



FISCAL REVIEW COMMITTEE

MINUTES

February 25, 2011 at 1:00 p.m.

House Committee Room 3 - State Capitol Building

The items listed on the Agenda are incorporated and considered to be a part of the minutes herein.

MEMBERS PRESENT:

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor

Mr. John N. Kennedy
State Treasurer

Mr. Rick McGimsey, Assistant Attorney General
Representing the Attorney General

Mr. Purpera called the meeting to order and asked the secretary to call the roll. All three members were present.

Mr. Purpera informed the committee members that the Town of Jonesboro had received a disclaimer of opinion for the previous two fiscal years' financial statements which is basically not an audit. The law gives the Legislative Auditor the authority to grant up to a 90 day extension for an entity to submit an audit. Mr. Purpera stated that he elected to not give the Town of Jonesboro an extension to submit the June 30, 2010, audit report based on the inability in prior years to produce an auditable situation so that an auditor can render an opinion.

Ms. Joy Irwin, Director of Advisory Services for the Louisiana Legislative Auditor (LLA) explained that the last two audit reports were actually not audits because the independent Certified Public Accountant (CPA) attempted but was not able to do the audit. She said that the CPA stated in her opinion that the town did not maintain adequate records of disbursements, properly reconcile bank accounts, receivables or payables, nor were all transactions entered into the accounting records. After Jonesboro received the first disclaimer of opinion, Ms. Irwin monitored the local government and LLA Advisory Services representatives met with town management in October 2009 to review the deficiencies, and then met again in August 2010 to follow up.

Ms. Irwin stated that the Town's bank accounts were not reconciled in the last three years, and that the accounting staff lacked knowledge and expertise. One recommendation given to Mayor Leslie Thompson was to hire experienced accounting personnel and that they desperately needed to update their accounting software. Currently the Town must hold the year open in their system and cannot close out the fiscal year. She said it has been difficult to locate town records and that many problems and deficiencies continue. The general ledger system has many errors and there are not accurate records to support the transactions. Their budget was adopted late and the Local Government Budget Act was not complied with. The general ledger balances are not reliable and the town cannot produce reliable financial statements for management purposes. Fiscal year transactions are not recorded up to date. Financial records are not prepared timely including budget to actual comparisons, which is crucial for good management of the town. The audit for the fiscal year ended June 30, 2010, was due 12/31/10, but has not been received yet. The

utility account receivables and the property tax receivables have not been recorded. The meter deposits are not reconciled properly. There are further deficiencies, but the most concerning problem is that the town has been unable or unwilling to reconcile the bank accounts since June 30, 2007. The Advisory Services staff was able to reconcile the bank accounts for 2008 & 2009; however, numerous reconciling items are unable to be cleared because of a lack of supporting documentation.

Ms. Irwin said that she understood that the Mayor hired a contract accountant to assist in the effort to reconcile the bank accounts for 2010. However, their current auditor, Ms. Margie Williamson of Allen, Green & Williamson, LLP, told Ms. Irwin that she is not confident in the cash balances of the town.

Ms. Irwin had Mr. Eric Sloan, Advisory Services Manager, go through every transaction at the bank to compare to the books. Her concern is that if the town is not looking, inaccurate charges can go through. According to Ms. Williamson the town's system is not able to produce accurate and reliable financial statements. Mr. Purpera concluded that the financial statements being presented to the board cannot be audited, and the bank balances have not been reconciled to the general ledger so there is no way to ensure that the financial statements are accurate.

Mr. McGimsey asked about the amount of time spent by Ms. Irwin and her staff in the Town of Jonesboro. Ms. Irwin said that three advisory services auditors were there most of one month, as well as auditors from another division of LLA. Mr. Sloan stated he had been there approximately two months as well as two times earlier in 2010 for follow up on findings.

Mr. McGimsey asked about the ability to correct deficiencies because of the outdated financial programs being used. Ms. Irwin said there are numerous issues because of their system and lack of accounting knowledge. She suggested to the Mayor to hire a competent accounting professional and make sure that all current transactions are recorded properly because we are not sure if it is being done. She also suggested they clean up as many problems as possible since 2007 was the last complete audit.

Mr. McGimsey asked about the consequences in audit law if the audit is not timely filed. Ms. Irwin said the Town is placed on the list of noncompliant entities which is shown on the LLA website and no appropriations from the state are to be given to them. Mr. McGimsey asked if the town is in jeopardy of not receiving funds. Mr. Irwin said that the 2010 audit is still a work in process and the auditor, Ms. Williamson, stated that from her perspective the Town's ability to produce reliable financial statements is not getting better, and it may be worse than it was last year.

Mr. Kennedy inquired when the concern began and if any money had been found missing. Ms. Irwin said concern began after the clean opinion of 2007 and the disclaimer of 2008 because something happened during that time. Ms. Irwin said there are many missing records and unsupported transactions, but her charge was to reconcile the accounts and review controls in the town.

Mr. Purpera stated from his experience that when records are missing it is difficult to prove misappropriation. Mr. Kennedy questioned if they could recreate some missing transactions. Ms. Irwin said possibly, if they could get invoices from vendors but this would take a significant amount of resources. In this situation, there are so many unsupported transactions in the general ledger as well as adjusting journal entries without supporting documentation.

Mr. Kennedy asked about who was in charge of the accounts. Ms. Irwin stated that a contributing factor to their problems would be the turnover of the town clerks. Ms. Irwin suggested the Town hire at least one competent accountant, and possibly two until they are caught up. She said they need an accounting system that works but the balances are very unreliable and controls must be seriously looked at. She said they are using a master bank account with all funds in one account so we are unable to ensure that restricted funds are being used correctly. Ms. Irwin understood that the Mayor had a plan to move to a new system. The

concern is moving unreliable information from one system to another. She said the control issues need to be addressed immediately, and a commitment by the Mayor and the council to get the problems resolved. Mr. McGimsey questioned if the Mayor had taken any steps on these recommendations: outside contract for accounting labor, installing a new accounting system and improving internal controls.

Ms. Irwin answered a question by Mr. Kennedy regarding the Town's indebtedness by stating that the town is behind on paying bills and we have put together a schedule of debts based on the information we had available. Mr. Sloan stated there is between \$2.2 - \$2.3 million in bond indebtedness.

Ms. Irwin discussed the state appropriations being withheld from the town for DOTD funded projects because the town is on the audit noncompliance list. She reiterated that the bank balance is very uncertain, as well as the actual amounts due. Mr. McGimsey questioned if the contracts on those projects were delinquent or in breach because of the funds withheld. Ms. Irwin said she was not sure if the projects were halted due to the nonpayment, and discussed the balances due on the various current capital projects.

Mr. Purpera stated it was imperative to move quickly on the 6/30/2010 audit because of the condition of the records, and get the right people on the ground immediately correcting the problems. Ms. Irwin said she asked Ms. Williamson to move forward but expects the same problems will exist in 2010 and possibly in 2011.

Mayor Leslie Thompson of the Town of Jonesboro said he appreciated being able to speak and thanked the Legislative Auditor and his staff for their help. He explained that when he went into office in 2007, the most experienced staff walked off the job. He stated that as the first African American to serve in this capacity in this town, he guessed there was a low tolerance or unwillingness to work together and as a result of that, they found themselves without the expertise to run the town effectively. Mr. Thompson said the last good audit included the half year that he began in office. He said the next year, the same auditor could not audit the books and he did not understand what the problem was because they were doing the same thing as the previous year. He said the next year was with Allen, Green, & Williamson, and they stated that the books were in bad shape and unable to be audited.

He explained that the town clerk had just resigned when he began and the clerk for the past three years was deficient, inept and not qualified. For the first time this year, he was told by the same auditors that this was his problem all along. He said under the Lawrason Act, the Mayor does not have the right to fire a clerk, and the clerk made that very clear in the office that she could not be fired. He stated that he was not aware that the clerk could not do the job, and said the auditors told him that it looked like an intentional sabotage, but he did not know that. He said he wanted to present about 17 or 18 exhibits to the council members.

Mayor Thompson said he received the letter from Mr. Purpera and explained their situation and what they needed to do to fix it. He said he understood that the extension was not granted due to the books and records.

Mayor Thompson explained the need to update the accounting software and how they replaced the tax software the previous year and just recently ordered Quickbooks which is more user-friendly. He said they discussed contracting extensive training with two independent firms because they know without the personnel expertise it will not do any good. He said the new software will certainly diminish the comingling of funds and expedite the reports on demand. Mr. Kennedy asked when the new software would be in place. Mayor Thompson said they were waiting for the auditors to finish since they had been there for the last three months, and hopes they are wrapping up. He expects to start training in the next 14 days.

Mr. Kennedy asked if Quickbooks would solve their accounting problems. Ms. Irwin said when transferring unreliable information to the new system, it is still no better. She said Quickbooks is not designed for government accounting, but they will be able to create reports and it can be worked with.

Mayor Thompson stated they do not mind anyone checking, and after the committee heard all that they have done if they would allow them 30-60 days. He said he interviewed an impressive and qualified CPA from Grambling last week. Mayor Thompson also asked the local auditor, Kenneth Holden, if he would consider serving on a committee to interview the CPA.

Mayor Thompson said he accepted the resignation of the deputy clerk that is on the job now. Being exposed to the problems that they have, he cannot continue to accept the problems, and her last day would be March 4th. Mayor Thompson said that the lady is still local if she needed to be contacted to explain why she had not been doing the things she should have been.

He said every time he has been told to do anything, he tries to do it. When he was told he needed more trained personnel, they hired Ms. Melba Holland because she was an accountant with experience. The problem was that she was not in a leadership role to make decisions, and has been moved into a leadership role in his office and doing very well. He said that Ms. Holland is familiar with the person he wants to bring in, so between the two, he hopes they can work it out. He shared his plans for the interview team and is awaiting Mr. Holden's response to be considered as the firm the town uses.

Mayor Thompson said they have a new council that is willing to work with him, which he did not have four years ago. The officers of the town are here to request to be allowed to get the rest of the job done. Mayor Thompson said he would like Mr. Holden to first get the numbers correct, because he was thinking that they would have a clean audit this time because as far as he knew everything was going fine. But he was then told that 2007 and 2008 numbers were not reliable, and he was told to contract a CPA or somebody from outside. He hired Tanya Wade out of Ruston and she believed they would have good numbers starting out. But the Legislative Auditors said the 2007 and 2008 numbers did not look reliable, and could not be used. Mayor Thompson said that he wanted to explain to the committee that whatever they tell him to do, that he will do it, just as he had done previously.

Mayor Thompson said he recommended a 2010-2011 budget modification to the council to have the money and the resources set aside so they could hire and afford the additional employees. Unfortunately, there was one council member from the old regime, who stopped that for another 30 days. He hopes on March 8th to be able to follow through and the council had given him the power and authorization for advertising for the CPA. Mayor Thompson stated the town hired an independent CPA firm that provided his staff with training over the past several months in various areas. Unfortunately, even though the training was provided, the clerk would not do anything requested by the trainer. He said they now have people in place that can take the information and do the right thing.

Mr. Kennedy said their purpose was not to question his or the council's personnel decisions. He said the problems with the bank accounts need to be solved and it sounded like the council was with him to get it solved. He asked the Mayor to take him through his plans for the next 30 days so that when we meet again, the mayor can state where they stand. Mr. Kennedy suggested he ask the Legislative Auditor about the person being hired, and not to discuss the past but what can be done to get it fixed. Mayor Thompson said he had been under a lot of pressure and stress the past four months. Mr. Kennedy said the taxpayers need to know how much money is in the Town's accounts and how they will be able to build for the future.

Mayor Thompson stated that Margie Williamson said she is unlikely to complete the audit without a disclaimer and expects to be complete by March 31. He wants to know if the conclusion of the audit would be enough to get off the list and be approved for funding. They plan to hire an accountant within the next two weeks, get the training for the new software from Tanya Wade, and get away from comingling funds.

Mayor Thompson said they will follow the auditor's lead to search and find the missing records. He wants the new accountant to help the CPA, whether Kenneth Holden or whomever, to tell him what is needed to be done to clean up the records, as well as make sure the bills are paid timely. Under the Lawrason Act the mayor recommends the clerk and the council confirmed, which is how Ms. Holland was appointed January 1, 2011. He said Ms. Holland, who was familiar with Quickbooks already, will run the office and follow his lead answering to him.

Mr. Purpera said his office will issue a report to the Mayor with a laundry list of all the items that need to be done. Mayor Thompson stated that he was Vice President of the Louisiana Municipal Association the previous year and had inquired for any names of applicants for accountant. He said that this meeting was premature but he wanted to come anyway, because after the audit is complete he could get the report to see what needs to be done. He said he had requested a Best Practices Review.

Mr. McGimsey discussed the steps as presented by the Mayor and stated that the appointment of a fiscal administrator is not what the town would want to make decisions regarding employment and procurement and the cost of that appointment would be on the town. Mayor Thompson said he reviewed Title 37:1351, and would do whatever needed to be done to avoid the appointment. He discussed the bank statements provided as well as the budget and other reports in the packet he provided to the members.

Mayor Thompson pointed out the bank statements are provided for them to see and the town is within 4% of money in and out, wherever it is coming from. Also provided are the budget and the best financial report they are able to provide. He said they believe they are doing a good job. He said they also just submitted to the paper the intent to offer ordinance to reduce their budget in an effort to correct spending in this economic down turn and to balance the budget. He said within the next 30 days they should see some improvement.

Mr. Kennedy said the budget was not the issue, but the accounts were not reconciled and withdrawals made with no explanation, and bond indebtedness that must be paid, and reserve accounts that must be maintained. He said it is a serious problem, and would rather not vote to appoint a fiscal administrator but if in a reasonable period of time it is not straight, he would have to vote to do so. Mayor Thompson said for the first time in the four years and now his second term, he has a team with the willingness and commitment to do it right.

Mr. Kennedy suggested getting back together in a reasonable amount of time to see if any progress had been made. Alderman LaStevic Cottonham stated that the Town of Jonesboro is in a mess and they are committed to rectify the problems from 2007 on. Mr. Kennedy urged them to stay constantly in touch with the Legislative Auditor and to follow their direction. Alderman Cottonham asked how long they had to fix the laundry list of issues. Mr. McGimsey asked him to provide to the council copies of contracts with the outside accountant, progress reports on training classes, and hard evidence to go with their verbal commitment. Mayor Thompson said he and the Alderman were up to the challenge.

Mr. Purpera stated that the Mayor and members of the council need to have their hands on the problems, set goals and expectations, and follow up on them. Mr. Purpera said the committee would hear the progress made within the next 30 days, and wanted to see that proper people are hired and job descriptions set, as well as policies and procedures in place. He said that Ms. Irwin knows what they need to do and she will be glad to sit down and tell him what to do from the beginning to the end because she understands local government. Mr. Kennedy recommended the council meet again within 30–60 days, and to meet the person the Mayor hired and hear how they will get things fixed.


Mr. Ernest Johnson, President of the NAACP in Louisiana, said the NAACP is on the ground in Jonesboro and looking at the situation. They have suggested that the Mayor and council seriously consider Louisiana Civil Code Article 23:15 which talks about fault in the State of Louisiana. Under Article 23:15 the

Mayor and the council should seriously look at the person who caused the problem. In Louisiana, whoever causes the problem should be held responsible. He said there should be some fiduciary bonding insurance on the clerk. He suggested that the council authorize litigation and get the bonding company to reimburse all of the cost and the Town of Jonesboro could move forward with a good structure in place, and not have the citizens pay for it. Mr. Johnson said the Mayor and council should consider this at their next meeting.

Mr. Purpera stated that his staff will continue to monitor the situation and recommended due to the importance of the audit for fiscal year end 6/30/2010, to meet around the 30 day point. Then the committee could see if significant progress had been made and to hear back from the Mayor.

Mr. McGimsey moved to adjourn at 2:30 p.m. and with no objections, the meeting was adjourned.

APPROVED BY:


DARYL G. PURPERA, LEGISLATIVE AUDITOR
CHAIRMAN

4/7/11
DATE