

TOWN OF CLAYTON



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ADVISORY SERVICES REPORT  
ISSUED MARCH 14, 2007

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**LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

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STEVE J. THERIOT, CPA  
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March 14, 2007

The Honorable Wilbert Washington, Mayor,  
and Members of the Board of Aldermen  
Post Office Box 277  
Clayton, Louisiana 71326

Dear Mayor Washington:

We applied our *Checklist of Best Practices in Government* in providing advisory services for the Town of Clayton's (town) business office.

Our recommendations are the result of our assessment of the current procedures and practices of the town's business office and are intended to improve controls over financial operations, provide advice in implementing good business practices, and ensure compliance with state laws. However, management of the town should consider the cost of implementing our recommendations compared to the benefits they will provide. The response from management of the town is included in Attachment I to this letter.

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.

The following are the recommendations resulting from our advisory services:

**Plan for Future Operations**

The town does not have a formal plan for making both short-term and long-range spending cuts to ensure that the town will operate within its available funding and maintain a reasonable unreserved - undesignated fund balance/unrestricted net assets. For the first six months of fiscal year 2007 (July 1 through December 31, 2006), the unaudited financial statements reported deficit spending (disbursements/expenses exceeding receipts/revenues) for the following funds:

<u>Fund</u>	<u>(Deficit Spending) Before Operating Transfers</u>	<u>(Deficit Spending) After Operating Transfers</u>
General	(\$11,868)	\$2,132
Enterprise (gas and water)	10,518	(3,482)
Sewer	(3,815)	(3,815)
Garbage	(2,827)	(2,827)

The town cannot continue to operate in the future if the deficit spending continues and a reasonable fund balance/net assets is not accumulated.

We recommend that the town:

1. Develop and adopt an operating plan that includes both short-term and long-range spending cuts
2. Monitor the plan, at least quarterly, to assess whether the town is on target with the plan
3. Use the plan in decision-making process and for budgeting (e.g., projects to undertake, major purchases, contracting)
4. Monitor the financial statements and budget monthly to ensure that operations are within the available funding and that a reasonable fund balance/net assets is being maintained (see “Financial Statements” recommendation)
5. Enforce the utility cut-off policy (see “Utility Systems” recommendation)
6. Apply for grants (see “Utility Systems” recommendation)

### **Alderman Office Vacancy**

Louisiana Attorney General Opinion Number 06-0037 opines that according to state law [Louisiana Revised Statute (R.S.) 33:385(A)], aldermen must remain a resident of the district from which they are elected to retain the qualifications of office. If an alderman no longer meets the residency requirement, the board must declare the position vacant. After the vacancy is declared, the board must appoint a person who meets the qualifications of the office within 10 days of the vacancy.

We were informed that an alderman no longer meets the statutory residence requirements. However, no board action has been taken to declare the position vacant. We suggest that the board address this matter.

### **Written Procedures**

We recommend that formal written procedures be prepared for the various business functions of the town. Formal written procedures ensure a clear understanding of what should be done, how it should be done, who should do it, and when it should be

done and ensure the procedures followed meet management's expectations. Also, written procedures aid in the continuity of operations and for cross training of staff.

There are no written procedures for the following:

1. Preparing, adopting, monitoring, and amending the budget
2. Processing, reviewing, and approving disbursements
3. Processing, reviewing, and approving time/attendance records and payroll, including leave taken and overtime worked
4. Recording, tagging, and safeguarding capital assets
5. Analyzing the amount and frequency of gasoline and diesel fuel purchased for use in town vehicles
6. Purchasing materials and supplies, including the checks and balances to ensure compliance with the public bid law and documentation maintained for all bids and price quotes
7. Storing, issuing, and accounting for traffic tickets and citations
8. Preparing customer gas, water, and sewer bills
9. Enforcing the town's cut-off policy for gas and water
10. Collecting accounts receivable
11. Depositing receipts
12. Investing excess cash and ensuring that bank balances and investments are adequately secured

### **Financial Statements**

Cash receipts/disbursements statements are prepared and presented monthly to the mayor and aldermen. However, these statements do not include year-to-date amounts and comparisons of budgeted amounts to actual. Also, disbursements are not reported by function (the purposes for which disbursements are made) and the enterprise fund combines the gas and water operations. Failure to report disbursements by function and combine the gas and water operations does not allow for a clear understanding of the financial operations of the town. In addition, there are discrepancies in the allocation of costs among the different funds (general, enterprise, sewer, and garbage funds).

To improve the financial statements, we recommend the following:

- Prepare year-to-date financial statements compared to budgeted amounts
- Report or classify disbursements by function (e.g., administrative, public safety - police and fire, streets and sanitation)
- Separate the gas and water operations and report them separately
- Review the allocation of costs to ensure they are being allocated properly (e.g., a percentage of the town clerk's salary and benefits should be allocated to the general, water, sewer, and gas funds based on estimated time required by fund)

Although the town's manual accounting system is adequate, management should consider obtaining a computerized accounting system. A computerized accounting system would make accounting for the town's financial operations easier and faster.

## **Utility Systems**

### Natural Gas System

For the last four fiscal years, the town's financial statements have reported audit findings relating to unaccounted for natural gas (gas purchased exceeding gas sold to customers). During this period (July 1, 2002, through June 30, 2006), the amount of unaccounted for gas has ranged from a low of 19% to a high of 30% of gas purchased. Individuals who work in the natural gas industry informed us that the unaccounted for gas could be due to the following:

1. Age of the gas meters--meters should be serviced or replaced every five to 10 years (most town gas meters are over 10 years old)
2. Meters not level--to accurately measure the gas flow, meters must be level
3. Meters not calibrated properly
4. Meters read incorrectly
5. Illegally tapping into the system by non-paying customers
6. Pipeline company misreading the meter for gas supplied to the town's system

We recommend that the town:

- Develop a plan to replace or service gas meters. This plan should entail a timeframe for replacing old meters by area. We suggest that the town consult with the Louisiana Department of Natural Resources - Pipeline Safety Division and the Louisiana Municipal Gas Authority in developing its plan. Also, the town should contact the U.S. Department of Agriculture - Rural Development for possible grants to pay for the replacement of the meters (see “Plan for Future Operations” recommendation).
- Inspect all meters to ensure that they are level
- Select several meters randomly and test for proper calibration
- Monitor the gas lines periodically for illegal taps
- Read the master meter jointly with the pipeline company

#### Gas Billing Rates

The billing method used by the town for natural gas consumption does not allow the town to pass on increases or decreases for the fluctuations in gas prices to its customers. We recommend that the town review its process for determining the gas billing rates and consider changing from a “fixed fee” per thousand cubic feet consumed to a method based on both “fixed and variable costs” (fuel cost adjustment calculated monthly).

#### Water System

We recommend that the units of water produced be reconciled monthly with the units consumed (billed) to customers. Reconciling production with units consumed would provide information relating to significant leaks in the water lines, inaccurate meters or meter readings, and unauthorized or non-metered water usage.

#### Cut-off Policy

During January 2007, management of the town began to enforce its cut-off policy. While this cut-off policy is a good first step in trying to put the utility system on a sound financial footing, we recommend that the town (1) continue to enforce the cut-off policy to ensure that all delinquent accounts are collected on a timely basis or that service is discontinued; (2) require the mayor to review the accounts receivable aging report at least monthly to ensure compliance with the cut-off policy; and (3) take aggressive action to

collect delinquent amounts, including legal action when necessary (see “Plan for Future Operations” recommendation).

### Accounts Receivable

We recommend that the accounts receivable detailed customer listing be reconciled to the accounting records (general ledger) monthly (this reconciliation is a control feature as these two records should agree).

### **Budget**

The town did not fully comply with the Local Government Budget Act (R.S. 39:1301-1314) for the fiscal year 2006-2007 and did not use the budget to monitor fiscal operations. The budget did not include a budget message and the estimated beginning and ending fund balances. Also, the budget was not accompanied by a proposed budget adoption instrument (specifies the mayor’s authority to make changes within various budget classifications without approval of the board of aldermen, as well as those powers reserved solely to the board of aldermen).

We recommend that the town fully comply with the budget act in the future. Also, management should use the town’s budget to exercise its fiduciary responsibilities of managing the town’s fiscal operations (see “Financial Statements” recommendation).

### **Bank Statements**

We recommend that the mayor receive all monthly bank statements directly (unopened) from the bank and that he review them to ensure that deposits appear reasonable and that any unusual disbursements are identified. This procedure will strengthen controls over cash since it is not practical to have an adequate system of checks and balances because of the limited number of employees. After the mayor’s review, the bank statements should be given to the town clerk for her to perform the bank reconciliations.

### **Payroll and Attendance Records**

We commend the town for having all employees complete and sign a time sheet documenting the hours worked and leave taken (annual and/or sick). To strengthen the controls, we suggest the following:

1. Require that time sheets be signed by the appropriate supervisor, to certify the accuracy of the hours worked



2. Require that detailed records be maintained to account for vacation and sick leave earned and taken by full-time employees
3. Maintain adequate documentation for the approved salary or hourly rate of pay for town employees

### **Capital Assets**

Good internal controls over capital assets require that (1) detailed asset records be current; (2) every asset includes a tag identifying it with a number that can be cross-referenced to the detailed asset records; and (3) a physical inventory be conducted at least on an annual basis. In addition, R.S. 24:515(B)(1) requires the town to maintain records of all land, buildings, improvements other than buildings, equipment, and any other capital assets, which were purchased or otherwise acquired. The records should include information as to the date of purchase of such property or equipment and the initial cost.

We recommend that the town prepare a detailed list of all capital assets it owns, tag the assets, and conduct an annual physical inventory.

### **Minutes**

The town should publish the minutes of the board meetings in its official journal, as required by R.S. 43:171.A. (1). Currently, the minutes are prepared, but they are either not published or published from six to seven months after the meeting. A.G. Opinion No. 94-376 provides that a summary of the minutes can be published.

### **Records Retention Schedule**

R.S. 44:36 requires the town to exercise diligence and care in preserving public records. In compliance with this law and in accordance with R.S. 44:411, the town should develop and submit a records retention schedule, including e-mail communications, to the state archivist (Louisiana Secretary of State Office) for approval.

### **Gasoline Purchases**

We recommend the following to strengthen controls over the purchase of fuel:

- Require that the odometer reading be included on the charge tickets (Charge tickets currently contain the number of gallons dispensed, price per gallon, vehicle description, date, and signature of town employee)

- Prepare a monthly analysis or summary by vehicle from the charge tickets that includes at a minimum, the number of gallons dispensed, miles traveled, and miles per gallon
- Require management to review the analysis promptly to determine that the dates of use are appropriate; drivers are entering accurate odometer readings; and the number of gallons received, miles traveled, and miles per gallon are reasonable

### **Traffic Tickets**

We recommend that the town clerk report all applicable traffic violations monthly to the Louisiana Department of Public Safety as required by R.S. 32:393C(1)(b). In addition, the unused traffic ticket books should be secured in either a locked cabinet or drawer with access restricted to the town clerk or assistant town clerk.

### **Disaster Recovery/Business Continuity Plan**

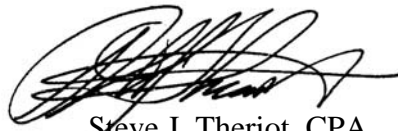
We recommend the following:

- A formal written disaster recovery/business continuity plan be prepared and tested/revised annually. Having a formal written plan is a good business practice as it will provide the steps to be performed to continue the town's operations in the event of a natural disaster, fire, or terrorist attack.
- A back-up file of the town's utility billing system be prepared daily and stored at an off-site location.

The Honorable Wilbert Washington, Mayor  
March 14, 2007  
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I trust this information will assist you in the operations of the town. Please contact me at (225) 339-3800 should you have any questions or if we can assist you in the future.

Sincerely,



Steve J. Theriot, CPA  
Legislative Auditor

RLT:GLM:JSI:dl

CLAYTON07

Attachment

cc: Irene Jefferson, Mayor Pro Tem  
Donna Keith, Alderman  
Lola R. O'Briant, Alderman  
Gail Duncan, Alderman  
Linda Delaughter, Alderman

## Management's Response

WILBERT WASHINGTON  
MAYOR

CLARENCE SKIPPER  
POLICE CHIEF

MRS. SADIE G. JONES  
CLERK

# Town of Clayton

P.O. Box 227  
CLAYTON, LOUISIANA 71326

8 March, 2007

ALDERMEN:

LINDA DeLAUGHTER

GAIL DUNCAN

IRENE JEFFERSON

DONNA KEITH

LOLA O'BRIANT

Steve J. Theriot, CPA  
Legislative Auditor  
State of Louisiana  
P. O. Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

Reference is made to your letter dated February 23, 2007 pertaining to recommendations resulting from your advisory services related to the town's operations. I wish to submit the following responses:

- 1) We will develop and adopt an operating plan that includes both short-term and long-range spending cuts and monitor the plan at least quarterly.
- 2) We discussed applying for a USDA Grant with our grant consultant to purchase new gas meters .

### Alderman Office Vacancy

- 1) The alderman in question plans to resign shortly.

### Written Procedures

- 1) Written procedures will be written on preparing, adopting, monitoring, and amending the budget, as well as other suggestions.
- 2) We will process, review and approve disbursements when checks are written. The Mayor will compare checks with invoices.
- 3) We will process, review and approve time/attendance records and payroll, including leave taken and overtime worked. We only have one employee that works over time.
- 4) We will analyze the amount and frequency of gasoline and diesel fuel. As we use purchase orders, mileage will be put on each one when fuel is purchased.

### Traffic Tickets

Used and unused traffic tickets are being store in the safe. Copies of all applicable violations will be mailed monthly to the LA Dept. of Public Safety.

### Financial statements

A more thorough financial statement will be prepared monthly according to your recommendations as much as possible.

Mr. Steve Theriot CPA  
Legislative Auditor  
Page 2

We have no plans to go to a computerized system at this time but perhaps the next administration will.

#### Utility Systems

- 1) We will do a random inspection to test for proper calibration. We have already had our one industrial customer, the Clayton Gin, calibrated. We will also check to ensure that meters are level as well as check for illegal taps.

#### Gas Billing Rates

We will monitor our rates regularly and do what is necessary to prevent a loss as before.

#### Water System

We will look into the possibility of purchasing a master water meter for the water plant to check our water production against our sales.

We began enforcing our cut-off policy in January. It has been very successful.

#### Accounts Receivable

I will reconcile the accounts receivables listed in our ledger with the trial balance each month. This is being done periodically now.

#### Budget

We will comply with the budget act in the future.

#### Bank Statements

The Mayor will open the monthly bank statements and review them and then give them to the town clerk.

#### Payroll and Attendance Records

We will prepare detailed records on vacation and sick leave and be sure that all time sheets are signed by the proper officials.

#### Capital Assets

We will prepare an up-to date list of all capital assets and so an annual inventory.

#### Minutes

All minutes have been published and will be published immediately in the future.

Steve Theriot, CPA  
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Records Retention Schedule

Form SS ARC 940 has been filed with the Secretary of State pertaining to records retention. I will request a list from them detailing the length of time to store them.

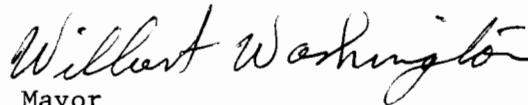
Disaster Recovery/Business Continuity Plan

We will develop a formal written plan using the gymnasium located on Hwy 15 owned by the town to conduct town business in case of a natural disaster, fire or terrorist attack.

A back-up file of the town's utility billing system will be prepared daily and stored at an off-site location.

I hope this information is adequate, if not, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Willert Washington".

Mayor  
Town of Clayton