

TOWN OF PEARL RIVER



ADVISORY SERVICES
PROCEDURAL REPORT
ISSUED JULY 25, 2018

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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Town of Pearl River

July 2018

Audit Control # 70170069

Introduction

The Louisiana Legislative Auditor performed certain procedures at the Town of Pearl River (Town) to address the requirements of Act 774 of the 2014 Regular Legislative Session, as amended. The primary purpose of our procedures at the Town was to assist the Town in evaluating certain controls the Town uses to ensure accurate financial reporting, compliance with applicable laws and regulations, and overall accountability over public funds. Our procedures were more limited than an audit; therefore, we are not issuing an opinion on the Town's financial statements nor the effectiveness of the Town's internal control over financial reporting and compliance.

Results of Our Procedures

Follow-up on Prior-year Exceptions

We assessed the status/resolution of all exceptions reported in the Agreed-Upon Procedures (AUP) Report dated June 30, 2017. Prior-year exceptions relating to written policies and procedures and credit cards have not been fully resolved and are being reported again as current-year exceptions.

Current-year Results

1. Written Policies and Procedures

We obtained the Town's written policies and procedures and assessed whether they addressed those financial and business functions that were identified as exceptions in the prior-year AUP report, including budgeting, receipts, credit cards, payroll/personnel, contracting, ethics, debt service, and traffic tickets.

Exceptions: We noted that the Town still had not created written policies and procedures for receipts, payroll/personnel, contracting, ethics, debt service, and traffic tickets.

Recommendations: The Town should update its written policies and procedures to address the following:

- (a) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).
- (b) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
- (c) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- (d) **Ethics**, including (1) actions to be taken if an ethics violation takes place, (2) system to monitor possible ethics violations, and (3) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.
- (e) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- (f) **Traffic Tickets**, including (1) maintaining ticket books in a secure location; (2) collecting/recording fine payments; (3) remittance of fine payments to the State Treasury, per R.S. 32:266; (4) reporting moving violations to the Louisiana Department of Public Safety within 30 days of final disposition, per R.S. 32:393 (C)(1)(b); (5) reducing or dismissing fines; (6) timely deposit of fine payments; and (7) location and timing of payment acceptance.

See Town's response (Appendix A, p. A.1).

2. Board Oversight

We obtained and reviewed the minutes from town council meetings and assessed whether Town officials discussed key financial information, including budget-to-actual comparisons, at monthly meetings.

Exception: Although the Clerk has responded that budget-to-actual documentation for all funds is given to aldermen quarterly, we did not observe any discussion of this information in the official meeting minutes.

Recommendations: Town officials should discuss budgetary information during meetings and document such discussion in the official meeting minutes.

See Town's response (Appendix A, p. A.1).

3. Bank Reconciliations

We selected and obtained bank accounts and related reconciliations and assessed whether bank reconciliations have been prepared and reviewed timely by Town management.

Exception: Although the monthly bank reconciliations are prepared by a contracted accountant, there was no documentation to indicate that bank reconciliations were being reviewed by Town management.

Recommendation: A Town official who does not handle cash, post ledgers, or issue checks should review each bank reconciliation and document his/her review.

See Town's response (Appendix A, p. A.1).

4. Collections

We talked with Town employees, observed daily operations, and reviewed collection documentation to assess whether collection job duties are properly segregated and deposits are made timely and reconciled to collections. We also evaluated whether employees who have access to cash are bonded or insured.

Exceptions: We noted that job duties are not properly segregated.

Recommendations: The Town should require employees' job duties to be segregated such that:

- (a) Employees who are responsible for cash collections do not share cash drawers/registers;
- (b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g., pre-numbered receipts) to the deposit;
- (c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit; and
- (d) The employees responsible for reconciling cash collections to the general ledger and subsidiary ledgers, by revenue source, are not responsible for collecting cash, unless another employee verifies the reconciliation.

See Town's response (Appendix A, p. A.1).

5. Disbursements

We randomly selected disbursements from the accounting records and assessed whether the supporting controls and documentation demonstrated proper segregation of duties.

Exceptions: Out of a sample of 10 disbursements, we noted the following, which represent violations of Town policy:

- Two disbursements, totaling \$295.58, were for purchases that were initiated without a purchase order form being completed and approved by the Clerk.
- The purchase order supporting a \$1,224.00 disbursement did not evidence the Clerk's review and approval.
- The vendor invoices supporting eight disbursements, totaling \$7,840.26, did not evidence the Clerk's review and approval.

Recommendations: Town officials and employees should comply with all established disbursement policies and procedures to include initiating purchases with a complete and appropriately approved purchase order, and documenting the Clerk's review and approval of vendor invoices and purchase orders.

See Town's response (Appendix A, p. A.2).

6. Credit Cards and Fuel Cards

We obtained the monthly statements and supporting documentation for all charges made using Town credit cards and fuel cards for the month of September 2017 to assess whether the Town has adequate controls over these cards. In 2017, the Town had a total of 44 individual cards issued on six different charge accounts. The Town had two cards for a VISA account, one Wal-Mart card, one Home Depot card, one Chevron card, four cards for a Shell account, and 35 cards for an ExxonMobil Fleet National account.

Exceptions: We identified the following deficiencies in controls over cards:

- There was no evidence that monthly account statements and supporting documentation were formally reviewed and approved by the Mayor, Clerk, or Police Chief.
- Contrary to the Town's credit card policy that states, "Account balances shall be paid in full monthly," Chevron and Wal-Mart accounts showed past-due balances of \$243.92 and \$159.02, respectively, although no interest or finance charges were noted.
- The Town does not competitively bid its annual fuel purchases. According to the Clerk, fuel purchases in 2017 totaled approximately \$54,000, the majority of which relates to the police department. The Public Bid Law requires bids to be

obtained for the purchase of materials and supplies exceeding \$30,000, including fuel. *Attorney General Opinion 02-0122* notes that recurring purchases that exceed the bid limit in the aggregate must be advertised and let for public bid.

- Of the eight total charges shown on the VISA, Wal-Mart, and Home Depot statements, we noted the following:
 - Seven of the charges, totaling \$765.02, were not supported by a purchase order as required by policy.
 - The two charges on the Wal-Mart statement, totaling \$236.83, appear to be for supplies but were not supported by original itemized receipts.
 - Two of the five charges on the VISA statement, totaling \$235.00, were for payments made to the St. Tammany Parish Clerk of Court but were not supported by receipts or documentation of the business purpose.
- The receipts for the four fuel purchases on the Chevron statement, totaling \$197.75 for 88 gallons of fuel, indicated “Mayor’s fuel” on them; however, the receipts were not signed by the Mayor and did not identify the vehicle for which the fuel purchases were made. The mayor drives a Town truck, a 2017 Ford F-150 King Cab, but 88 gallons in one month appears excessive considering that a conservative estimate of 15 miles/gallon times 88 gallons would total 1,320 miles in a Town with a land size of approximately 3.5 square miles. Fuel purchases on this credit card in 2017 totaled \$2,026, for an average of \$168/month.

Recommendations: The Town should strengthen its controls over credit card purchases by:

- Documenting its review of monthly account statements and supporting documentation by someone other than the authorized card holder.
- Following its policies regarding payment of account balances in full each month.
- Bidding its fuel purchases in accordance with the Public Bid Law or adopting the State Procurement Code to utilize the state’s fleet card program.
- Following its policies regarding purchase orders for credit card transactions.
- Supporting all charges with an original itemized receipt that identifies precisely what was purchased and documenting the business/public purpose of each transaction.
- Requiring a mileage log for all vehicle usage, including the mayor’s vehicle, which details the miles traveled, destination, and business purpose if not otherwise evident (e.g., business purpose for traveling outside of Town).

See Town’s response (Appendix A, p. A.2).

7. Travel and Expense Reimbursement

We selected the largest travel reimbursements to the Mayor, Mayor Pro-Tempore, Police Chief, and Clerk. We confirmed whether reimbursements were made in accordance with per diem rates or were supported by itemized receipts and included a documented business or public purpose, in accordance with policy.

Exceptions: We identified the following deficiencies in controls over travel and expense reimbursements:

- There was no evidence that the travel by the Mayor and Mayor Pro-Tempore was approved by the town council, as required in the policy provided to us. The Town maintains that the requirement of town council approval was removed from policy, but could not provide written documentation supporting its removal in 2017.
- The Mayor used a Town vehicle for a trip to a convention in Shreveport but was also paid \$414.72 in mileage for the same trip. This appears to be a violation of Louisiana Constitution Article 7, Section 14, which prohibits the loan, pledge, or donation of public funds.
- The documentation supporting mileage payments to the Mayor, Mayor Pro-Tempore, and Clerk did not include their (1) vehicle's beginning and ending odometer readings, (2) business purpose, (3) time and date of departure and return, (4) trip destination, and (5) signatures, as required by Town policy. In addition, the Clerk was paid for mileage without submitting the required travel expense form.

Recommendations: The Mayor should immediately reimburse \$414.72 to the Town for mileage that he was improperly paid. The Mayor should also take the appropriate steps to monitor compliance with all provisions of the Town's *Travel and Expense Reimbursement Policy*.

See Town's response (Appendix A, p. A.2).

8. Contracts

We obtained a listing of contracts that were in effect during 2017 and selected three professional service contracts for assessment. We obtained a copy of each contract, paid invoices, and other related documentation to assess whether (1) the contracts were approved by the council, (2) quotes were solicited as a best practice, and (3) the payments were made in accordance with the contract terms.

Exceptions: We identified the following deficiencies in controls over contracts:

- There was no evidence that the Town solicited competitive quotes for the selected professional service contracts as a best practice.

- The Town pays two attorneys a total of \$5,250 a month without receiving invoices from them for hours worked. Under the contracts, at the beginning of each month, the Town pays \$3,000 per month to the Town attorney and \$2,250 per month to the assistant Town attorney. We note that each contract provides that the attorney will attend and participate in Town meetings as necessary. The Town attorney's contract stipulates that he will advise and represent the Town and all municipal officers in connection with Town business. The assistant Town attorney's contract stipulates that he will act as the Court Magistrate and will also represent all municipal officers in actions against them in connection with their functions as Town officers. *Louisiana Attorney General Opinion 17-0171* addresses the payment of a flat "monthly retainer fee" to legal counsel and provides that an entity must ensure it receives services of at least equivalent value to the flat monthly fee being paid and that such fee does not otherwise result in a prohibited donation in violation of Louisiana Constitution Article 7, Section 14.

Recommendations: The Town should solicit competitive quotes for professional service contracts as a best practice to evaluate the reasonableness of fees or rates charged. We also recommend that the Town consider using the following procedures, suggested by the Attorney General, under retainer fee agreements:

- Spell out or specifically detail in writing exactly what tasks are to be completed each month,
- Create a monthly reporting requirement to verify the assigned work that has been completed prior to payment, and
- Pay only at the end of the month after verifying that the work performed was equivalent to the proposed monthly pay.

See Town's response (Appendix A, p. A.3).

9. Payroll and Personnel

We reviewed compensation, termination benefits, and documentation of time and leave. We also evaluated whether the employer and employee portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Exceptions: We noted that the Clerk is earning vacation and sick leave but is not completing a time sheet. This practice appears to be contrary to *Attorney General Opinions 15-0186; 03-91; 96-391; and 89-222*.

Recommendations: The Town should require all employees to complete time sheets and leave slips each pay period.

See Town's response (Appendix A, p. A.3).

10. Ethics

We obtained and reviewed ethics documentation for four employees and one alderman.

Exception: The Town did not have ethics compliance documentation for the alderman and one selected employee to demonstrate that they completed the one-hour required ethics training. We also noted that the Town did not have a requirement that all employees and officials annually attest through signature verification that they have read the Town's ethics policy, which is a best practice.

Recommendations: Town officials should contact the Board of Ethics to discuss available options for those employees and officials who did not complete annual ethics training in 2017. The Town should also require that employees and officials sign an annual certification form attesting that they will abide by the Town's ethics policy.

See Town's response (Appendix A, p. A.3).

11. Debt Service

We obtained supporting documentation and verified that the Town made all required debt service payments for the year. No exceptions were noted.

See Town's response (Appendix A, p. A.3).

12. Other

We observed whether the Town has posted the notice required by R.S. 24:523.1 at Town Hall and on its website. This notice concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

Exceptions: The notice was not posted at Town hall or on the Town's website.

Recommendation: The Town should immediately post the notice as required.

See Town's response (Appendix A, p. A.3).

Under Louisiana Revised Statute 24:513, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

APPENDIX A: MANAGEMENT'S RESPONSE



TOWN OF PEARL RIVER

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Town Clerk

TIMOTHY MATHISON

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Town Magistrate

Assistant Town Attorney

BRENDA WICHTERICH

Deputy Clerk/Court Clerk

July 13, 2018

Louisiana Legislative Auditor

1600 North Third Street

Baton Rouge, LA 70804

Advisory Services

In regards to your Procedural Report Findings, please see our responses to the following items of exception noted in your report.

1. Policies and Procedures

- a. The Town does have tight internal controls actively in place with separated receipt drawers, receipt books, and entry logs; we are currently working on detailed procedures written and placed into a policy manual.
- b. - g.: – although we have implemented procedures and best practices the Town will work to document these in a more detailed policy.

2. Board Oversight

The Board of Alderman are given ready only access to the accounting system to review the actuals from their computer system in the Alderman office. Additionally, we routinely discuss budget items and information with the board. We will take your recommendations under advisement and consider instituting a set review rhythm with the board.

3. We will take your recommendation under advisement and consider implementing a review system with the proper documentation.

4. Collections

- a. In 2018 the Town instated a new Finance Clerk position and segregated the duties into clear roles.
- b. With the new roles, the duties are segregated and the employee collecting is not the same employee preparing and making deposits
- c. Addressed with new finance clerk position
- d. Addressed with new finance clerk position

AN EQUAL OPPORTUNITY EMPLOYER

5. See the following
 - a. During the 2017 year, we instituted a system with purchase orders and requisitions to require authorization signatures. Turnover in the clerk position made this procedure not consistently followed.
 - b. The Town Clerk and Finance Clerk positions have been set and these procedures are now consistently followed.
 - c. The Town Clerk and Finance Clerk positions have been set and these procedures are now consistently followed.

6. Credit Card & Fuel Cards
 - a. The Mayor, Chief, Finance Clerk and Chiefs Administrative Assistant routinely review each statement. We will take the recommendation regarding evidence of the review under advisement.
 - b. We will take the finding under advisement.
 - c. The Mayor will discuss with the Chief his plan for fuel usage and explain the threshold for public bid.
 - d. See items
 - i. During the 2017 year, we instituted a system with purchase orders and requisitions to require authorization signatures. Turnover in the clerk position made this procedure not consistently followed.
 - ii. Turnover in the clerk position resulted in some documentation not being included; we now have the position and procedures set in place.
 - iii. The town has a prepaid account with St Tammany Parish Clerk of Court for miscellaneous filings and document requests; documentation of these charges are in the files by address in town not by the vendor.
 - e. We appreciate the recommendation however, we feel the analysis made some incorrect assumptions and overlooked some considerations. The truck actually averages 11 mpg so the 15mpg assumption was not conservative. Additionally, although the 3.5 square mile for the Town size is accurate, it neglects the fact that the Mayor attends conventions, meeting, and conducts Town business in places such as Baton Rouge, Shreveport, and Slidell. Further, the Mayor is very vigilant in the use of the Town vehicle for Town business only. Given the actual mpg of the truck and the travel outside of the Town limits for Town business, the average monthly of \$168 is reasonable.

7. Travel and Expense Reimbursement
 - a. Exceptions
 - i. There is a policy but it does not require the approval stated.
 - ii. The Mayor was made aware of this oversight and per the recommendation has reimbursed the Town the \$414.72 amount.
 - iii. We will take the recommendations under advisement.

8. Contracts

- a. There is no legal requirement that professional services require the solicitation of competitive quotes.
- b. The Town is aware of the AG opinion and ensures their attorneys provide the value for which they are paid.

9. Payroll and Personnel

We are now requiring the Clerk to use time cards.

10. Ethics

We will take the recommendations under advisement.

11. Debt Services

We will take the recommendations under advisement.

12. Other

We will take the recommendations under advisement.

Thank you for your report and recommendations.



Clarence David McQueen, Mayor Town of Pearl River