

CARL L. NICHOLSON, JR., CPA  
RICHARD D. HALBERT, CPA  
RICHARD G. TOPP, CPA  
FRANK H. McWHORTER, JR., CPA  
T. JOHN HARVEY, CPA  
WILLIAM T. KELLY, CPA/ABV, CVA  
SUSAN A. RILEY, CPA  
DAWN T. JONES, CPA  
MICHAEL W. DAVIS, CPA  
GREGORY L. FAIREY, CPA  
JEFFREY M. ALLEN, CPA  
JOHN S. HEATH, CPA  
DONALD J. NESTER, CPA  
PAIGE M. JOHNSON, CPA  
SHANNON J. JONES, CPA  
JANICE M. BATES, CPA  
JOE C. TRAVIS, CPA, C.F.A., CFF  
JOSEPH C. TOWNSEND, CPA, CVA  
TRACY W. HAYNES, CPA  
JAMES E. POLK, CPA  
STEPHEN W. GRAY, CPA  
ANNETTE P. HERRIN, CPA/ABV, CVA, CFE, CFF  
ROBBIN COURTNEY JONES, CPA  
LEIGH F. AGNEW, CPA  
SHELBY L. HOWARTH, CPA  
RENEE MOORE, CPA  
LACEY J. MILLER, CPA  
MICHAEL BRADLEY WOOD, CPA  
LESLIE C. BILANCIA, CPA/ABV, CVA

**NICHOLSON & COMPANY, PLLC**  
CERTIFIED PUBLIC ACCOUNTANTS  
2 SOUTHERN POINTE PARKWAY, SUITE 100  
HATTIESBURG, MISSISSIPPI 39401  
POST OFFICE DRAWER 15099  
HATTIESBURG, MISSISSIPPI 39404-5099

TELEPHONE 601-264-3519  
TOLL FREE 877-842-7137  
FAX 601-264-3642

[www.nicholsoncpas.com](http://www.nicholsoncpas.com)

MEMBERS  
AMERICAN INSTITUTE  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

MISSISSIPPI SOCIETY  
OF CERTIFIED PUBLIC  
ACCOUNTANTS

OTHER OFFICES:  
150 OLD HWY 98 EAST  
POST OFFICE BOX 609  
COLUMBIA, MISSISSIPPI 39429  
TELEPHONE: 601-736-3449  
FAX 601-736-0501

450 EAST PASS ROAD, SUITE 108  
GULFPORT, MISSISSIPPI 39507  
POST OFFICE BOX 1842  
GULFPORT, MISSISSIPPI 39502  
TELEPHONE: 228-864-1779  
FAX 228-864-3850

**INDEPENDENT ACCOUNTANT'S REPORT ON  
APPLYING AGREED-UPON PROCEDURE**

To the Hattiesburg City Council  
Post Office Box 1898  
Hattiesburg, Mississippi 39403-1898

We have performed the procedures enumerated on the attached schedule which was agreed to by the City of Hattiesburg, solely to assist you in the final determination of the calculation of alleged overpayment of overtime wages and other potential misappropriations or thefts involving supplies or other City assets for the period of time covered in the report provided by law enforcement personnel and the City administrative staff. This engagement is solely to assist City of Hattiesburg, Mississippi in their determination of reasonableness of amounts due, if any, to be repaid by certain former City employees as a result of the City's investigation of these alleged occurrences. The City of Hattiesburg's management is responsible for the underlying information and documents used in our procedures. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of these procedures described below either for the purposes for which this report has been requested or for any other purpose. Additionally, we have no responsibility to update our report for events and circumstances occurring after the date of our report.

To the Hattiesburg City Council  
Hattiesburg, Mississippi 39403-1898

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of Hattiesburg's management and is not intended to be and should not be used by anyone other than those specified parties.

*Nicholas E. Company, PLLC*

Hattiesburg, Mississippi  
August 11, 2012

## SCHEDULE OF FINANCIAL PROCEDURES PERFORMED

1. We reviewed files documenting the investigation conducted by City of Hattiesburg law enforcement employees pertaining to allegations concerning certain public works department employees in conjunction with assumptions used in the projection of wage overpayments and made a determination as to reasonableness of those assumptions based upon facts and circumstances. We have determined that information contained in these files and supplemented by information from the City's Human Resources Division provides a reasonable basis for the application of the methodology used in these calculations. It is very important to note that based upon our review of the report and HPD's notations, there are inherent limitations as to our ability to reconstruct some of the alleged events, especially involving relatively minor dollar values, without the benefit of detailed contemporaneous documentation. For example, it would be very difficult to prove, years after the fact that a person absolutely did not work on a particular Saturday without the benefit of a sophisticated timekeeping system.

We have, accordingly, concluded that the City's method of projecting these amounts based upon the application of a three (3) hour benchmark for days on which an overtime overpayment appears very likely to have occurred is a reliable method under the circumstances. This approach takes into account whether time and one-half wages were processed for these respective work weeks and the calculations also include allowances for payroll taxes and state retirement amounts attributable to the projected excessive wage payments.

2. We reviewed calculations and methodology used by the City in the projection of the overpayment of wages and related employee benefit amounts used in the preparation of repayment schedules and provided a determination as to the reliability of those projections. We have determined the calculated balance due of \$13,723.28 is mathematically accurate and is the result of the consistent application methodology determined to be reliable under the circumstances.
3. We vouched calculations to source documentation and reported as to the adequacy of supporting documentation used.
4. We reviewed law enforcement files pertaining to their investigation of allegations and findings related to alleged misappropriations or thefts involving supplies or other City assets as provided by law enforcement employees and follow up procedures performed by City administration and made recommendations as to the inclusion of such amounts, if applicable, in repayment schedules. We have reviewed documentation provided by the City Clerk and his conclusions pertaining to these other allegations.

For the alleged occurrences investigated by the City Clerk that pertain to specific transactions, his conclusions as to the lack of evidence of specific thefts or misappropriations appear to be reliable. These explanations, such as transposition errors for unit numbers, appear to be correct, and he has traced the existence of certain items in question to their proper installation on City equipment. This is not to say that there may not have been unexplained losses of relatively minor dollar values, but neither the law enforcement nor the City Clerk's investigations yielded proof in the instances that were cited.

For alleged occurrences that are not tied to specific documented transactions or assets (e.g., purchase orders, unit numbers, etc.), we concur with the conclusions of law enforcement personnel that it is not economically feasible to investigate such occurrences.

**SCHEDULE OF FINANCIAL PROCEDURES PERFORMED**  
**PAGE TWO**

5. Pursuant to the performance of these agreed upon procedures, we conducted interviews at City Hall, the Public Works Office and Shop, and the Police Service Center. We toured these operational facilities and made discreet inquires with staff located at these sites and with the City's IT Department. Whenever we felt follow-up inquires were necessary, we documented the information obtained and, in the case of a local vendor, we forwarded additional documentation to the City Administration. As a result of these procedures, it did become apparent to us that the internal control environment at the Public Works office had deteriorated to a level that required a prompt response from the City Administration. We are aware that the vacated management positions have been filled and new procedures have been implemented. We are, in accordance with our schedule of agreed upon procedures providing the following recommendations as to additional improvements to the internal control structure that have come to our attention:

- Given the magnitude of personnel costs as a component of the City's operating budget, we believe that the Administration's goal of purchasing a sophisticated electronic time-keeping system (e.g., Kronos biometric) that will complement the City's existing payroll system should be given serious budgetary consideration.
- We found that at the City Public Works office, employees are now required to use the traditional time clock at that location to document their time at work. If the City finds that the purchase of such a system is not economically feasible, the installation of time clocks for all operating departments should be considered. Even with the inherent limitations to this system, there would be an improvement over the existing manual record keeping procedures that seem to be in place in many locations.
- The Administration should hold periodic meetings that will allow the Human Resources staff to review timekeeping policies and procedures with all timekeepers with an emphasis upon the need for them to be aware at all times of possible abuse of the timekeeping function and the procedures for them to follow in the event of such an occurrence. These meetings would also stress the responsibilities they have for accurate time entry.
- Time sheets must be signed by authorized management personnel or their designee and not returned to the timekeeper after they have been signed, but forwarded directly to the Human Resources office.
- In order to assist the City Clerk in the performance of his custodial responsibilities, the City should consider hiring an internal auditor who would report to the City Clerk.
- The Office of the State Auditor has cited Mississippi Code Section 21-17-1 as the authorization for municipal boards to dispose of personal property. Once the board has declared the property as surplus, it is to be disposed of according to the local government's policy. We noted that the City accumulated a relatively large quantity of unneeded automobile tires that were returned to a local tire center in an effort to obtain a credit against future purchases, and it is our recommendation that the above stated procedure should be followed in the future for the disposal of damaged, obsolete, or otherwise unneeded personal property belonging to the City.

**SCHEDULE OF FINANCIAL PROCEDURES PERFORMED**  
**PAGE THREE**

- The Accounting Division is responsible for the periodic distribution of asset inventory printouts to the operating divisions in order to document the existence of assets and to process updated information as to disposals, losses, and or errors contained on these reports based on their review by the directors and divisions managers. This procedure is performed on an annual basis. Legislation was enacted during 2012 to provide uniform requirements for the sale or disposal of personal property. It is our understanding that a City policy is being prepared by the Administration and will be submitted for City Council approval. We recommend that changes made pursuant to the 2012 verification process be submitted to the City Council for disposition in accordance with the adopted policy in order for the distribution of the most current available information to be reported on the subsequent printouts for the performance of the next annual inventory of assets.
- The City has installed additional surveillance equipment at the Public Works fueling facility, and the IT department provides monthly fuel consumption reports to management. As an additional internal control procedure, the City should design exception reports based upon reasonable parameters as a supplemental report in order to identify potential abuses involving the fueling of City units by itemizing units that have unusual or unexpected consumption patterns. The City Clerk, in addition to the division managers, should be provided with a copy of this report.
- Based upon our inquiries, we determined that the practice of working on unauthorized (i.e., vehicles that do not belong to the City) is now prohibited at the Public Works shop facility. We recommend that signs be conspicuously posted at all City vehicle maintenance facilities that clearly state that only authorized City vehicles and equipment units are allowed in these facilities.
- At the Shop facility, we were told that most parts are ordered pursuant to specific work orders and that relatively few parts are kept at the Shop location. For example, we noted that the Shop employees do keep some large tires for sanitation trucks on hand, along with hydraulic fluid for heavy equipment, some belts, bulbs, and lubricants. To the extent that it is practical, there should be limited access to the items that are kept on hand, and internal controls over items that are more susceptible to theft, such as bulbs and motor oil, should be given the higher priority.