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EMPLOYEES' RETIREMENT SYSTEM
CITY OF BATON ROUGE AND
PARISH OF EAST BATON ROUGE

REPORT ON AUDIT OF
COMPONENT UNIT FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1995

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

Release Date SEP 04 1996



Employees' Retirement System

City of Baton Rouge
Parish of East Baton Rouge

209 St. Ferdinand Street
Post Office Box 1471
Baton Rouge, Louisiana
70821

504/389-3272

Board of Trustees
City of Baton Rouge - Parish of East Baton
Baton Rouge Employees' Retirement System
P. O. Box 1471
Baton Rouge, LA 70821

June 17, 1996

Horace W. Elkins
Retirement and Investment Director

Dear Board Trustees:

In response to the Independent Auditor's Report on Internal Control Structure, the following corrective actions have been taken:

* In regard to segregation of duties between the authorization, recordation, custody, and valuation of accounting functions, the Accountant III has been removed as an authorized check signer. There remain three employees authorized to sign checks with two signatures required on each check. This action should help to provide appropriate segregation of duties and should insure that no one individual has the ability to process a disbursement through the entire cycle of authorization, payment, recordation, and reconciliation.

* Regarding the lack of off-site storage of magnetic media backups, the Retirement Office has instituted a new policy whereby backups will be performed each day and deposited in a safedeposit box at City National Bank the next afternoon. The previous day's backup will be returned to the Retirement Office for reuse. This will insure that in the event of a fire or other disaster, the Retirement Office would lose no more than two days input transactions. This policy exceeds the recommendation of the independent auditors and greatly reduces the System's exposure to down-time, should a disaster occur.

The above corrective actions have been discussed with the Independent Auditors, and the Auditors are satisfied that these actions correct the reportable conditions noted in their report. In addition, these changes have been reviewed and approved by the Retirement and Investment Director.

Horace and I would be happy to further discuss these matters with you at your convenience.

Sincerely,

Jeffrey R. Yates
Assistant Retirement Administrator

JY/jy

Employees' Retirement System



City of Baton Rouge
Parish of East Baton Rouge

209 St. Ferdinand Street
Post Office Box 1471
Baton Rouge, Louisiana
70821

504/389-3272

Horace W. Elkins
Retirement and Investment Director

June 24, 1996

RECEIVED
LEGISLATIVE AUDITOR
96 JUN 28 AM 10:24

Legislative Audit Advisory Council
C/O Ms. Joanne Sanders
Legislative Auditors Office
P. O. Box 94397
Baton Rouge, LA 70804

Re: 1995 Annual Audit

Dear Council Members:

The annual audit of the City of Baton Rouge - Parish of East Baton Rouge Employees' Retirement System was recently presented to the Retirement Board of Trustees. The independent auditors, Hannis T. Bourgeois and Company, are presently forwarding the required copies to your office.

Please accept the enclosed correspondence, from the Retirement Office staff to the Board of Trustees, as a supplement to the report. This correspondence addresses actions taken by the staff in response to the Independent Auditor's Report on Internal Control Structure.

The correspondence was presented to, and accepted by the Board of Trustees at the regular monthly meeting of June 20, 1996. In addition, the corrective actions outlined have been discussed with the auditors to their satisfaction.

Should you have any questions regarding this matter, please contact me at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Horace W. Elkins".

Horace W. Elkins
Retirement and Investment Director

HWE/JRY/jy

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HANNIS T. BOURGEOIS & CO., L.L.P.

BANDY J. BONNECAZE, C.P.A.*
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CELESTE D. VIATOR, C.P.A.

* A Professional Accounting Corporation

Certified Public Accountants

1111 S. Range Avenue, Suite 101
Denham Springs, Louisiana 70726
(504) 665-8297

March 19, 1996

LOUIS J. BONNECAZE, C.P.A.
CONSULTANT
MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
2322 TREMONT DRIVE, SUITE 200
BATON ROUGE, LA 70809

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge
Baton Rouge, Louisiana

We have audited the accompanying Statements of Plan Net Assets of the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge, a component unit of the City of Baton Rouge - Parish of East Baton Rouge as of December 31, 1995 and 1994, and the related Statement of Changes in Plan Net Assets for the year ended December 31, 1995. These component unit financial statements are the responsibility of the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. 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 component unit financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge as of December 31, 1995 and 1994, and the results of its operations for the year ended December 31, 1995, in conformity with generally accepted accounting principles.

As described in Note 4 to the financial statements, the Employees' Retirement System elected early implementation of Statement No. 25 of the Governmental Accounting Standards Board, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

In accordance with Government Auditing Standards, we have also issued a report dated March 19, 1996, on our consideration of the Employees' Retirement System, City of Baton Rouge and Parish of East Baton Rouge's internal control structure and a report dated March 19, 1996, on its compliance with laws and regulations.

Respectfully submitted,

Harris J. Bourgeois & Co., L.L.P.

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

STATEMENTS OF PLAN NET ASSETS

December 31, 1995 and 1994

ASSETS	<u>1995</u>	<u>1994</u>
Cash	\$ 41,255	\$ 216,503
Receivables:		
Employee Contributions	\$ 502,013	\$ 517,878
Employer Contributions	1,060,632	634,859
Interest and Dividends	3,369,470	4,654,922
Other	<u>11,722</u>	<u>10,286</u>
Total Receivables	\$ 4,943,837	\$ 5,817,945
Investments, at Fair Value:		
U.S. Treasury Bonds	\$ 107,871,128	\$ 134,180,103
U.S. Agency Bonds	34,745,615	27,640,828
U.S. Agency Notes	68,547,347	57,366,877
Certificates of Deposit	-	30,000
Commercial Paper	19,851,805	19,157,850
Corporate Bonds	37,528,848	41,955,242
Corporate Stocks	159,523,109	92,670,777
Corporate Stock Index	35,157,346	25,570,268
International Equity	42,396,124	-
Liquid Asset Trust	12,346,160	20,100,586
Real Estate Funds	21,862,687	-
Repurchase Agreements	<u>5,500,000</u>	<u>25,170,000</u>
Total Investments	\$ 545,330,169	\$ 443,842,531
Prepaid Benefits	\$ 1,386,472	\$ 1,273,798
Land and Buildings, at Cost, Net of Accumulated Depreciation of \$362,951 and \$308,123, Respectively	<u>\$ 1,073,960</u>	<u>\$ 1,035,356</u>
Total Assets	\$ 552,775,693	\$ 452,186,133
LIABILITIES		
Outstanding Checks in Excess of Bank Balance	\$ 845,570	\$ -
Accrued Expenses and Benefits	<u>628,164</u>	<u>357,008</u>
Total Liabilities	\$ 1,473,734	\$ 357,008
Net Assets Held in Trust for Pension Benefits (A Schedule of Funding Progress is Presented in Note 5.)	<u>\$ 551,301,959</u>	<u>\$ 451,829,125</u>

The accompanying notes are an integral part of these statements.

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Year Ended December 31, 1995

Additions:	
Contributions:	
Employee	\$ 8,751,553
Employer	<u>14,276,717</u>
Total Contributions	\$ 23,028,270
Investment Income:	
Net Appreciation (Depreciation) in Fair Value of Investments	\$ 84,200,933
Interest	20,476,016
Dividends	3,036,617
Real Estate Operating Income, Net	<u>1,541,448</u>
	\$ 109,255,014
Less: Investment Expense	<u>1,692,436</u>
Net Investment Income	<u>\$ 107,562,578</u>
Total Additions	\$ 130,590,848
Deductions:	
Benefit Payments	\$ 28,602,602
Refunds and Withdrawals	1,724,025
Administrative Expenses	<u>791,387</u>
Total Deductions	<u>\$ 31,118,014</u>
Net Increase	\$ 99,472,834
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	<u>451,829,125</u>
End of Year	<u>\$ 551,301,959</u>

The accompanying notes are an integral part of these statements.

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

NOTES TO FINANCIAL STATEMENTS

December 31, 1995

Note 1 - Plan Description -

The Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge (Retirement System) is the administrator of an agent multiple-employer pension plan (the Plan). The participating local government employers are as follows:

City of Baton Rouge -
Parish of East Baton Rouge
District Attorney of the
Nineteenth Judicial District
Nineteenth Judicial District Court
E.B.R. Family Court
E.B.R. Juvenile Court
St. George Fire Protection District
Brownsfield Fire Protection District
Central Fire Protection District
E.B.R. Fire Protection District No.6
East Baton Rouge Recreation and Park
Commission (BREC).

The Retirement System's financial statements, in accordance with GASB Statement No. 14, are an integral part of the City of Baton Rouge - Parish of East Baton Rouge's Comprehensive Annual Financial Report (CAFR) as a pension trust fund.

Substantially all full-time employees of the City-Parish, the Fire Protection Districts and BREC are covered by the Retirement System. The Retirement System actuarially determines the contributions required to fund the system. The Retirement System exists for the sole benefit of current and former employees of the various entities above who are members of the Retirement System.

Employee membership data related to the pension plan at December 31, 1995 and 1994, is as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:

	<u>1995</u>	<u>1994</u>
Regular	1,050	997
BREC	67	61
Police	357	331
Fire	<u>378</u>	<u>363</u>
	<u>1,852</u>	<u>1,752</u>

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

Active plan participants:

	<u>1995</u>	<u>1994</u>
Vested:		
Regular	833	806
BREC	51	59
Police	285	290
Fire	<u>293</u>	<u>287</u>
	<u>1,462</u>	<u>1,442</u>
Nonvested:		
Regular	1,824	1,839
BREC	129	114
Police	283	288
Fire	<u>236</u>	<u>234</u>
	<u>2,472</u>	<u>2,475</u>
	<u><u>3,934</u></u>	<u><u>3,917</u></u>

The pension plan provides retirement benefits, as well as death and disability benefits. All benefits are vested after 12 years of service. Benefits are generally payable on the attainment of age 55 for all employees with a minimum of 10 years of service or 25 years creditable service at any age. Benefits, depending upon the number of years of service are either 2½% or 3% of average compensation times the number of years of creditable service. Benefits cannot exceed 90% of average compensation.

Pension provisions include both service connected and ordinary disability benefits. Under a service connected disability, the disabled employee is entitled to receive 50 percent of average compensation, plus an additional factor for each year of service in excess of ten years. Under an ordinary disability, ten years of service are required to receive 50 percent of average compensation or 2½% times the number of years of creditable service, whichever is greater. Disability benefits cease at the death of the disabled employee.

Also included in pension provisions are death benefits whereby a qualifying spouse will receive 50 percent of the retired employee's pension amount. Should an employee die before retirement, a qualifying spouse may receive an actuarially computed benefit based on the employee's calculated benefit, if eligible; or \$600 per month plus \$150 per month for each minor child, if the employee was not eligible for benefits at time of death. Prior to 1990, the monthly benefit for survivor and dependents was \$250 and \$100, respectively.

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

Eligible employees may participate in the Deferred Retirement Option Program (DROP) whereby the retirement benefit amounts are established while the employee continues employment with the City-Parish. The benefit amount goes into a special DROP account on behalf of the employee, and upon retirement, the individual receives the precalculated monthly amount, and becomes eligible to draw from DROP funds. The maximum period of participation in the DROP is five years.

Employees of the participating entities are required to pay 8% of their gross earnings to the pension plan. The payments are deducted from the employee's wages or salary and remitted to the Retirement System. If an employee leaves the employment of the entity before 12 years of service, the accumulated contributions may be refunded to the employee or the employee's designated beneficiary. The City makes annual contributions to the pension plan equal to the amount required by the City's charter.

Administrative cost of the Retirement System are financed through investment earnings.

Note 2 - Summary of Significant Accounting Policies -

Basis of Accounting. The Retirement System's financial statements are prepared on the accrual basis of accounting. Contributions from the participating entities and their employees are recognized as revenue in the period in which employees provide services to the entity. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Securities. As discussed more fully in Note 3, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

No investments in any one organization represent 5% or more of the net assets available for pension benefits. There are no investments in loans to or leases with parties related to the pension plan. The investment activity of the Retirement System is subject to an investment policy adopted by the Board of Trustees and to oversight by the Board of Trustees. Although the Board utilized 7 outside third party investment managers during 1995, final oversight remains with the Board.

Purchases and sales of investments are recorded on a trade date basis.

Property and Equipment. Land and building are capitalized at cost, at the time of acquisition. Depreciation is computed on the straight-line method over 25 years. Minor equipment and furniture acquisitions are charged to operations as capital outlays in the period they are made. Depreciation expense for the year ended December 31, 1995 was \$54,828.

Note 3 - Investments and Deposits -

The following table provides information about the market risks associated with the Plan's investments. Category 1 includes investments that are insured or registered or for which the securities are held by the Plan or its agent in the Plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or agent in the Plan's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or agent, but not in the Plan's name. The Plan's investments were as follows at December 31, 1995 and 1994:

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

1995	CATEGORY			ACTUAL COST	MARKET VALUE	UNREALIZED	
	1	2	3			GAIN	LOSS
Fixed Income:							
U.S. Treasury Bonds	\$102,639,687	\$ -	\$ -	\$102,639,687	\$107,871,128	\$ 5,231,441	\$ -
Corporate Bonds	36,672,261	-	-	36,672,261	37,528,848	856,587	-
U.S. Agency Bonds	28,532,997	-	-	28,532,997	34,745,615	6,212,618	-
U.S. Agency Notes	65,170,309	-	-	65,170,309	68,547,347	3,377,038	-
Corporate Stocks	119,839,052	-	-	119,839,052	159,523,109	39,684,057	-
Repurchase Agreements	5,500,000	-	-	5,500,000	5,500,000	-	-
Commercial Paper	19,851,805	-	-	19,851,805	19,851,805	-	-
Total Categorized	<u>\$378,206,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$378,206,111</u>	<u>\$433,567,852</u>	<u>\$55,361,741</u>	<u>\$ -</u>
Corporate Stock							
Index Fund International				26,158,548	35,157,346	8,998,798	-
Equity Fund				39,954,041	42,396,124	2,442,083	-
Liquid Asset Trust				12,346,160	12,346,160	-	-
Real Estate Trust				21,541,448	21,862,687	321,239	-
Total Investments				<u>\$478,206,308</u>	<u>\$545,330,169</u>	<u>\$67,123,861</u>	<u>\$ -</u>
1994	CATEGORY			ACTUAL COST	MARKET VALUE	UNREALIZED	
	1	2	3			GAIN	LOSS
Fixed Income:							
U.S. Treasury Bonds	\$155,388,945	\$ -	\$ -	\$155,388,945	\$134,180,103	\$ -	\$21,208,842
Corporate Bonds	43,898,904	-	-	43,898,904	41,955,242	-	1,943,662
U.S. Agency Bonds	28,532,997	-	-	28,532,997	27,640,828	-	892,169
U.S. Agency Notes	58,676,508	-	-	58,676,508	57,366,877	-	1,309,631
Certificates of Deposit	30,000	-	-	30,000	30,000	-	-
Corporate Stocks	84,858,475	-	-	84,858,475	92,670,777	7,812,302	-
Repurchase Agreements	25,170,000	-	-	25,170,000	25,170,000	-	-
Commercial Paper	19,157,850	-	-	19,157,850	19,157,850	-	-
Total Categorized	<u>\$415,713,679</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$415,713,679</u>	<u>\$398,171,677</u>	<u>\$ 7,812,302</u>	<u>\$25,354,304</u>
Corporate Stock							
Index Fund				25,421,094	25,570,268	149,174	-
Liquid Asset Trust				20,100,586	20,100,586	-	-
Total Investments				<u>\$461,235,359</u>	<u>\$443,842,531</u>	<u>\$ 7,961,476</u>	<u>\$25,354,304</u>

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

It is the Plan's policy that securities underlying repurchase agreements must have a market value of at least 100% of the cost of the repurchase agreement. The Plan's repurchase agreements at December 31, 1995 and 1994, were fully collateralized. The Plan's certificate of deposit at December 31, 1994 was fully insured.

The bank balance at December 31, 1995 was \$491,840 of which \$100,000 was covered by Federal Depository insurance. The remainder was collateralized by securities held in a custodial account in the Plan's name. The bank balance at December 31, 1994 was \$1,001,615 of which \$100,000 was covered by Federal Depository insurance, the remainder was collateralized by securities held in a custodial account in the Plan's name.

Note 4 - Changes in Accounting Principles -

The Retirement System has elected to report its financial data in accordance with the early implementation of Government Accounting Standards Board Statement No. 25 (Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans) effective for the year 1995. In addition the Retirement System has changed its method of accounting for the date of purchases and/or sales of investments from the settlement date to the trade date of the transaction. The Statement of Plan Net Assets at December 31, 1994, has been restated to reflect these changes as follows:

	<u>DECEMBER 31, 1994 AS ORIGINALLY REPORTED</u>	<u>CHANGES DUE TO CHANGE TO TRADE DATE</u>	<u>CHANGES DUE TO EARLY IMPLEMENTATION OF GASB 25</u>	<u>DECEMBER 31, 1994 AS RESTATED</u>
U.S. Treasury Bonds	\$145,527,068	\$ 9,163,125	\$(20,510,090)	\$134,180,103
U.S. Agency Bonds	28,532,972	-	(892,144)	27,640,828
U.S. Agency Notes	59,133,912	-	(1,767,035)	57,366,877
Certificates of Deposit	30,000	-	-	30,000
Commercial Paper	19,157,850	-	-	19,157,850
Corporate Bonds	33,099,120	10,763,136	(1,907,014)	41,955,242
Corporate Stocks	85,018,335	(159,860)	7,812,302	92,670,777
Corporate Stock Index	25,421,094	-	149,174	25,570,268
Liquid Asset Trust	40,399,463	(20,298,877)	-	20,100,586
Repurchase Agreements	<u>25,170,000</u>	<u>-</u>	<u>-</u>	<u>25,170,000</u>
Total Investments	<u>\$461,489,814</u>	<u>\$ (532,476)</u>	<u>\$(17,114,807)</u>	<u>\$443,842,531</u>

Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 1995

Note 5 - Other Required Disclosures -

Schedule of Funding Progress

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY (AAL) - ENTRY AGE	(3) FUNDED RATIO (1) / (2)	(4) UNFUNDED AAL (UAAL) (2) - (1)	(5) ANNUAL COVERED PAYROLL	(6) UAAL AS A PERCENTAGE OF COVERED PAYROLL (4) / (5)
01/01/95	\$480,505,268	\$657,162,178	73.1%	\$176,656,910	\$100,596,231	175.6%
01/01/96	\$551,301,959	\$718,277,070	76.8%	\$166,975,111	\$104,601,384	159.6%

Note: At the date of this report only two years of information according to the parameters set is available.

Schedule of Employer Contributions

YEAR ENDED DECEMBER 31	ANNUAL REQUIRED CONTRIBUTIONS	ACTUAL EMPLOYER CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
1995	\$17,845,851	\$14,133,988	79.2%

The information presented in this note to the financial statements was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	01/01/96
Actuarial Cost Method	Entry Age
Amortization Method	Increasing 4%/Year for First 15 Years and Level Percent for Next 15 Years. Closed
Remaining Amortization Period	29 Years
Asset Valuation Method	Reinitialized Market Value as of January 1, 1996. Adjusted Market Value with 20% of Unrealized Gains (Losses) Recognized in Years Thereafter.

(CONTINUED)

Actuarial Assumptions:

Investment Rate of Return*	8% Compounded Annually
Projected Salary Increases*	4% Plus Longevity and Merit
*Includes Inflation at	4%
Cost of Living Adjustments	None

GASB 25 allows maximum acceptable amortization of the total unfunded actuarial liability over a period of 40 years. The System has approved a plan whereby the unfunded total actuarial liability is expected to be fully funded at the end of 30 years.

Note 6 - Contingencies -

At December 31, 1995, there was litigation outstanding regarding claims of retirement benefit additions relating to off-duty security services rendered by members of the City's police force. Plaintiffs' success is considered possible by management and counsel; however, in the event of success of the plaintiffs, contributions will be due from the plaintiffs to offset some of the benefits to be paid by the Retirement System.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL STRUCTURE BASED ON AN AUDIT OF
COMPONENT UNIT FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

HANNIS T. BOURGEOIS & CO., L.L.P.

BANDY J. BONNECAZE, C.P.A.*
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RONNIE E. STAMPER, C.P.A.*
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DOUGLAS J. NELSON, C.P.A.*
GLENN D. VIATOR, C.P.A.

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Certified Public Accountants

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LOUIS J. BONNECAZE, C.P.A.
CONSULTANT
MEMBERS
AMERICAN INSTITUTE OF
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2322 TREMONT DRIVE, SUITE 200
BATON ROUGE, LA 70809

March 19, 1996

To the Board of Trustees
Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge
Baton Rouge, Louisiana

We have audited the accompanying component unit financial statements of the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge as of and for the year ended December 31, 1995, and have issued our report thereon dated March 19, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

The management of the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not

absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the component unit financial statements of the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation

of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.

Reportable conditions were noted in the following areas:

Finding:

It was noted that one employee is an authorized check signer, prepares checks, receives checks, reconciles bank accounts, and also posts entries to the general ledger. As a result, there is a lack of segregation of duties between the authorization, recordation, custody, and valuation of accounting functions. Without adequate segregation of duties, there is a risk that unauthorized transactions could occur and not be detected within a timely manner.

Recommendation:

We recommend that the Employees' Retirement System adequately segregate accounting functions so that one employee will not be responsible for handling all accounting functions for a particular transaction.

Finding:

It was noted that there is a lack of off-site storage of back-ups from the computer system. Back-ups are stored in a vault on-site at the Retirement System. In the event of a fire, because of a lack of off-site storage of back-ups and storing the back-ups in the on-site vault, the heat from a fire could melt the back-ups in the vault and the information from the computer would be lost. Within the past year, the Retirement System has taken in-house the information on the history of contributions from current and past retirees and contributions from current and past employees of the City of Baton Rouge and Parish of East Baton Rouge. In prior years, this information was housed off-site with the MIS department of the City of Baton Rouge and the Parish of

East Baton Rouge. The storage of the history of contributions on-site makes it of greater importance to have some type of off-site storage.

Recommendation:

We recommend at a minimum that a rotating back-up system be implemented. For example, an authorized employee could be appointed as tape custodian. This employee would be responsible for off-site storage of the most recent back-up tape. When the Retirement System makes another back-up, preferably weekly, the employee should take the new back-up to the off-site storage location and then return the older back-up the next day. Therefore, during the day and at night, a back-up is stored off-site.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as define above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Board of Trustees, management and the Louisiana Legislative Auditor. However, this report is a matter of public record, and its distribution is not limited.

Respectfully submitted,

Harris J. Bourgeois & Co., L.L.P.

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE REPORT BASED ON AN AUDIT OF THE
COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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March 19, 1996

To the Board of Trustees
Employees' Retirement System
City of Baton Rouge and
Parish of East Baton Rouge
Baton Rouge, Louisiana

We have audited the accompanying component unit financial statements of the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge for the year ended December 31, 1995, and have issued our report thereon dated March 19, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations and contracts applicable to the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge, is the responsibility of the Employees' Retirement System City of Baton Rouge and Parish of East Baton Rouge's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Employees' Retirement System City of Baton Rouge and Parish of East

Baton Rouge's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the component unit financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the Board of Trustees, management and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

Harris J. Bourgeois & Co., L.L.P.