreement with the event sponsor. Also, management spent a total of \$9,476 on the 2007 Christmas parade/event and exceeded its annual budget for festivals and parades by more than \$10,000.

Although these type of expenditures may be for worthwhile causes, management has a fiduciary responsibility to ensure that such expenditures are not contrary to law, are reasonable in amount, and do not restrict/impair the town from providing its public services.

- **Pecan Festival** - The town spent a total of \$4,018 on the 2007 Pecan Festival without having a cooperative endeavor agreement with the nonprofit corporation that sponsors the event. A summary of those town’s expenditures are as follows:

Expenditures	Nature of Expenditures
\$2,400	Security
\$990	Candy
\$320	Golf cart rental
\$235	Float throws
\$70	Soft drinks for workers

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<sup>1</sup> **Article VII, Section 14(A) of the Louisiana Constitution of 1974** prohibits funds, credit, property, or things of value of the state or any political subdivision from being loaned, pledged, or donated to or for any person.

<sup>2</sup> **Article VII, Section 14(C) of the Louisiana Constitution of 1974** provides that for a public purpose, the state and its political subdivisions may engage in cooperative endeavors with each other, with the United States or its agencies, or with any public or private association, corporation, or individual.

Although Article VII, Section 14(C) allows the town to engage in a cooperative endeavor with a nonprofit corporation, we caution management that for such expenditures to be constitutional, there must be a public purpose for the expenditures, the expenditures must not appear to be gratuitous, and there must be evidence demonstrating that the town has a reasonable expectation of receiving a benefit or value at least equivalent to the amount of the expenditures.

Recommendation: Management should consult with the town’s legal advisor and/or the Louisiana Attorney General about the legality of expenditures made related to the annual Pecan Festival.

- **Christmas Parade** - The town spent a total of \$9,476 on the 2007 Christmas parade/event. A summary of those town’s expenditures are as follows:

Expenditures	Nature of Expenditures
\$6,030	Front Street - pole-mounted decorations
\$944	Christmas lights and accessories
\$599	Fireworks show
\$595	Hot dogs, soft drinks, chips
\$407	Condiments, paper trays, cutlery
\$345	Front Street - decorations
\$182	Portable toilets
\$172	Trophies
\$162	Food for safety meetings
\$40	Ice chests

Recommendation: Management should consult with the town’s legal advisor about the legality of all expenditures made related to the Christmas parade/event. We also suggest that management re-evaluate the reasonableness of such expenditures considering the current financial condition of the town.

3. **Credit Cards** - The town could not account for two gasoline credit cards. Records at town hall reflect 15 gasoline credit cards being maintained by the town; however, the town was only able to account for 13 cards.

Additional control weaknesses over the town’s gasoline credit cards are as follows:

- There were no written policies or procedures for how the credit cards are to be distributed or how their usage is to be controlled or documented. For example, employees in the public works department are completing fuel logs (documenting the vehicle, odometer reading, number of gallons, and date purchased) whereas police department personnel are not providing such documentation for their gasoline purchases.

- There were no formal procedures for monitoring credit card purchases/charges for compliance with the Louisiana public bid law. R.S. 38:2212.1 requires competitive bids for all purchases of materials and supplies exceeding \$20,000. Also, the Louisiana Attorney General has opined (A.G. Opinion 02-0122) that “recurring purchases of like commodities” that in the aggregate exceed the bid limit must be advertised and let for public bid.
- There are no procedures in place for credit card statements to be analyzed monthly with gas receipts and logs to ensure mileage driven is consistent and reasonable with gasoline purchased for particular types of vehicles.

Recommendation: Management should immediately cancel the missing credit cards and review the necessity for having so many cards in use. In addition, management should develop written policies and procedures establishing:

- The circumstances when and to whom credit cards will be issued
  - The responsibilities of the department head and user of the card for controlling and documenting all usage
  - The requirement for gasoline receipts, logs, and other records of usage to be maintained
  - The responsibility of the town clerk to analyze and compare receipts with logs and credit card statements and summarize the data on a monthly basis for management review
  - The responsibility of the town clerk to monitor purchases for strict compliance with the Louisiana public bid law
4. **Travel Expenses** - The mayor and certain employees did not prepare travel expense reports or submit receipts to substantiate town monies advanced to them for meals and mileage expenses. In addition, the town’s travel policy does not provide specific rates for meals, mileage, and lodging.

On August 2, 2007, the town advanced a total of \$2,987.40 to the mayor and seven employees (mayor and five employees each received \$397.90 and two employees each received \$300.00) for meals and mileage expenses related to attending the Louisiana Municipal Association (LMA) conference held in Monroe, Louisiana. The town did not have a travel expense report on file from the mayor and six of the employees nor were any receipts on file.

Good internal controls require that appropriate policies/procedures be in place and followed to ensure that proper documentation exists to support all transactions. In

addition, the public records law<sup>3</sup> generally requires public records be preserved and maintained for a period of at least three years from the date on which the public record was made.

Recommendation: Management should:

- Require the mayor and employees to prepare and file expense reports and submit receipts to substantiate town monies advanced to them for the 2007 LMA conference.
- Adopt a more detailed travel policy, including establishing specific lodging, meals, and mileage reimbursement rates using the State of Louisiana travel regulations as a guide
- Require that the travel policy be consistently followed for all town employees and officials
- Require employees and officials to submit completed travel expense reports with detailed/itemized receipts, including documentation of the business purpose for all expenditures

### Customer Utility Accounts

Controls over customer utility accounts need to be improved.

1. **Account Balances Not Reconciled** - The accounts receivable balance in the accounting system (general ledger) was not reconciled with the balance in the utility system (subsidiary ledger). The monthly reconciliation of these two independent records is very important and essential for a good system of controls over customer utility accounts.

Recommendation: The town clerk should reconcile these two separate records each month and any difference should be investigated and resolved immediately.

2. **Past Due Accounts** - The town does not have a written cut-off policy or formal procedures for terminating services when utility bills are not paid when due. Town records at June 30, 2008, reflect past due utility accounts totaling \$15,182.

We advise management that continuing to provide utility services to past due customers and not actively trying to collect past due balances is prohibited by the Louisiana Constitution [Article VII, Section 14 (A)].

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<sup>3</sup> Louisiana Revised Statute 44:36(A) provides that all persons and public bodies having custody and control of any public record shall exercise diligence and care in preserving the public record for the period or periods of time specified for such public records in formal record retention schedules developed and approved by the state archivist and director of the division of archives, records management, and history of the Department of State. However, in all instances in which a formal record retention schedule has not been executed, such public records shall be preserved and maintained for a period of at least three years from the date on which the public record was made.

Recommendation: Management should develop and enforce a cut-off policy to ensure utility services are promptly terminated on all customers, including aldermen and town employees, which do not pay their bill by the due date. Also, aggressive action should be taken to collect all past due balances, including legal action when necessary.

3. **Customer Meter Deposits Not Reconciled** - The liability balance for customer meter (water and gas) deposits recorded in the general ledger is not reconciled with the cash maintained in the restricted bank accounts and the meter deposit balance on the detailed utility customer list. Management has a fiduciary responsibility to properly account for customer meter deposits.

Recommendation: Management should ensure that all customer meter deposit information is properly recorded and that a monthly reconciliation is performed of those balances with the balance recorded in the general ledger and the restricted bank accounts. Any differences should be investigated and resolved in a timely manner.

4. **Utility System Backups** - The town was not backing up utility system data to movable media or providing for off-site storage of backup data.

Recommendation: The town should review its current computer back-up capabilities and ensure sufficient backup and off-site storage of utility system data.

### **Payroll**

Controls over payroll need to be improved.

1. **Segregation of Duties** - The payroll clerk performs a variety of duties relating to payroll disbursements that are incompatible for a proper system of checks and balances. The payroll clerk records the payroll data in the system, prepares and prints the checks, and performs the reconciliation of the bank statement for the payroll account. In addition, payroll changes made (adding/deleting employees, increasing/decreasing pay rates, et cetera) to the payroll system are not verified by someone independent of the payroll function.

Recommendation: Payroll duties should be segregated to the extent possible to provide an adequate system of checks and balances. For example, the town clerk should document her review and approval of payroll before the checks are prepared and someone other than the payroll clerk should reconcile the payroll bank statement. In addition, a computer-generated payroll report of all changes made to the payroll system should be printed (between pay periods) and the changes verified to the approved authorization forms by someone independent of the payroll function.

2. **Time Cards** - Time cards were not always being prepared in accordance with the town's *Personnel Manual*.

We determined that not all employees are completing their own time cards which is contrary to the *Personnel Manual* [section 4.3 E. Time Accounting (2)] which states, "Each employee must personally account for his own time. Any employee who asks anyone else to sign or log the employee in or out or who attempts to sign or log in or out anyone other than himself may be dismissed or otherwise disciplined."

Recommendation: For a proper system of checks and balances, we suggest the following:

- All employees should be required to prepare and sign their own time cards in accordance with the *Personnel Manual*, and supervisors should be required to document (sign) their review and approval.
- The *Personnel Manual* should be updated to include the responsibilities of department supervisors, including requiring documentation of their review and approval on the time cards of all employees.
- The mayor should document his review and approval of time cards of all supervisors.

3. **Vacation and Sick Leave Records** - The town did not maintain adequate written records to support annual leave and sick leave taken by employees. Without maintaining adequate documentation, management cannot ensure that leave privileges are reasonable and are not being abused.

Recommendation: We suggest that employees be required to complete standardized forms for annual and sick leave to account for their leave taken/used. For proper controls, leave earned and taken by employees should be periodically reconciled to the totals recorded in the computer system.

### **Traffic Tickets**

1. **Accounting for Tickets** - The town is not accounting for the numerical sequence of traffic tickets. Without an accounting, there is no way to determine whether the tickets were issued, lost, or voided. Proper accounting for traffic tickets is important to ensure (1) traffic fines are collected or that appropriate action is taken for nonpayment; (2) compliance with relevant Louisiana laws; and (3) assets/cash is not misappropriated.

Recommendation: The town should develop written procedures describing how ticket books and individual tickets will be controlled, including the disposition of each copy of the ticket. The town should require ticket books to be issued to police officers only after the previously issued book has been accounted for and all issued citations have been received from the police officer. A formal log of all

ticket books issued should be maintained including who issued the book, numerical tickets sequence within the book, date issued, to whom the book was issued, and the date the book was turned in. The numerical sequence of tickets/citations should be accounted for on a monthly basis.

2. **Reporting Traffic Violations** - The town is not reporting traffic violations to the Louisiana Department of Public Safety (DPS) as required by state law. R.S. 32:393C(1)(b) requires the town to report all traffic violations, except parking violations, to DPS not later than 30 days after the date of such person's conviction and sentencing or the final disposition of the case.

Recommendation: The town should immediately comply with state law and report traffic violations to DPS.

### **Capital Assets**

Capital assets of the town are not always tagged for identification purposes and assets are not periodically inventoried. Failure to identify and periodically account for town assets/property exposes the town to possible loss, theft, and misuse of its assets.

Recommendation: A complete physical inventory of capital assets should be taken from which the detailed listing can be updated and assets can be tagged for identification purposes. Management should ensure that an inventory is taken at least annually and that the listing is updated each year for any assets purchased or disposed during the year. Any assets not located/found during the inventory should be addressed and appropriately resolved.

### **Confiscated Evidence**

The town's police department needs to improve controls over confiscated evidence. Failure to maintain control over confiscated evidence (e.g., weapons, drugs, et cetera) increases the risk that evidence will be stolen, lost, or disposed of improperly.

Recommendation: In addition to establishing policies and procedures for confiscated evidence, the police chief should ensure that a complete inventory is taken and a log is maintained that documents the (1) date confiscated; (2) tag number; (3) description of item confiscated; (4) name of the person whom confiscated; (5) reference to the arrest report; and (6) final disposition. Also, a physical inventory of the evidence should be performed on a periodic basis and compared to the written inventory records. Any differences should be investigated and resolved immediately.

### **Organizational Chart and Job Descriptions**

The town does not have an organizational chart that shows the lines of authority and responsibilities for all employees. Also, the town has not established written job descriptions for all positions.

Recommendation: We suggest that an organizational chart be prepared that shows in graphical form the way work is distributed and shows direct supervisor - subordinate relationships. The chart should include the job titles and employee names for each position. In addition, we suggest that a detailed job description be developed for each position and be communicated to the employees to ensure they have a clear understanding of their duties and responsibilities.

### **Computer Backup and Disaster Recovery**

A daily backup of the town's computer system is not performed and the town does not have a disaster recovery plan. Also, the town does not have a formal process to review its computer needs and determine what enhancements are needed to convert and secure the critical accounting records (e.g. general ledger) that are being maintained manually.

Recommendations: Management of the town should do the following:

1. Review its mission critical data with its vendors and immediately develop back-up procedures to store programs and data in a fireproof vault. In addition, periodically store mission critical programs and data off-site to be used in the event of catastrophic loss.
2. Develop plans to upgrade the accounting systems including acquiring suitable general ledger and budgeting software, developing an implementation plan, and determining training and testing needed to ensure a smooth implementation of the software and conversion of the manual accounting records.
3. Annually review with its vendors, accountants, and technical support the status of all its computer systems and related equipment; from this review, develop a prioritized set of requirements to upgrade system hardware, software, performance and security.
4. Develop a formal, written disaster recovery plan which is tested and revised annually. Having such a plan is a good business practice as it will provide the steps to be performed to continue town operations in the event of a natural disaster, fire, or terrorist attack.

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## Summary of Audit Findings



The following represents a summary of the audit finding and management letter comments reported in the June 30, 2007, audited financial statements (reported by the town's independent auditor) and the disposition of those findings based on our inquiries and general observations as of July 15, 2008. Management's response is presented in Appendix A.

<b>June 30, 2007, Audit Finding and Management Letter Comments</b>	<b>Disposition as of July 15, 2008</b>
<b>Delinquent Accounts Receivable</b> - A council member is several months delinquent in paying her utility bill and owes over \$1,000 in past due amounts.	<u>Resolved</u> . The council member paid the delinquent balance in full.
<b>Natural Gas Losses</b> - Over the prior three-year period, gas losses have ranged from 18.7% to 25.2%. Such losses are costly and may be dangerous to the public.	<u>Unresolved</u> . In 2008, the town began the process of checking and replacing meters, examining gas lines, performing leak detection tests, and using a consultant experienced in identifying and correcting such problems. The assessment was underway but was not completed as of July 15, 2008. (See finding, <i>Natural Gas Losses</i> .)
<b>Utility Cutoff Procedures</b> - The town does not have a written cutoff policy and is not turning unpaid bills over to a collection agency.	<u>Unresolved</u> . The town has failed to establish a written cutoff policy and has not turned unpaid bills over to a collection agency. (See finding, <i>Customer Utility Accounts</i> .)
<b>Mileage Reimbursement</b> - The town did not have a written policy for mileage/gas reimbursement and the use of town vehicles.	<u>Unresolved</u> . The town has not developed written policies.

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## Management's Response



Town of Colfax, Louisiana  
P.O. Box 310  
Colfax, Louisiana

October 23, 2008

Office of Legislative Auditor  
P.O. Box 94397  
Baton Rouge, LA 70804

Re: Management's Response to Advisory Services Report Findings

In accordance with your request, we are providing you a response to the findings detailed in your advisory services report. We have discussed this report with the Town Council and they have approved our responses to you.

1. Natural Gas Losses: Your recommendation was for "management to continue its efforts to identify the causes of the natural gas losses"

Response: We very much understand the impact these losses have on the financial condition of the Town and are continually monitoring the situation. We have walked all of our lines and are fixing the leaks as we find them. We have hired a consulting firm to help monitor the gas purchases, the master meter and gas invoices. We have changed out old meters with new improved meters. We have tested some of our larger customer meters with other outside meter consultants. We have smoke tested all of the system to find leaks in the system and have commissioned another smoke leak survey to be done in the near future. Some of the problems we identified and are correcting involve the heating value factor and meters that are not level. We will continue our efforts to reduce these losses to an acceptable level.

2. Financial Statements and Budget Comparisons: Your recommendation was for "the clerk to present the board with monthly financial statements..and budget comparisons" in addition to the monthly cash, expense and accounts payable reports.

Response: Our Council is very involved and informed in the operations of the Town. We require two signatures on all cash disbursements and the Mayor works closely with the Council to effectively manage the Town's fiduciary's responsibilities. The Town has a computerized utility billing system and payroll system. We do however have a manual general ledger system. We provide quarterly budget comparisons to the Council and closely monitor the budget to ensure budget violation do not occur. We appreciate your comments and intend to turn this issue over to our finance committee to determine what information they need each month to effectively manage the Town's finances. In addition we will look at the cost of new computer equipment and software programs to see if it is feasible to afford the implementation of these recommendations.

3. General Deficit Funding: Your recommendation was for "Management to prepare a written plan to reduce spending in the general fund".

Response: Yes our general fund expenditures have exceeded our general fund revenues over the last three years, but we still had \$200,000 in general fund balances at June 30, 2007. Therefore we have not deficit spent. Part of the general fund expenditures over the last 3 years was for the purchase of capital outlay items. In 2005 we spent \$112,000 in capital outlays. Most of this was

for the purchase of land and construction of a walking trail for the citizens of Colfax. In 2007 the Town spent nearly \$49,000 in capital outlays for badly needed equipment. The Town has not wasted this money, but has invested in our future. We agree that we have a decreasing trend and need to review this trend. We will turn this issue over to our finance committee for review and implementation of this recommendation.

4. Utility Fund Budget/Operating Losses: Your recommendation was that “an annual budget for the utility fund is prepared ..and a written plan to eliminate operating losses be prepared”

Response: In 2007 we had an operating losses of \$67,000 but this included depreciation expense of \$90,000. Therefore we had increases in cash from operations. As mentioned in the first comment the biggest problem we have are the gas losses in the Natural Gas System. We think we have lost several hundreds of thousands of dollars from this problem. We are working very hard to identify the reasons for these losses. We have made some progress and will continually strive to solve the problems. State Law does not require that a budget be prepared, adopted, or approved by the Town Council. We agree that a budget could give management an additional good business tool from which to make decisions. We will turn this issue over to the finance committee to review the recommendation and make the needed implementation.

5. Accounting System Update: Your recommendation is that “our accounting system be updated to a fully computerized system.”

Response: At the present time, we have computerized utility billing and payroll systems. The only non-computerized system is our general ledger, which is posted and reconciled each month. We will review the cost of a new computer system and explore the available software systems and determine if the expected benefits exceed the cost of implementation.

6. Budget Adoption Instrument: Your recommendation was “for the Town to the annual budget and amended budgets by ordinance rather than by resolution.”

Response: Historically we have adopted the annual budgets and amended budgets by ordinance, but in 2008 we simply adopted the budgets by resolution. In the future we adopt all budgets and any amendments by ordinance. Furthermore we will include in the adoption document the Mayors’ authority to make changes within various budget classifications without approval of the Town Council.

7. Written Policies: Your recommendation was “for the Town to develop and implement written policies”

Response: We agree that we do not have written policies on many of the items mentioned, but we do have long-standing procedures that we follow. We have 3 people in the administrative office that have been employed for many years with the Town and they have developed standard procedures which they follow each day. We will begin the process of developing our written procedures. This issue will be turned over to the finance committee to oversee the completion of these policies and procedures.

8. Purchasing Procedures: Your recommendation was “that Management develop and implement written procedures to ensure purchases are authorized and ..Consistently used.”

Response: We have an established purchase order system but we do not have a written policy on them. When items need to be purchased the Clerk is verbally contacted and the employee is given a purchase order number. The item is checked against the purchase order when the check is written to pay for the item. We will begin the procedure of developing a written policy on purchase orders.

9. Pecan Festival Expenditures: Your recommendation is that “Management consult the Town’s legal advisor about the legality of these expenditures”

Response: We will consult our legal advisor about the legality of these expenditures. The Pecan Festival is a community wide weekend festival promoting the Community. There is a non-profit organization named the Pecan Festival Board that sponsors the activities. The activities include a parade, arts/crafts, carnival rides, and other items. This event brings 40,000 to 60,000 visitors to the Town each year. We do not fund any of the cost of the event. The expenditures mentioned include payments to law enforcement agencies for additional security, food/soft drinks for cleanup personnel, and candy/throws for Town Officials to throw during the parade.

10. Christmas Parade: Your recommendation is "Management should consult their legal advisor about the legality of these expenditures"

Response: We will consult our legal advisor about the legality of the expenditures. The Town spent \$6,030 on Holiday decorations and \$944 in Christmas lights that were placed on Front Street. These decorations/lights were not part of the Christmas Parade, but were purchased to decorate the Town during the holiday season. We purchased these items as a way to beautify the Town and to instill civic pride. These decorations will be used for years to come. We believe these costs are just as legal as would the cost of flowers or shrubs in a Town-Owned Park. The other expenditures mentioned related to a fireworks show and expenditures relating to the Town sponsored holiday parade. These costs were approved by the Council and the entire community was invited to attend. We believe these costs are a fun way to develop civic pride and promote interaction with Town Officials.

11. Credit Cards: Your recommendation is that "Management cancel the missing cards and develop written policies and procedures"

Response: We will cancel the missing cards as soon as possible. Furthermore we will develop written policies and procedures relating to the use of Town cards. The finance committee will be responsible for implementation of this policy.

12. Travel Expenses: Your recommendation is that "Management should require expense reports for the 2007 Conference and more detailed travel policies be adopted"

Response: We will require the travel reports be submitted and will adopt written policies on future travel expenditures. The finance committee will be responsible for implementation of this issue.

13. Customer Utility Accounts: Your recommendation is "that Management reconcile the general ledger control account with the accounts receivable subsidiary account each month and investigate the difference."

Response: At the time of these advisory services, the general ledger accounts receivable balance differed from the account receivable reports. This was the result of write offs of bad receivables that were sent over for collection, but this adjustment was not made on the general ledger. We will correct the general ledger and in the future make certain these balances reconcile with each other.

14. Past Due Accounts: Your recommendation is that "Management develop and enforce a uniform cut-off policy"

Response: We do not have uniform policies with respect to utility cutoffs. We will work with legal counsel and the finance committee to develop such policies. The finance committee will be responsible for implementation of these policies and procedures.

15. Customer Meter Deposit: Your recommendation is "Management reconcile the meter deposit cash account with the general ledger control account."

Response: The primary differences in these items are the interest earnings that have remained in the Cash accounts. In the future we will begin periodically reconciling the general ledger control accounts with the Meter Deposit Cash Accounts.

16. Utility System Backup: Your recommendation is “that the Town review its computer backup and off-site storage capabilities.”

Response: We presently have a fireproof vault that we store all of records. We will review our computer back up capabilities and the need for off-site storage and make the necessary changes.

17. Segregation of Duties: Your recommendation is that “Payroll duties be segregated to extent possible”

Response- We have only 3 people involved in the Town’s administrative duties and we work very hard to provide adequate checks and balances. We have a clerk whose primary duties are payroll and payroll related expenditures. The Town Clerk reviews the payroll for accuracy before checks are signed. We will review our procedures and make any necessary changes to ensure timely and accurate payrolls are prepared.

18. Time Cards: Your recommendation is “the Town review its time card policy with its current written policy to ensure compliance.”

Response: We will review our current time card procedures to ensure that all employees prepare and sign their own time cards and that they are properly approved their supervisors.

19. Vacation and Sick Leave Records: Your recommendation is that “the Town require its employees to complete standardized annual and sick leave forms.”

Response: We will review our procedures with respect to vacation and sick leave and implement any necessary procedures to ensure that timely and accurate records are maintained.

20. Traffic Tickets: Your recommendation is “that written procedures be developed to control traffic ticket books.”

Response: At the present time we do not have written procedures with respect to traffic tickets. We will work with the Elected Police Chief and the Finance Committee to develop written procedures to ensure all tickets are properly documented and controlled.

21. Reporting Traffic Violations: Your recommendation is the “Town should comply with state law and report traffic violations with DPS.”

Response: We will begin reporting the required traffic information as soon as possible. Furthermore we will work with the Chief of Police, Finance Committee, and Court Magistrate to develop written procedures to ensure future compliance.

22. Capital Assets: Your recommendation is “that a complete physical inventory of capital assets be taken and any discrepancies with the inventory be investigated.”

Response: We periodically perform such inventory, but have not done so on a consistent manner. We will schedule a physical inventory in the near future and investigate any differences.

23. Confiscated Evidence: Your recommendation is the “Town’s police department improve its controls over confiscated evidence”.

Response: We will require the Police Chief to review his policies on confiscated evidence and implement written policies. We will periodically require the Chief to present reports to the Council on the status of any physical inventory counts made by the Chief.

24. Organizational Chart and Job Descriptions: Your recommendations is that the “Town develop organizational charts and that job descriptions be developed for each position.”

Response: We will develop job descriptions and Organizational Charts for the different positions of the Town. We believe that as small as we are, all employees know who their supervisors are and whom they report to. If there is a problem or issue, all employees know they can talk with the Mayor or Town Clerk for guidance.

25. Computer Backup and Disaster Recovery: Your recommendation is "Management should review its critical mission data, develop backup procedures and disaster recovery plans and annually review hardware and software needs"

Response: We do have some backup procedures for our computer data and we keep our general ledger on a manual system. All of this information is kept in a fireproof vault at the Town Hall. We do not have much "mission critical data" that requires constant review and evaluation. We believe in the philosophy "if it ain't broke, don't fix it." We agree that it is good idea for us to evaluate our hardware and software needs and we will do so. If changes are needed, we will make them when time and money permits. We will also review and brain storm with our personnel the Town's essential recording keeping information and how we are to restore this information if some sort of disaster occurs like a natural disaster, fire or terrorist attack. After this review we will prepare written plans to deal with the emergency.

We appreciate you bringing these items to our attention. Please contact us if you need more information.

Sincerely,

A handwritten signature in cursive script that reads "Gerald Hamilton". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

Gerald Hamilton, Mayor