

LEGISLATIVE AUDIT ADVISORY COUNCIL

Minutes of Meeting November 4, 2009

A meeting of the Legislative Audit Advisory Council was held on Wednesday, November 4, 2009, in House Committee Room 2 of the State Capitol Building in Baton Rouge, Louisiana.

CALL TO ORDER AND ROLL CALL

Senator Murray called the meeting to order at 10:00 a.m. A quorum was present with the following members in attendance:

Members Present

Representative Noble Ellington, Chairman
Representative Charles Kleckley
Representative Cedric Richmond
Representative Neil Abramson
Senator Nick Gautreaux
Senator Edwin Murray, Vice Chairman
Senator Ben Nevers
Senator John Smith

Members Absent

Senator Willie Mount
Representative Anthony Ligi

APPROVAL OF MINUTES

Copies of the minutes for the meeting of August 24, 2009, were previously emailed to Council members for review. A motion was made by Senator Murray that the minutes for August 24, 2009, be approved and with no objections, the motion passed.

HB 1 AND 2 EXTENSION REQUESTS

Mr. Steve Theriot, Legislative Auditor, said as per their discussion at the last meeting, the change in language in House Bill 1 was brought before Joint Legislative Committee on the Budget (JLCB) for interpretation of the language change. A copy of the language change approved by JLCB was provided to the committee for their ratification and acceptance. Mr. Theriot suggested that in the event there is a prolonged period before the council can meet to consider allowing the chairman and vice chairman to be allowed to approve extension requests. He explained that they do not have a mechanism in place to ratify extensions beyond 90 days and there may be a very valid reason why the entity is not able to provide their audit. The auditor does not have the ability to provide them some relieve from being included on the non-compliance list without coming before Audit Advisory for approval. Mr. Theriot said they would then have something in place that would allow for extension approvals until the council can meet and the entities could come before them to explain their situation.

Senator Murray moved that the council ratify what JLCB approved regarding the extension language and with no objections it was approved. Representative Ellington stated that Mr. Theriot made a very valid point that there could be times entities may need a little more time without this committee having to be called together to meet. Senator Murray made the motion that the chairman and vice chairman to be allowed to approve extension requests until such time the committee is able to meet and with no objections, the motion passed. Mr. Theriot said he appreciated that very much because it will at least help facilitate the quandary his office is sometimes faced with in terms of a true emergency or a true issue that heretofore they did not have the tools to deal with.

Daryl Purpera, First Assistant Legislative Auditor, explained the list of entities needing ratification of extensions. The first list reviewed was non-emergency 90 days or less extension requests primarily for House Bill 1 and 2 (Agenda Item 3A). The Housing Authority of Caldwell and Lafayette Public Trust requested extensions until 9/30/09, and the remainder on the list highlighted in yellow requested extensions for less than 90 days and their reports had already come in. The entities remain on the list because the auditor granted these extensions, and request the council's confirmation of these extensions. Senator Murray made a motion for approving these extensions and with no objections, the motion passed.

Mr. Purpera said the next list of non-emergency extensions are for greater than 90 days (Agenda Item 3B). As per their procedures, the auditor grants the first 90 day extension, and the second extension request for any time beyond 90 days goes before the council for their consideration. The entities who had requested an extension greater than 90 days were invited to have a representative present to speak.

Caddo Parish Ward II Industrial Development Corporation

Representative Ellington stated that the representative for the entity, Mr. James Frances, had been invited and instructed to be present. Joy Irwin, Director of Advisory Services, said her office had actually called the previous week. Representative Ellington asked the pleasure of the committee, and stated that his understanding was that if they did not come, based on the policy the committee follows, this extension should not be granted. Senator Murray asked if the entity did not send representation, should they issue a subpoena as had done in the past or wait to see if they are going to ask to come back. He stated that they may not need any money, so they may not want to come here.

Mr. Purpera said their original extension date was 9/30/09, so as of 10/15/09 they became non-compliant, and were put on the non-compliance list so no future funds could go to them after that date without an additional extension. Senator Murray said at some point they may call your office to find out why, and then they may show up. Representative Ellington reiterated that being on that non-compliance list means they cannot get any money.

HOPE for the Homeless

Christa Pazzaglia with HOPE for the Homeless stated that she started in November and their agency split from another agency the previous year. A board member suggested that a CPA do a financial review since they are not required to have a full audit, and only need a financial review. The CPA that he spoke with delayed their financial review, even filing an extension without letting them know. Ms. Pazzaglia called the CPA several times during July because they needed to apply for a line of credit and required a 2008 financial review before doing so. The third week of September he contacted her office - which their extension date was over on September 30th. He then sent a letter of engagement with a cost that was more than what he had verbally spoken with their board member CPA, so they were forced to get another CPA firm who then filed this second extension on their behalf.

Representative Kleckley said his question was actually in regard to Caddo Parish Ward II, but asked Ms. Pazzaglia how she was notified of this meeting, whether by phone call or letter. Ms. Pazzaglia stated it was by phone call and believes by letter also. Representative Kleckley asked the auditor what the normal policy was, and if they sent a letter to the Ward II Industrial Development, or notified them by phone. Joy Irwin, Director of Advisory Services, responded that they send a letter at every change for the first extension request, and acknowledge the extension request. Then for the second extension request another letter is sent acknowledging that and informing them that they have to go before the Audit Advisory Council before the second extension request can be granted. Once the date for the meeting is set they contact the agency again. Representative Kleckley said his suggestion would be a letter would be a good reference and support documentation, because anybody could say they did not get the phone call. He asked if the letters were sent certified. Ms. Irwin said they do not send it certified because they are calling as well. Representative Kleckley asked if they do not think it is necessary to make sure that the entities receive the information, and when they come here they cannot say that they did not know. Ms. Irwin said they can send it out certified. Representative Ellington also recommended that the letters be sent certified. Ms. Irwin said they will do that. Senator Murray moved that the extension be approved for HOPE for the Homeless, and with no objections, the extension was granted.

Housing Authority of Homer

Charles Marchbanks, auditor for the Housing Authority of Homer, said he was not authorized to represent the Housing Authority, but since no one else was present, he offered to speak on what they were dealing with. He explained that a couple of significant issues dealing with abuse of Housing Authority funds had come to light over the previous few months. Some of it even extended into their June 30, 2009, fiscal year end. Mr. Marchbanks said they resolved one issue to the best of their ability, but the fee accountant had to get involved for another issue. They are concerned that there is an abuse of housing authority funds, and must investigate further if there is any possible fraud, or any illegal acts involved. The field work was complete and the report ready to be submitted to HUD pending resolution of the last issue.

Senator Murray pointed out that the reason shown on the extension for the request was problems with the HUD/REAC website and asked for an explanation. Mr. Marchbanks said that housing authorities are required to submit their financial information to HUD through HUD REAC- real

estate assessment center, and the process works like this: an unaudited submission is submitted and in this case, the fee accountant did submit it, and after that point, they are pretty much able to go in and complete the work. Then the fee accountant will submit an audited submission, and once HUD approves that audited submission, we are good to go to distribute the reports and issue them to the Legislative Auditor at that time. HUD REAC has the ability to come in and say they do not like the way something is presented or question or comment what we or the fee accountant have done as far as the submission process goes. We also have to perform additional procedures on that submission in order to comply with HUD requirements. The problem we have had this past year is HUD changed from a low rent Section 8 type of reporting to a project based reporting, so if you had a housing authority with two projects, you have to report on each one in essence. That created problems in the HUD REAC system. Finally some time around January of this year they put a new system out where these housing authorities could start submitting their unaudited submissions, but by that time they were behind by about three reporting periods so it has been a backup and a backlog relative to the REAC system. Homer's unaudited submission has been approved, but we have these issues and we have been trying to work around the housing authority personnel in order to resolve them.

Representative Ellington commented on this unusual situation since the audit itself is probably ready, but at the same time there are issues, so it does not sound like any more money should be given to the housing authority. Ms. Irwin explained that most of the money for the housing authorities is federal direct money that does not come through the state. Representative Ellington asked if the council and auditor felt they should go ahead and grant the extension if the audit is done. Ms. Irwin said there is one outstanding issue that Mr. Marchbanks will have to resolve before he can issue the audit report, so the audit is not all complete at this time. She pointed out that it is a significant issue that he is dealing with, and that would need to be reported if his suspicions are correct, so the audit has not been approved.

Senator Gautreaux asked if November 30th was a sufficient date to complete the audit. Mr. Marchbanks said he hopes by December to be complete. He had just presented the fee accountant with additional information to try to get based on some analysis we ran. Senator Gautreaux asked if he had an initial report that the legislative auditor had seen. Ms. Irwin said they had not. Senator Gautreaux asked if he could send an initial report. Mr. Marchbanks said no, they must send it at one time, and then once that is resolved we will submit to HUD REAC and once HUD REAC approved the audit, then it can be submitted to the legislative auditor's office. Senator Gautreaux asked if the housing authority received any money from the state. Mr. Marchbanks said none at all. Senator Gautreaux said his suggestion is to allow an extra month to make sure it is complete.

Senator Murray pointed out that the council earlier passed the motion allowing the chairman and the vice chairman the authority to grant the extensions, so it might be good to leave this date, and if more time is needed, we can approve it without having to call a meeting.

Mr. Marchbanks said the problem we very well may run into is once we submit this to HUD, which we hope to in the next two weeks, we have no idea how long it will take HUD to review it and either reject it or approve it, considering how behind they are. Generally if everything else is alright, they will accept it then turn it over to their investigative side, at that point, hopefully, they will. We have had situations in the past where we had findings of significance and nothing ever happened. However there is a new directive for HUD to start looking at these findings more closely. Senator Murray said in light of this I join Senator Gautreaux in giving them to the end of December. The motion to grant the extension to December 31st was approved.

Housing Authority of Natchitoches

Ms. Irwin explained that Mr. Marchbanks was also the auditor of the Housing Authority of Natchitoches Parish. Mr. Marchbanks said the unaudited submission by the fee accountant was finally approved by HUD about 2 ½ weeks ago, after being rejected twice. The issues in the submission or the rejection were those of a reporting presentation amount balances and when we have situations like that, that impairs our ability to wrap up an audit. We have completed our field work with the exception of four issues that we are dealing with and working through with the fee accountant. If these issues are not resolved then we are looking at having to possibly qualify our report so they understand the gravity of the situation. This is not the first time we have had issues with the fee accountant on other audits, but they are looking into it, and I spoke with them yesterday and a couple of the key issues they are sending it our way so to speak, but it impacts documentation that we have to have in order to complete the audit from that perspective. Once they complete their work and get it back to us, and we review it, which I have been assured I will have that in my hands next week, then we are ready to basically as with Homer, move forward and complete the report and also get the submission in within the next two to three weeks.

Representative Ellington asked if November 30th was a good extension date for him. Mr. Marchbanks said December 31st would be better, because once submitted to HUD we are under

HUD's timeline and we cannot dictate or ask them to move it forward, they pretty much have their own agenda as far as that goes.

Senator Murray said this is a general question and you do not have to answer if you do not want to. I am from New Orleans and HUD has had control of our housing authority for the last eight or ten years, and I just notice that all of these housing authorities have these issues. There is something fundamental in the way the feds do this stuff with housing authorities, so is there a problem.

Mr. Marchbanks said they audit three housing authorities and only one that we really have problems with as far as any kind of horrible findings go. He said that they have had findings in the past that he deemed significant- no matter how large a housing authority it - \$40,000 of misspent funds is \$40,000 – that is not good. But we have had HUD not ever follow up on that. Not too long ago a report came down from the Office of Inspector General (OIG) that basically said HUD needs to start following up on the findings that auditors report. I can sit there and tell a client that I do not know if they will contact them or not. I have seen it past too many times where they have not. Now if there is rampant fraud, or illegal activities going on, they will investigate that. But a lot of time it is the Legislative Auditor's office that ends up in there, so they are doing the work for HUD in that case.

Representative Ellington asked when he finds funds being misspent, is there not a place to go such as the District Attorney (DA) or the Attorney General (AG) if you suspect something like that. Mr. Marchbanks said it depends on the nature of how the funds were misspent, and if they were just paid for an expense that was not an appropriate expense for the housing authority -that may not go anywhere and only be a finding that we have. But if we can deem it to be fraud or an illegal activity involved then we are required to write a letter to the District Attorney, HUD, the local sheriff, and the Legislative Auditor's office explaining what transpired and what we have found.

Representative Ellington asked if either housing authority that he had spoken about has gotten to that point. Mr. Marchbanks said the first one we could not prove it, we got to a point with Homer, the first abuse of housing authority we can prove that, but as far as proving any kind of illegal activity, or fraud so to speak we cannot do that. Representative Ellington asked if it is his job to prove it, or someone else's job. Mr. Marchbanks said before we can write a letter we have to have enough evidence in our files to justify writing a letter. He explained he does not make a legal determination on that but must have enough to show the Legislative Auditor's office or the DA the information and documentation found. He had the documentation to show that the executive director was paid \$50,000 through other means of compensation. Representative Ellington asked if he sent them a letter. Mr. Marchbanks said they could not prove it to that point on this first issue. Representative Ellington said he believed that it should be his responsibility to find what you can and if you felt you had enough grounds to then submit a letter to the DA or AG or LLA, wherever it needed to go. Representative Ellington said somebody else may have to tell us what the law says but there may need to be a reason for a change here, especially if HUD is not reacting when you notify them.

Mr. Purpera said also what occurs as the independent CPA performs their report, they send in that report with a finding, even though it is not a finding of conclusive fraud, and our practice is to review that finding. If we feel like it needs to go to our Compliance Division, we will send it to our Compliance Division for possibly some further work in that area. Also we send the report to the DA and they may decide to do further work in that area. Representative Ellington said so it does not just slip through the crack if the firm says they do not know and cannot prove this, but there is a finding. Mr. Purpera said the independent CPA's responsibility goes to a point, but after that point we take on a different role and if we believe it rises to the level of additional work we can do that additional work if the District Attorney or even the Sheriff's office believes there is additional work to do from their perspective, then that is their purview to make that decision. Representative Ellington said I just wanted to be sure it is not slipping through the cracks. Senator Murray said he moved to grant the request for an extension to 12/31/2009, and with no objections the motion passed.

Senator Gautreaux asked Mr. Marchbanks if he had been asked by the two housing authorities to attend the meeting, or if he received a letter and he decided to come on his own. He also questioned why no one from the housing authority came themselves. Mr. Marchbanks said that Natchitoches asked him to represent them, and he did receive a letter on both case, but he had no contact with the Executive Director of Homer. Senator Gautreaux asked if Homer has the problem with abuse of moneys that maybe they did not want to show up because they are involved in this. Mr. Marchbanks said they do not even know what we are doing since we work around their personnel to get the information we need. At some point we may have to involve them, but we are trying not to because we do not want them to go in and destroy documentation. Representative Ellington said they will probably know after today. Mr. Marchbanks said that was the only choice I had. Senator Gautreaux said I appreciate you coming. Mr. Marchbanks stated he was speaking just as the auditor regarding Homer.

Touro Infirmary

Olivia Graugnard, Internal Auditor for the Touro Infirmary, requested an extension for submission for their 12/31/08 financial statement. She had a memo that the Sergeant-at-Arms distributed to the council from their Chief Financial Officer Bob Thicket. It details four issues that have delayed their financial statements from being issued. The first issue is that we have been working very hard to sign a partnership agreement with Children's Medical Center in New Orleans, which was finalized in July 2009. Without this agreement, due to our financial situation, there were growing concerns brought up by our auditor, so we could not issue our financials until the contract was actually signed with Children's. The second issue is the impairment of hospital assets, due to our available cash flows from operations there were questions raised by our auditors, Ernest and Young, as to whether our assets were impaired. The methodology and the review were very detailed and took an extensive period of time. The third issue is an IRS voluntary compliance planned filing. It was determined that some of the proceeds from our 1993 bonds we used the proceeds to fund the building of one of our parking garages which was not proper, so there was extra work that had to be done by Ernest & Young. The fourth issue is the one that we are continuing to work on and that is the violation of our bond covenants. We have violated for the second year in a row our bond covenants. We have to engage a consultant, who will come in and look at our operation and make recommendations for improvement. We also were issued a letter by the Bank of New York that we are in default of our bonds, so we have to work through that with our auditors as well as the Bank of New York to resolve that it is not an actual default, it is not an issue of accelerating the repayment of the bonds just to get that matter settled. We are in the final stages of getting our auditors comfortable that the bonds should be classified as long term and not short term. We hope to have our financials issued by December 31st of this year, and would like to request that extension date.

Senator Murray stated that Touro in New Orleans had a very healthy reserve fund before Katrina. Due to Katrina and providing health care to indigents because the charity hospital was not running, they provided lots of good care and ran into financial difficulties and that is probably part of the reason as well. But it is a wonderful facility, one of the few private hospitals in New Orleans and I would like to at the appropriate time make a motion for an extension request. Representative Abramson said I think Senator Murray said it all, I was going to reiterate the same comments and make the same motion. Representative Ellington asked if there are any other questions by the committee, and with no objections the motion to grant the extension to 12/31/09 passed.

Gretna Economic Development Association, Ltd.

Ms. Irwin explained that the initial extension request date was actually greater than 90 days after the report due date. The notes show that this is a newly set up agency and we are constantly monitoring the outflow of state moneys and try to monitor those local funds that go to these associations. Representative Ellington asked if they were requested to be present. Ms. Irwin said yes, they were. Senator Gautreaux moved that the extension not be granted since no one was present. Representative Ellington said with no objections, that extension is denied.

Other Extension Requests

Mr. Purpera said there are two entities listed: Independence Volunteer Fire Department and Housing Authority of Slidell on Item #3C. Both of these are non-emergency extensions but there are extenuating circumstances we wanted to highlight. The Independence Volunteer Fire Department fiscal year end was 12/31/08, and the report due date is 6/30/09. They are asking for an extension to 12/31/09 but what we wanted to specifically make you aware of is that the 2007 report has not been submitted yet, and I do believe there is a representative here.

Independence Volunteer Fire Department

Representative Ellington said we need two explanations – one for why this extension, and one for why the 2007 report has not been submitted. Dennis Crocker, Fire Chief of Independence Fire Department, said he took over in July 2008 and at that time he took over a mess in Independence. Their accountant has been working diligently to resolve this issue. The previous administration destroyed records, hid bank accounts. The previous chief has been indicted - been charged and found guilty. We have had a big mess, and are just trying to compile all this information to bring us up to date to get these reports submitted.

Representative Ellington asked when he expected the 2007 report to be submitted. Mr. Crocker said he would have to speak to their accountant. He was told to come to the meeting to request an extension for the December 31, 2008, and I will have to get back with our CPA to find out why. Senator Gautreaux stated that financials flow from year to year, and asked what Mr. Crocker's annual budget was and if they are a voluntary fire department not a district.

Mr. Crocker said they are a district and receive tax, as well as being a voluntary fire department organization. Senator Gautreaux asked how much revenue they are generating every year from that. Mr. Crocker said roughly \$300,000. Senator Gautreaux asked how much other funds he received from the state or taxpayers. Mr. Crocker said they also have the city side, because inside a municipality. Senator Gautreaux asked if they pay some funds for this fire service. Mr. Crocker said yes. Senator Gautreaux asked the auditor's office if they have been working diligently with Mr. Crocker and what problems they are having. Ms. Irwin asked if he would like to speak to the CAD director. Senator Gautreaux said he is just trying to figure out why we do not have the 2007 report, it has now been two years, they could have compiled the reports and bank accounts which are not hard to subpoena for those documents.

Mr. Purpera said if you recall, we issued a compliance audit report that indicated certain misappropriations which were processed through the courts, and the individuals have been convicted of those charges. As to why they can not get the financial statements completed, I cannot explain that. Senator Gautreaux asked if Mr. Crocker was the new chief and trying to clean it up. Mr. Crocker said it all happened before he started and he is trying.

Senator Murray asked if they receive supplemental pay. Mr. Crocker said yes, they do. Senator Murray said so if we do not grant the extension, that will be cut off as well. Mr. Crocker said we hope not. Senator Murray asked the auditor if the council does not grant this extension will they not receive the funds. Ms. Irwin said that is her understanding. Senator Murray said he does not want to cut off funds, since someone has already been held accountable for it, it would not be right to penalize the firemen from the supplemental pay. He moved to grant the extension request, adding that he requests the Chief to do as much as he can to work with the auditor to get those reports in. Representative Ellington asked if the motion was to grant extensions for 2007 and 2008. Mr. Purpera suggested if they want grant an extension for the 2007 and 2008 audits do so until December 31, 2009. Representative Ellington commented that they have been out of compliance for a long time. Mr. Purpera said that is correct, if the entity is not compliant then it is on the non-compliance list so funds would not flow for those purposes.

Senator Murray amended the motion to include both years. Senator Gautreaux said it goes back to making sure they have enough time, and asked Mr. Crocker when he took office. Mr. Crocker said July 2008. Senator Gautreaux asked if all of the records have been compiled for 2008. Ms. Irwin said she does not know. Senator Gautreaux asked who is their CPA. Mr. Crocker said Anthony Baglio. Senator Gautreaux asked the auditor to find out if those documents from 2008 have been compiled to show that the new administration is doing due diligence to get it done. He told Mr. Crocker even though records were destroyed and to find receipts and compile the information may be a problem, they can show the bank records and what they have found. If they cannot account for all of it, they should file in the report's notes explaining the situation, because it is important to get it done. Ms. Irwin said absolutely. Senator Gautreaux said he does not think it is fair to hold Mr. Crocker accountable for what happened in 2007, and the prior person has been held accountable in a court of law.

Ms. Irwin said in many instances like this we work with the local governments and get weekly or biweekly status reports and we can do that with Independence as well. Senator Gautreaux said he wanted to make sure because seems like we are going to be back here in December 31st. Senator Murray's motion to grant the extensions for 2007 and 2008 until 12/31/09, passed with no objections.

Housing Authority of Slidell

Mr. Purpera said the next entity is the Housing Authority of Slidell, fiscal year ending 3/31/09 and the report due date was 9/30/09 which they have requested an extension to 12/28/09. He wanted to bring to the council's attention that the 2008 report has also not been submitted. Ms. Irwin said that Mr. Marvin Butler was invited to attend Audit Advisory, but because of family circumstances he was not able to attend; however, their CPA Paul Andoh was present.

Paul Andoh, auditor for Housing Authority for the City of Slidell, said he spoke with Mr. Butler the day before, who has a personal family emergency that he is attending to and is unable to make this meeting. His firm was engaged on June 30, 2009, to do the audit for the March 31, 2008 and 2009, and as part of their condition they were required to present weekly status reports to the Legislative Auditor's office. They have complied with that and pushing to get all complete. They had hired a fee accountant. Their biggest problem has to do with asset impairment. Katrina destroyed pretty much of their rental properties in addition to their records, so they have gone through some process trying to get all of that handled. Mr. Andoh continued that right now we have gotten some records from the bank that they worked with, and we have a fee accountant that is working on the asset impairment calculation numbers, so we do not end up with a scope limitation on the audit. That is where we are in terms of the audit - in term of any management type of situation I cannot really address that since I have been associated with this '08 and '09 audits since June of this year.

Representative Ellington asked Mr. Purpera if based on his testimony this could come under emergency extensions because of the storm. Mr. Purpera said that is probably correct, but that was not the way it was requested, but if the reason was the result of a declared disaster then you are correct. Senator Gautreaux said my question is our housing authority was destroyed by Rita and we are not on these lists saying because of the damages we are behind. We had assets damage, we had 4-6 feet of water in two different units in two different towns. I know you are just the auditor, and I am sure the other people may say that, and maybe that was probably why it was not requested that way, because it is really not an emergency any more. Representative Ellington said I think if I understood him correctly, it is not so much the fact that the buildings had water or were destroyed, it was that the records were destroyed and they have not been able to gain access to the records, and your housing authority probably did a better job of keeping their records in a spot were they would not be destroyed. Senator Gautreaux said they were all wet also.

Senator Murray said this is similar to the one they approved and I will make a motion to grant the extension but we will also need to grant the extension for 2008. I want to ask that we change this to 12/31/09 like the rest of them, and I so move. Representative Ellington said a motion has been made to grant the extension to 12/31/09 both on the '08 and the '09 audits, and with no objections, the motion passed. Senator Murray said that motion is done, but Mr. Andoh you might want to suggest to Mr. Butler the discussion we had about, since it was declared a disaster, he may want to get his request in under that one, because it is possible for some of them have been excused completely. Mr. Purpera said it would have an impact because if it is under the emergency extensions then there will not be a finding in the audit reports for a late submission. Senator Murray said so you might want to suggest that to Mr. Butler. Mr. Andoh said he will do that.

ACT 36 EXTENSION REQUESTS

Mr. Purpera said that next item on your agenda is the Act 36 Extensions, the Emergency Extensions. The emergency extensions (Item #4A) for 90 days or less include the City of Franklin and Grand Isle Fire Company No. 1. The Grand Isle Fire Department has actually submitted their report. The City of Franklin's extension request date is 1/29/2010 and we are still pending that report. Mr. Purpera said they have not granted these because they are emergency extensions, and we are bringing these to the council to approve these extensions. Representative Ellington asked the pleasure of the council. Ms. Irwin said we need the council to ratify that extension request approval so there would not be an audit finding. Representative Kleckley moved that they grant both the City of Franklin and Grand Isle and with no objection, the motion passed.

Mr. Purpera said the emergency extensions greater than 90 days (Item #4B) include four entities and we have asked each one of these to come except for Cameron Parish Gravity Drainage District No. 3, because their report has been submitted.

Cameron Parish Police Jury

Mr. Darrell Williams, Treasurer of the Cameron Parish Police Jury, said when Hurricane Rita came in we had 350 project worksheets (PW) and it is a FEMA project worksheet issue or component units trying to collect all the information from that. Then Ike came and now we have 200 more PW's and more information, some districts lost some records and it is just trying to compile everything to get it ready. Representative Ellington asked if he would be able to do that by 12/31/09. Mr. Williams said they have to get it done for our CDGB funds, and they are close. He explained it has just been overwhelming and still trying to deal with limited staff and we had office relocations again, but we are going to be through. Representative Ellington said he compliments Cameron Parish on their recovery efforts and the things they have done over the time since Rita and I know that it basically destroyed the whole parish. Mr. Williams said he appreciates that and it has been tough and I know a lot of people have gone through it, but we are getting there. Representative Ellington asked if most of the people are back or coming back to Cameron Parish. Mr. Williams said it is a struggle, would say we are probably at a 60-70%, or we were before Hurricane Rita - Hurricane Ike really demoralized a lot more people after that. When you have building issues, it is tough. Representative Kleckley moved to grant the extension for Cameron Parish, and with no objections the motion passed.

Livingston Parish

Mr. Brandon Ellzey, Chief of Staff for Livingston Parish, introduced their new treasurer Andrew Rowe. Mr. Ellzey said that Parish President Mike Grimmer had previously scheduled appointments with our federal delegation in Washington D.C. so he was not able to attend the meeting. Mr. Ellzey told the council that Mr. Grimmer sent his sincere apologies for even having to be before the committee. Mr. Grimmer had 35 years of public service and has never been in this situation before, so he wanted to express his deep sorrow for even having to be there. The reason they were late was an internal issue of the treasurer not performing like he was supposed to, consequently this man is coming in to take his place. We want to offer a personal assurance that we will never have to do this again, and this man is working on the assumption that his job depends on never having to be here

again, and he knows that full well. So we are here today to plead mercy, for the November 30th deadline which we are close and that is what we are asking for today. Andy Rowe said that Mr. Grimmer the Parish President brought him on about a month ago, and has been working with the auditor trying to finish up the audit. We are in the wrap up stages and I do not see any problem meeting the end of November deadline. Mr. Purpera said he might add that they have met with the President and got the assurances, and met with the auditor and they believe they can have it by this date. Representative Ellington said based on that testimony he would make the motion to grant the extension. He asked Mr. Ellzey if the date of November 30th gives them enough time, and he said yes. With no objections the motion passed.

Cameron Parish Gravity Drainage District No. 3

Mr. Purpera said on the Cameron Parish Gravity Drainage District, you will see that the request extension date was 10/30/09 and they have submitted their report. The auditor brought it before the council because they have the authority to grant the extension, which would allow for no finding for their lateness. Senator Murray moved that they grant the extension and with no objections, it passed.

Gramercy Volunteer Fire Department

Ms. Joy Irwin stated that this was an initial extension request date that was greater than the 90 days and the date has passed. No one was present from the Volunteer Fire Department. Representative Ellington asked if they were called and sent letters. Ms. Irwin said yes. Representative Ellington said this is the same situation as far as supplemental pay, and he stated this may get them to attend next time. Senator Murray said it may get them here next time, but I supposed the chief and those folks are responsible because of the motion we passed earlier. They can contact the auditor's office and you and I together could be able to do an extension without causing those firemen to miss their supplemental pay, so hopefully somebody will contact us, so it will be on them and not us.

Representative Ellington suggested the auditor notify them to that effect. Ms. Irwin said they will do that. Representative Kleckley asked Mr. Purpera and Ms. Irwin to explain the process if the council denied the extension, and if it will cause their supplemental pay to be cut. Ms. Irwin said if you deny the extension request we will send a letter, as per your suggestion certified, telling them that their extension request has been denied and their name would appear on the late reports list, the non-compliance list that is on our website. Although this particular volunteer fire department's name is already on the list because the 9/30 deadline has already passed. Representative Kleckley asked when does the supplemental pay part stop. Ms. Irwin said she does not know the answer to that question, but could get that for the council. Representative Kleckley asked if it would be up to John Kennedy to decide. Ms. Joy said she does think it goes through Mr. Kennedy's office, but would have to double check that. Representative Kleckley asked if any idea of timeframe whether 30 or 90 days. Ms. Irwin said she would find out. Representative Kleckley said he would be interested to know that, so maybe next time they could talk about that. He asked who audits the books of the volunteer fire departments. Ms. Irwin said this particular fire department is only required to have sworn financial statements because the revenues are so low, and does not understand why he cannot get the sworn financial statements in. Representative Kleckley asked if it was an independent CPA or if it could be their police jury. Ms. Irwin said they do not even need a CPA and only need a sworn statement for us. Representative Kleckley said he understood. Senator Murray made the motion to deny the extension request and the motion passed with no objections.

KATRINA COTTAGES UPDATE

Patrick Goldsmith, Manager in the Performance Audit Division stated that this is the third update on the construction of Katrina Cottages: The Alternative Pilot Program. The information is actually coming from a request that Representative Abramson made to the LRA that our office should receive monthly updates on the status of the construction. So if you look at agenda item #5, we have five exhibits. Exhibits 3-5 are the prior updates that we have provided, exhibits 1 and 2 are the current updates from what the Cypress Group provided to our office. Exhibit 1 is as of October 1st, and if you remember the purpose of the program was to build 500 cottages by September of this year. They did not meet that deadline so what we have been doing is giving updates on construction and working towards the building of the 500 cottages. The update shows they currently have 63 homes completed and ready for occupancy as of October 1st. There are also 87 modular units that they have ordered but not taken possession of those, at least as of October 1st. If you have any other detail questions, we do have a representative from Cypress here, Mr. Scott Kirkpatrick.

Representative Ellington stated that the original plan for 500 homes was by September but only 63 are ready, and the 80 modular are not complete either. Representative Ellington said I have been off base, but I don't believe I have ever been off by that far.

Mr. Scott Kirkpatrick, Vice President with The Cypress Group, explained that the LRA first identified the property, which has been a challenge in different places. We have been working in Lake Charles, Baton Rouge and the New Orleans area and LRA has finally been able to identify all of those sites, and the next step in the process has been the environmental approvals. In some areas those have gone smoothly, in many places they have taken far longer than we expected. At this point in time, we have 337 units under construction, however, we still lack possession and environmental approvals on over 100 sites. Once we get possession, after the sites have been identified and the environmental approvals have been secured, we have contractors on the open market bid on these sites. We are giving the LRA options on whether they want to have a compressed timeline for construction or a longer timeline. The LRA is making those determinations looking at the cost difference between the two, so I think what you will see the actual construction time it takes us to construct these is a reflection of the private market and the decisions made about how much money they want to spend to compress the timeline. I would say certainly that September 2009 date which has largely not been achieved and FEMA, the LRA and Cypress all wish it had been. As reflected in these materials by summer of 2010 they should be wrapped up assuming we get all of the environmental approvals by December 31st of this year.

Representative Ellington asked if the problems with the environmental approvals are from the parish, the city or the state. Mr. Kirkpatrick said it is a FEMA requirement similar to the CDGB funds, which they had a subcontractor working on it and unfortunately hit some different snags. Representative Ellington asked who had the subcontractor. Mr. Kirkpatrick said FEMA has the subcontractor and Cypress does not get involved in the environmental approvals until the LRA tells them the site. Representative Ellington asked where they were running into the problems. Mr. Kirkpatrick said they have been told that there were some challenges with the FEMA subcontractor in different instances and the environmental process can take up to six to nine months and in fact in the New Orleans area, we understand that the historical requirements have actually been more stringent and more problematic than anticipated.

Representative Ellington said it seems like we are a long way off from where we thought we would be. He asked if the cottages were being constructed off site and moved on site. Mr. Kirkpatrick said it is a mixture, about 300 of the cottages will be what they call stick built on site and about 200 will be modularized, panelized and brought in. Representative Ellington asked if they already have those sites approved since you said you have some 300 under construction. Mr. Kirkpatrick said that is correct and of those 337 under construction it is a mixture of stick built and modular constructions. Representative Ellington stated so you do not have 337 sites approved. Mr. Kirkpatrick said we have 337 sites approved, and we are currently under or finished up with construction and still waiting for over a hundred. He said of those 337, probably 60% of those are being stick built on site. Representative Ellington said that is taking place right now, so it should not be long. Mr. Kirkpatrick said that is correct, as the spreadsheet put together by the Legislative Auditor shows hopefully by November and December a lot of these homes will be ready for occupancy.

Representative Abramson asked Mr. Goldsmith and Mr. Kirkpatrick if they knew if even one person was living in any of these homes. Mr. Kirkpatrick said he does not believe so. Representative Abramson said he feels like every time we come here, every couple of months on this program, we are not even making baby steps. This program has been a disaster from the beginning and I am not necessarily blaming Cypress, I think the empty chair would have been nice to have someone from the LRA to explain why. This committee has been looking at this project for over a year now and yet here we are over 4 years post Katrina, \$74.5 million dollars and we do not have a roof over one person's head. I think that is an utter shame and displayed a complete lack of state government being able to do what it committed to do for the people of Louisiana. I think maybe it goes to show that when we got a response from the LRA, I understand from Mr. Goldsmith that when we invited them to this meeting that both Mr. Rainwater and Mr. Jacobs who has previously come to testify were tied up with another matter. I understand other commitments, I think it probably says everything that there are only two people at the LRA who could come and talk to us about this project. I would think that if we had a \$74.5 million project, we might be able to find somebody who could come from the LRA to talk to us about it. The problem with the delay after delay is probably exemplified by the fact that if we do not get one of two people nothing gets done.

Representative Abramson asked Mr. Goldsmith since the last report that we received from the LRA prior to our last meeting in August, have we not received any other updates from the LRA since then. Mr. Goldsmith said in response to your request for information Cypress has been providing the information. Representative Abramson said so Cypress has, but we have not received anything from the LRA. Mr. Goldsmith said correct. Representative Abramson said I specifically sent a letter to the LRA asking them for updated information and I have not received anything, and obviously they have not responded to the Legislative Auditor either. Representative Abramson commended Mr. Kirkpatrick for his efforts and Cypress for keeping this committee informed. He continued asking if as per the update that you provided that the current total sites for construction to start is 337. Mr. Kirkpatrick said that is right. Representative Abramson said the total number of cottages that are intended to be built on this program is 500, so that means 163 that have not begun. Mr. Kirkpatrick

said yes, the one caveat to that is I do believe that number will come down now, since we are told that FEMA has required to spend some of the program dollars on maintenance and insurance for two out years of this program, so we believe that number will be more like 470, but I think Wil Jacobs could speak more to that issue.

Representative Abramson asked of the 163 that have not started, do you have access to the site to begin those. Mr. Kirkpatrick said no they do not. Representative Abramson said at this point, until you get access to the site from the LRA, Cypress cannot begin construction. Mr. Kirkpatrick said that is correct, and our appreciation is in almost every case they are waiting on environmental approvals. Representative Abramson asked of the 337 that you have begun you expect to have them all completed over the course of the next six months through May of 2010. Mr. Kirkpatrick said yes, and that is assuming that the environmental approvals are complete by December 31st of this year. Representative Abramson said he is confused, asking if the sites which have already started construction on, do you already have the environmental assessments on those. Mr. Kirkpatrick said yes, you are asking of the 337, that is correct. Representative Abramson asked if they will be done by May and some before May. Mr. Kirkpatrick said that is correct. Representative Abramson stated that the ones without environmental assessments appear to be the NORA sites, the Providence sites or the Lake Charles scattered sites. Mr. Kirkpatrick said yes, that is correct, all scattered sites. Representative Abramson said that under the NORA sites, it says that 25 have begun construction, explain to me why some of the NORA sites have begun construction, and other ones we are still waiting for environmental assessments. Mr. Kirkpatrick said the best that I can tell you is there is a staggered timeline now for when the environmental subcontracts are scheduled to approve those sites, so pretty much each month we are getting a batch of those sites approved and handed over to us. Representative Abramson asked of the 25 NORA sites that you have begun construction on, those are scattered sites, no different from the other 75 that we are waiting for environmental assessments on. Mr. Kirkpatrick said that is my understanding. Representative Abramson asked if they are putting modular units on those 25 sites. Mr. Kirkpatrick said at pretty much all of the scattered sites will be modular units and many of them are under construction.

Representative Abramson said my understanding is that some of these modular units were ordered and being built months ago in St. Martinville. Mr. Kirkpatrick said correct, Louisiana System Built Homes is our major modular provider. Representative Abramson inquired if they have completed any of the modular units yet. Mr. Kirkpatrick said yes, they have. Representative Abramson said if you have access to 25 NORA sites where modular units are going and some of the modular units are already built, what is the hold up on moving them onsite. Mr. Kirkpatrick said the 25 just recently became available and as soon as they come available the contractor there has to go through the permitting process which ideally takes just a few weeks and they will put the foundations down, the units that are in essence ready at the factory, then will be shipped and put up. So of those 25 that have been approved, I would say there is pretty much a 90 day turnaround from the time we get the notice to proceed on those lots and when they are finished. Mr. Kirkpatrick asked Ms. Logan if she knows when they received the notice to proceed on those, and was told about three weeks ago.

Representative Abramson asked how many modular units have been completed by the modular factory and basically awaiting to be used. Jennifer Logan with Cypress Realty Partners said there are 22 units completed at the factory that do not basically have a home, or a lot. Representative Abramson asked if we have placed any modular units on site. Ms. Logan said yes, there are all in Lake Charles, probably about 10. Representative Abramson asked if the only modular unit factory or company used was the one in St. Martinville. Ms. Logan said currently there are two, one in St. Martinville and another company is based in New Orleans and it is more panelized, they bring in wall panels.

Representative Abramson asked if the New Orleans company has manufactured any units for this project yet. Ms. Logan said they are supposed to be receiving a bond for five units in New Orleans today, so they should start. Representative Abramson asked how many modular units total will we have. Ms. Logan said it is up to 200. Representative Abramson asked how many do you expect from the St. Martinville and from the New Orleans facilities. Ms. Logan said at this point, all of them except for 5 have been in the St. Martinville facility. We are waiting to see if the other company in New Orleans can perform. Representative Abramson said Mr. Chairman asking your and the committees indulgence, when we select our next meeting, if we could put this back on the agenda and notify the LRA as soon as possible and hopefully they will bless us with their presence so we can hopefully find out exactly why these other 164 units are not moving. Representative Abramson told the representatives of Cypress Realty he appreciated their coming today.

Mr. Goldsmith told Representative Abramson that he wanted to make one point, some of the questions you are asking would have been answered by the information requested that the LRA send us monthly. You asked for updates on the environmental approvals, the cooperative endeavor agreements and updates on the occupancy plan and we did not receive information on those three items, so if we did have that from the LRA, it may answer some more of your questions and give the council some better information for the next meeting.

Representative Ellington said they gave us a reason for not being here, but did not give us a reason for not submitting the information. Mr. Goldsmith said yes, sir. Representative Ellington said this is probably not your question to answer but the environmental assessments, FEMA did not turn that over to the LRA but they hired the people and did the environmental assessments. Mr. Kirkpatrick said their understanding of the processes, the LRA provides FEMA a list of those lots they would like to use and at that point FEMA has their subcontractor go out and assess those lots. Representative Ellington asked why that was not something that LRA took over too. Mr. Kirkpatrick said he cannot answer that.

Senator Gautreaux said a lot of the problems they are dealing with the federal government as far as the assessments go, through HUD or whatever assessments for their environmental assessments that has been part of the problem and the reason for not as many sites. We have discussed this in an LRA meeting and in a prior meeting here, but most of the time that is the problem. Senator Gautreaux asked Mr. Kirkpatrick if you have sites that are available but in the St. Martinville factory there are 27 or 28 units just sitting there, what is the reason for that. Mr. Kirkpatrick said he thinks some of the confusion is that they just recently got many of the scattered sites, and as I explained it is about a three month process. So those 25 in New Orleans are going out, they are getting the permits and putting down the foundations.

Senator Gautreaux stated that the Jackson Barracks ones have been ready for quite some time now. Mr. Kirkpatrick said those are ready. Senator Gautreaux asked the reason why they are not occupied. Mr. Kirkpatrick said our appreciation is the Louisiana National Guard is in charge of those units and the occupancy of the units, I cannot speak to their plan for those units. Senator Gautreaux asked about the other units, what would be your reason you think that they are not occupied in the Lake Charles sites. Mr. Kirkpatrick said as far as those, and it may be reflected on your sheet, we just recently turned some over to Baton Rouge, I think it reflects 63 homes ready for occupancy. Most of those are at Jackson Barracks, and the remainder of those in Baton Rouge, and we are just now getting some Lake Charles units that are ready.

Senator Gautreaux said on the news about a month and a half ago it showed very nice homes ready for occupancy, so I am confused about why the numbers are not where they are supposed to be. Mr. Kirkpatrick said I think that was at Jackson Barracks maybe, I am not sure. Senator Gautreaux said it was on Channel 7 on the news that they were ready to go, and then asked was the price per square foot. Mr. Kirkpatrick said in each locale they have a nonprofit partner and the LRA is working with them on what I understand is either for sale or for lease arrangement for the homes. Senator Gautreaux asked if that could be why they are not occupied, because they still do not have that agreement in place with the nonprofits. Ms. Logan said she thinks they have most of the agreements in place, but there is a list from FEMA that they have to go through of certain people. Senator Gautreaux said before they can actually offer it to anybody else. Mr. Kirkpatrick said I know they have started that process, I am not sure how far along they are in identifying the people who will go in those homes. Senator Gautreaux asked if he would say it was on the state level we slowed things down, or really more on the federal level. Mr. Kirkpatrick said he would not want to speculate.

Senator Murray asked on the 63 homes listed as ready for occupancy, there is an asterick next to it, and says ready for turnover to the LRA, what does that mean. Ms. Logan said these have been turned over. Mr. Kirkpatrick said he is not sure if the auditor put that there. He continued that in the close out process, the units become substantially complete and are ready to be inhabited, then a punch list to go through, and then the turnover of the units ideally to the local entities, but sometimes the LRA, if they are not ready. Since this list has been put out, we now have 77 units ready for occupancy so that number has increased a bit. Senator Murray asked what does it mean "ready to turn over to the LRA", if they are ready for someone to live in them, why is it going back to the LRA. Mr. Kirkpatrick said he is not sure where that language came from, but I can tell you from our contracts with the LRA technically we do hand the keys over to the LRA. Senator Murray said so I guess the LRA will turn them over to the nonprofit or the ultimate purchaser or whatever. Ms. Logan said there are 18 units in Baton Rouge that have actually been turned over to the LRA, I guess they are waiting for the nonprofit to collect the units then.

Senator Murray asked if he could elaborate on the mentioned historical problems or issues with either the building or the environmental piece in New Orleans. Mr. Kirkpatrick said our appreciation is that at some point in the process that some Louisiana State Historic Preservation Office (SHPO) concerns came into play, and that in New Orleans there are historical areas and a number of the sites that we were to build in were located in these historic areas and that set the program back. Senator Murray said that was told to us - not just this committee, I happen to sit on the LRA meetings and other committees - well over a year ago, maybe two years ago, and that was confined to the Hoffman Triangle as I remember correctly, and I was told that those issues had been resolved a long time ago. Senator Murray asked if the Hoffman Triangle is the area he was talking about. Mr. Kirkpatrick said yes, that is right, we are no longer building in the Hoffman Triangle, the historic areas I understand capture most of the scattered lots in New Orleans. Mr. Kirkpatrick said we

have been on the fringes of the environmental discussions, so really the LRA would have to speak to everything that has happened there, but it seems pretty complicated.

Senator Murray said regarding the Jackson Barracks sites, I understand that they are supposed to be used for military personnel right. Mr. Kirkpatrick said that is my understanding. Senator Murray said so you really do not control that, once those are finished you turn them over to the LRA, and the LRA turns them over to the National Guard. Senator Murray suggested to the chairman that if we are going to put this back on the agenda we should ask someone with the National Guard to come to try and figure out if the homes are built why they do not put somebody in them. I have driven past them and several are finished, and I cannot imagine why they would not have anybody in there. Representative Ellington said I have not been down there in six months and there was one finished when I was there. Senator Murray said so maybe we should ask them to be here as well.

Senator Murray said for the NORA properties there are twenty-five that you can start construction, but how many is it supposed to be the total for NORA. Mr. Kirkpatrick said I believe 100. Senator Murray asked what problem was with the other 75. Mr. Kirkpatrick said in general they are in that environmental review process, so between now and November 31st we expect different waves of those properties to come out of that environment review process. Senator Murray said so these are properties that NORA has turned over to the LRA to place the cottages on. Ms. Logan said there are also some of those lots that need demolition work that NORA is supposed to be having done, before we can put a unit on it. Senator Murray asked if NORA had to front the demolition cost. Mr. Kirkpatrick said I think it may be the Louisiana Land Trust - somebody is taking care of the demolition.

Senator Murray asked if they have actually started any construction on the HANO-Fischer properties. Ms. Logan said we have 100 units that are under construction at Fischer. Senator Murray asked if those should be ready to move in by May. Ms. Logan said that is correct.

CITIZENS INSURANCE

Mr. Theriot said Citizens Insurance is basically on the agenda in response to the inquiry made by the Citizens board in regards to paraphrase the fees from our audit that we engaged to do with Citizens. Supposedly the board has requested to quote "to grill me on the fees and the audit itself". As I appreciate and in fact Mr. Wortman who is in the audience now, I am told will have a meeting on the 12th, which I will be more than happy to go before the board of Citizens although the audit is not complete 100% but to discuss with them the issues on hand. This is going to be rather an oddity because normally we have an exit conference with management before we finalize our reports. However, since the board is requesting that I come, I will be more than happen to respond to them on what we have so far. I am not really at liberty to discuss any of those with this committee as of yet, because we have not afforded them an opportunity to deal with the issues that we have in regards to that audit. I just wanted to make the committee apprised of the fact, although you may have seen those issues in the paper, we are well aware of them and we will be presenting that as I appreciate it, next Thursday when they have their meeting.

Representative Kleckley told Mr. Theriot that since I am a member of the Citizens Board, I just can tell you what I am thinking and what I hear, and what I expect some of the questions will be next week. Number one, I do not think they are bringing you there to grill you, I think they are just bringing you there to ask questions about the fee that you charged. You and I have talked about this, you have proposed a fee up to \$450,000, and in past history, I believe, the auditors that have audited the Citizens books have been around \$135,000, and I think the board is just doing what they are responsible to do, to find out what the reason is for the difference in the fees that they are being charged. As we all know Citizens is backed by the taxpayers of Louisiana, and they feel like these taxpayer dollars are very important and especially with Citizens Insurance. In order for Citizens to maintain a strong balance sheet and strong reserves they want that information. I do not think it is a grilling, I think it is just some questions about the reason for that, and I am sure you will have some good answers to support your reasons for your fee.

Mr. Theriot said I was only recounting what the newspaper had indicated, and I am not so sure if that was their terminology or one used by members when they made the announcement about the grilling. Representative Kleckley said I do not remember anybody making the announcement about the grilling, I just think that there were some questions, I mean anybody would have a question if they had been charged \$135,000 and then there is a proposed fee for \$ 400,000. I think anybody would question that. Mr. Theriot said the sad part about it, management had that information and they did not come to the front, but that is a different issue. We will address that next Thursday.

Senator Murray thanked Representative Kleckley for clarifying that and stated he understood the reason the number was so high was because of all the time and effort it took to get to the records. Mr. Theriot said the issue primarily with Citizens, we are all well aware of the software that they have and the problems that have been encountered. Of course, like anything else, when you are relying

upon the information generated by a software package, that quite frankly is broken, then the time it requires in sampling takes a lot longer than when you have ideal conditions in terms of controls in place that protect assets. With that in mind it is just a matter of the time required as we went through that process, there is nothing magical about any of this.

Senator Murray said to be sure, we saw the bill going to the Department (of Insurance), and asked if this \$450,000 was a part of what went to the department or is it a totally separate fee from the department. Mr. Theriot said that is a good question, Senator, and what really transpired with this issue - when we first undertook the audit of Citizens, not having done it before, we sat down and tried to do a good faith estimate based upon the number of audit hours. As I told the board and we told management, the quicker we can get in and get out, the less it will be as we go through there. So again at the end of the day, I am not so sure what that final bill was going to be, but quite frankly, it's nothing magical in any of that. It is the hours that we put in, and if we can get in quicker and get out quicker, that diminishes the amount that the bill would be. It has taken us a lot longer - look at the very beginning management has not even signed the engagement letter for us, which for normal entities normally do. So whenever you have those types of issues, then obviously it takes a different course of action because then you take a look at the records in a different light which takes time and effort in doing so.

Senator Gautreaux said my question is the private auditors that did it before for \$135,000, how great a job did they really do, if they did not find all the stuff that you are finding. Mr. Theriot said auditors go in for the most part relying upon management in terms of records that are there, and I am sure that when the auditors went in the first time, they relied upon the statements made by management. We in turn went in and performed other tasks that the former auditors who were there did not perform, in term of looking at issues. Senator Gautreaux said so you have more components to your audit than the other one, they may have done a basic audit. Mr. Theriot said we did a more in depth looking at the records because at the end of the day, the numbers that are being generated are still being used out there, even though the system is flawed and they are going to replace the system, which is an encouraging part. Remember that the audit that was done before there was a disclaimer because of this same flawed system, but it does not mean in a traditional sense of a disclaimer of opinion for financial purposes because of credit worthiness, it is also as it was stated talking about taxpayer's dollars at stake. If my memory serves me right, the legislature has put aside some \$300 million for tax credits besides the rate payers who at the end of the day will have to pick up the tab not only for the insurance but for the surcharges to deal with this. So there are matters that are important that we need to make sure of besides just the normal financial audit part, is to make sure that the dollars that are being expended by Citizens on behalf of both rate payers and taxpayers can be accounted for.

Senator Gautreaux said it tells me right there when the auditors put the disclaimer there was something more to the story and I guess they did not elaborate and go beyond that because they were only required to do one certain thing, and I sure that is why. Mr. Theriot said in some cases that is true, I am sure.

Senator Nevers asked Mr. Theriot regarding the \$135,000 that was mentioned if it was charged after you went back in following another audit or was that a complete audit. Mr. Theriot said if you recall Citizens did not have any records for the most part for I think, '05 may have been the last year, no it was '04 I think because '05 was when the storm hit. He continued that 2005, 2006 and 2007, and they went in to do those three years and compiled what was there once the Department of Insurance and sent individuals in to try to extract from the system certain financial information which over time they found they wound up doing. But there were some unreliable issues involved, the reliability of the information was not good, so they went in. There was a disclaimer of opinion, so having said that the amount of work effort that they did was maybe not what would have normally been done because of that.

Senator Nevers said I want to thank you and your staff for all the work you put into the Citizens issue, I mean you can imagine if we would not have known what was going on. We might not still know the extent of issues that revolve around Citizens but we know that there has been tremendous improvements and changes that have taken place because of audits that were performed. So my concern is that we do a thorough job in the audit and we put to rest once and for all that Citizens is operating efficiently and properly in our state. While I understand the Citizens board being concerned about the amount, and they should be, I am concerned that whatever we do gives us an audit that we can completely put in our trust in.

Mr. Theriot said and those are some good points but also as we uncover issues provide those to management, so that management can enact for the future a better operation to again not only provide transparency but better accounting in terms of its own operations, for those rate payers and tax payers who we serve. Mr. Theriot said he will go to the meeting next Thursday to present to them. Representative Ellington asked if anyone from Citizens would like to say something. Mr. Theriot said again when Mr. Wortman came in, he inherited a tiger by the tail, and lots of monumental challenges

that he has to undertake, and hopefully once they get their new software in place the future will be a lot brighter. Representative Ellington said everything he has heard since Mr. Wortman has been there, has been very complimentary, so it is good to have it headed in the right direction. Mr. Theriot said often times, like anything else, we agree to disagree, but that is just the nature of the business as you move on. Representative Ellington said almost everyone disagrees with the auditor, I know this.

OTHER BUSINESS

Mr. Theriot said one good bit of information I would like to bring to you today is that yesterday evening Commissioner Donelon and I sat down to review the outstanding bill which we had presented to you. We had some agreement and disagreement about some charges, or some aspects of the audits that we have performed, so we in turn did agree to a reduced version of the bill which we forwarded to him. I signed off on it, and I am sure he will execute it. I have no concern about that being an issue, as that has been resolved as far as I am concerned.

Mr. Theriot said the other issue that we had talked about last time was relative to the Recovery School District (RSD) and the insurance coverages that were out there that we had some question with. Since that time as I had mentioned to you earlier, we spoke with Commissioner Donelon and his staff since there are for entities potential for request for waiver. In other words if an entity has its insurance up to whatever levels and does not insure its entirety can ask for this waiver because it performed its due diligence to go out and acquire that insurance. Well we have learned as I mentioned to you before that RSD has never asked for the particular waiver from the Department of Insurance. We also have the issue of RSD being insured by ORM since quite frankly we did not see an insurable interest of ORM, because that was not a state owned property. The commissioner has a legal entity which has been reviewing this and was supposed to get back to us. Last night he said that he was going to contact them first thing today to hopefully get the sign off or at least an official legal stance from his perspective in terms of where that issue is so we could at least provide or implement some correction for that whether it be declared that ORM has the ability to insure this non-state owned property, but at least make the request for the waiver so that it does not expose the state to any undue issue. We did bring in the individuals from FEMA who said that they would encourage us to get that waiver in now in the event of a non-catastrophic event that might occur again for the state to be exposed. Hopefully we will get that remedied in short order. The commissioner said he would try to get that immediately, so at least we can set that wheel in motion. Then it will be up to the Department of Education and RSD to make the official request. There was some confusion about an entity that I think RSD had hired or the DOE had hired to deal with the issue of those facilities. The one part that they may have made the request but we have determined that up to now no request has been made for that particular waiver. Hopefully we can get that resolved in short order.

Senator Murray said Mr. Theriot at the last meeting you had stated that we were close to getting an audit done on the RSD but you wanted them to have a chance to review it and get their response, where is that in the process now. Mr. Theriot said the response is due this Friday, so once the response comes out they normally put it together and within two to three weeks goes through processing and becomes public.

Senator Murray said the other issue, I received a letter this week from an organization from the 12th Ward Save Our Community Organization and said that they have not been able to access dollars, I guess because they have trouble with their audit. If you could look into it and see if they have requested an extension and let me know if they have not, so we can let them know how to proceed to get an extension. Senator Murray said since this might be our last meeting that you may be sitting at the table there, I thank you for your services as the auditor.

Mr. Theriot said first of all, I want to take the opportunity to thank each and every one of you for both the support that not only you provided to me individually but more importantly to our office. It means a lot to those individuals who are quite professional and they do the job. I knew when I took this job that my predecessor did not actually do the audits, and knew that I was not going to do those audits in the field. It is those same men and women who work tirelessly to do that and have done an outstanding job and I can tell you that I think they will continue to do that same outstanding job in the future. And I think that Daryl is well prepared to lead the office until such time as the legislature elects my permanent successor, and I know he will apply and I am sure that you get an opportunity to hear from him on his vision for the future just like every other individual who I am sure will apply to do the same. But I can tell you that if nothing else, I have been quite proud and not surprised but it was really gratifying to hear from entities from the outside and the inside that have complemented my staff at all levels for the ability to contact them, to get information. I think that is important because our role, just as you were talking about it earlier, about the outside auditors coming in doing the normal traditional audit that would be in which the financial statements get audited, which I like to refer to as the traditional audit. Our role is a little bit different in as much as we are here, and you all as our clients to provide you with better information so you can make good decisions as you cast your votes. I happened to have the pleasure in one point of my career to sit where you sit, and that information is also really important in making those decisions.

Mr. Theriot continued saying that our role as the climate changes, in terms of streamlining or the commissions or whatever you are looking at as the budget crisis comes in. As I tell my staff in the private sector when normally you hit hard economic times the client will look at you and figure out what in the world are you doing here, you are costing me every time I see you, my accountant. I am looking for income taxes, payroll taxes, or sales taxes, I really can discard you or bill me. But just as important in our role in dealing with the issues as the diminished revenues take place and accountability takes place, the information we provide you is probably of greater importance to make better decisions on services that need to be provided and the way in which they are provided, so again I want to complement not only this committee but the entire legislature, and I know leadership who have been more than supportive of the efforts of our office, and I know that you will do the same in the future. So again it has been a pleasure. It has been both personally and professionally rewarding for me. It was a decision that I made that took some time to come with grips with. I am sure my wife after the first week at home will probably try to find something for me to do to get out of the house. But again I want to thank each and every one of you for the courtesies that you personally extended to me.

Representative Abramson asked Mr. Theriot regarding the bill that he resolved with the Department of Insurance, did that include the fees for outside legal counsel for the lawsuit. Mr. Theriot said yes, it did. Representative Abramson asked for the current status because his last recollection was that it was still in appeal, or if it was still ongoing. Mr. Theriot said as far as I know there is an appeal right now in the First Circuit Court. Representative Abramson said what I recall from a previous meeting when Mr. Donelon was there and said that whatever the District Court decides he would turn over the records and that would be it, but we are now in the position that there is an appeal. I take it that we are still paying outside counsel to handle that case for us, so is the arrangement that they are paying the bill to date but we are going to charge for the ongoing fees going forward. Mr. Theriot said at this stage of the ball games, let me just make it perfectly clear, although the commissioner has filed his appeal with the First Circuit, we have been granted access to all records, he has not denied us any access to records. I know the appeal was filed at this point we have not done, I am not sure of the process, but I understand this may take twelve to eighteen months. My general counsel will probably want to give a little more accurate information. I get accused all of the time for practicing law, so I will try to step back.

Representative Abramson asked Ms. Schaye for the status of the litigation. Ms. Jenifer Schaye, General Counsel for the Auditor, said so far all that has happened is they have requested from the District Court that they be allowed to appeal to the First Circuit and that the record be prepared. The record has not been lodged with the First Circuit yet, so we have not responded to anything and have not been given a briefing schedule by the First Circuit. Representative Abramson asked if it is an actual appeal of right, not a supervisory writ. Ms. Schaye said it is actually an appeal of right final. Representative Abramson asked for the time table for the record being lodged with the court of appeal. Ms. Schaye said I actually think the court has to do an expedited fashion, my understanding that the court is doing that, but the district has not advised us nor has the First Circuit advised us. Representative Abramson asked if the Department of Insurance was going forward with the appeal so we will have the cost incurred with defending the appeal. Mr. Theriot said yes, sir. Representative Abramson asked what the arrangements were with respect to the additional fees that we will incur in dealing with this going forward with the Department of Insurance. Mr. Theriot said I believe at that point it will be a completely different issue. The issues that we had previously were basically based upon our audit. On this appeal process that will be for another day depending upon I guess at that point the prevailing side and what those costs would be as we move forward.

Representative Abramson asked regarding the bill if it included our outside legal costs for all the legal work that was done in the district court. Mr. Theriot said yes, all of the legal costs that we incurred by outside and inside counsel. Where we came to terms was on some specific compliance and performance audits that were done with the multiple entities involved in this interwoven issue where the commissioner took a position and I took a position, so we agreed upon getting rid of those and actually sticking with the actual financial audit and the legal fees which is what we resolved our issue with. Representative Abramson said so the arrangement that was made in respect to the bill, there is no deal with respect to the future expenses, they did not give those up nor did they agree to pay them. Mr. Theriot said no sir, we will deal with that at a later time. At this point I have just dealt with the issue at hand in terms of the audits that were sitting there and the additional work both legal and other.

Representative Abramson said I just want to echo the sentiments that Senator Murray said appreciating your service that you have given to us. Also I wanted to specifically mention to you in my two years on the council, I have been extremely impressed with your staff – not only the quality of the staff, but the responsiveness. I know that is attributed to the person that leads the office as well as the staff and I want to congratulate you on that as well as your staff. Mr. Theriot said thank you very much.

Senator Gautreaux said Steve, I want to echo the same thing, but I want to tell you on your vacation in Florida you will not be hearing from me anymore. Seems like ever year I call you, you are on vacation in Florida and I think it is the same time every year. We appreciate what you have done for us, but more importantly your staff also. Behind a good man there is always a good woman, I guess behind a good legislative auditor is always a great staff, and I think your staff has been very accommodating to all of us and always goes that extra mile to make sure that they are doing it right.

Senator Gautreaux continued to say, my question is that the commissioner sat in front of this committee on several occasions, more than once, actually two or three times, and also in front of the insurance committee that I sat on as an interim member and said that he would go no further than once the judge ruled. But once again we are back again where we started again, he has gone further than what he starts costing taxpayers more money. Senator Gautreaux asked for the initial bill total. Mr. Theriot said the initial bill that we in turn came up with was like \$674,000. The bill that we negotiated he will pay us was \$441,000. Senator Gautreaux said so we do not know what this is going to cost the taxpayers additionally, and most of that money went to outside counsel. Mr. Theriot said we had about \$85,000 in outside counsel, but I am not sure what his was. Senator Gautreaux asked what DOI's total bill was. Mr. Theriot said his bill to his counsel, he mentioned it one time, but I am not sure what it is. Senator Gautreaux said over \$1.5 million, and I am just trying to figure out how he is going back on his word, that he was going to leave it where it was, and I think I understood that right. Mr. Theriot said that was the understanding but at one of the meetings, and I do not want to put words in his mouth, but he said if he challenged it, it would not be that he would hold up the records, which as I mentioned earlier, we have complete access to everything. Ms. Schaye said he did not do the suspense to repeal. Mr. Theriot said thank you all again.

Representative Richmond said I will start with the appeal. The initial reason for the lawsuit was that they would not turn over the information, so we go through and spend a lot of money to get the information. We win in court and he said that he would not appeal, but nevertheless he does appeal, but he turns over the information. At this point are we just fighting over who is going to win, because once you turn over the information - that was all you wanted. So why are we still spending taxpayer money on legal fees to fight over something they are turning over anyway. I do not understand that, and maybe I am missing something. Mr. Theriot said that is a question better asked to the commissioner.

Representative Richmond asked how long will it take you to go through the documents and get the information that you need. Mr. Theriot said we are in the process of doing that right now, there were some backup tapes that were given to us that the software driven by the Department of Insurance is incapable of running that we are having some outside sources to do. We are in the process of doing that now and hopefully relatively shortly we will have access to that. Representative Richmond asked if he has all the tapes now. Mr. Theriot said as far as I know, yes. Representative Richmond said so even if you lost the lawsuit you still have the tapes already. Mr. Theriot said yes, again as I said he has provided us complete unfettered access to everything. Representative Richmond said his concern is to probably prepare this record for appeal, one that costs time and money, and for their lawyers and your lawyers to continue to haggle over something you already have the information and the tapes no matter what the court rules. Just seems to me to be a big waste of taxpayer dollars and I think we have a responsibility, and it is not directed towards you, but we have a responsibility to not waste taxpayer money.

Representative Richmond told Chairman Ellington maybe we should inquire about that, and just pick up the phone and call the Insurance Commissioner's office because I do not understand the need to fight if you already turned the information over. The other thing I would say Mr. Theriot, I did not know you before you became a Legislative Auditor but I will tell you I am a big fan as a former chair of this council. You and your staff have been just remarkable in providing information and being diligent about what you are doing and especially in a professional manner, and sometimes you have been too professional, too courteous for people at least, I know some of us can get out there a little bit and you do a very good job of calming us down and following the process through. So I just want to thank you for everything that you have done and wish you the best in your future endeavors, if it is permanent vacation just invite me fishing. Thank you for very much for all that you and your staff have done because you all have been extraordinary.

Representative Kleckley said Steve, I do not know if I can answer Cedric's question or not, but he is appealing this and your issue has been resolved with him, there is not an issue - you got what you need, basically the way you see it you do not need anything else. But now when he appeals this, will this be your attorneys challenging his appeal, or will this be the Attorney General's office challenging the appeal. Ms. Schaye said it is the lawyers that the Louisiana Legislative Auditor retained because remember this lawsuit was not an in general kind of lawsuit, it was based on the 2007 audit of the Department of Insurance, and so that was part of the exceptions that we filed that Judge Hernandez ruled that this was isolated to the particular audit, so the appeal can only go on the record before the District Court for that particular audit. Representative Kleckley said well, you have explained that and that was something that I forgot, but I was just assuming that he was appealing it

because of future - not just his department, because of other departments throughout the state- that would not have to turn information over. Ms. Schaye said that is a good question because he could have amended at the District Court level to say that it is not just for this particular audit year, but more of an in general kind of allegation but the request for declaratory judgment was what it was, and the commissioner did not do that.

Representative Kleckley said I stand in agreement with Cedric on that issue. He continued saying I want to echo what everybody else has said, I have only been on this council for almost two years now, and I have enjoyed working with you Mr. Theriot. You obviously have a good staff, but your accessibility has been number one with me, I mean anytime I have called you whether it was on your cell phone or your phone or whatever, it was no question I got you and you were there to answer whether I would meet with you in your office, or you came meet with me. There was no question, you did it, it was easy access and that as a legislator and an elected official is what I like and I appreciate. And I know Daryl will follow in your footsteps and do a great job and that means a whole lot to me when you can have accessibility like that to somebody, so thank you very much.

Mr. Theriot said well, I thank you and since I have been here the one thing that I have stressed and my staff gets tired of me saying it, is communication. The lack of communication gets more people in trouble than communication, so it may be redundant but I would rather at least have it discussed out front.

Senator Nevers said I want to thank Steve as well. I guess I have never tried to call Steve Theriot that I did not get him, or he returned the call, and you know how important that is Steve to those of us who represent our constituency. Also your staff has been one of the best that I have ever been associated with, and I certainly want to commend you for all that you have contributed to our state. And let me say that you have, in my opinion, saved the taxpayers of this state millions upon millions of dollars through recommendations from your office as well as the findings that your office has brought to us, so thank you very much and I wish you the best in the future.

Senator Nevers said you mentioned the RSD school district and the audit that is coming before us, and in our last meeting Mr. Chairman you were not able to be with us, but I suggested that our meeting that dealt with the RSD school district be held in New Orleans. The reason for that is the majority of that district is within Orleans Parish and there has been a lot of discussion about issues that relate to it and I thought we should go to the place that effects the people the most and that would be in the Orleans area, so I hope you will still consider that as we move forward. Senator Nevers asked Mr. Theriot when the audit would be ready for review. Mr. Theriot said the response is due back Friday, so probably from the time we get it in, and review their responses and process it and get it out it takes about three weeks. Senator Nevers said I know it might be a problem for some members of our council but I think it is important that the people in that region to see that we want to understand exactly what is taking place and be responsible for the dollars we are spending there, so I would hope you will consider that in the future meeting.

Representative Ellington said absolutely, if I am still chairman, but I only have about another month and a little time and then Senator Murray will be the chairman. I am going to practice a little law, Steve, but I was always under the impression that if you paid the attorney fees to the other side, that in essence was saying, I am through. He asked if Mr. Donelon agreed to do that last night, then maybe there is just a little time needed for him to cancel the appeal. Representative Ellington asked am I right or wrong when your side goes ahead and pays the legal fees, that is basically saying that it is over.

Ms. Schaye said most people will do what you said - I think every lawyer would agree to that. Representative Ellington said if you pay them, it schools out, that would just be his intention, I do not know that, but hopefully based on what has been said and the amount being spent and time required that surely that will be the case before it is over. Representative Ellington continued to say, Steve that I have known you a long time, we have worked together and I too had an opportunity to vote for you as Legislative Auditor. He said for those of you that do not know but mine and Steve's relationship goes back. We are visiting friends and we have had some good times together, but I want to compliment you on the job that you have done and the staff that you have assembled and the way you all work with us. He continued saying Steve will return your phone calls and he will call you and come find you if need be so we certainly appreciate the job you have done and I appreciate your friendship even more. Congratulations and give Gwen a hug. I am suspecting she will have you out of house in a little while. Mr. Theriot said it won't be too long.

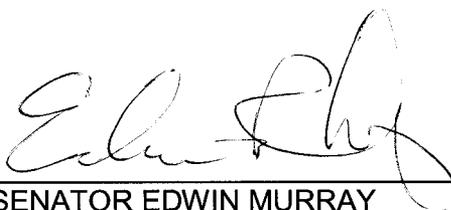
Representative Ellington said the other thing that we need to look at is scheduling another meeting and I do not know what your feelings are but I personally feel like we need to wait until after the first of the year to schedule another meeting. He asked if anybody had a reason for doing something sooner than that.

Senator Murray said he would like to only because when the RSD audit comes out we should hold a meeting sometime after it becomes public. Representative Ellington said January would be after it becomes public, or do you mean sooner. Senator Murray said only because I just will tell you it is a really huge issue in New Orleans, and I do not want to go into a lot of details today but 83% of the local taxes that are derived in Orleans Parish to support public education flows into the RSD and the BESE board gets to spend it. He continued saying there is just a lot of cynicism and suspicion about how those dollars are spent, and if they are being spent in the right way, so that is why I would just encourage that to happen if we could before the end of the year. Representative Ellington said certainly that is an issue in your district and I do not have a problem with that. He suggested waiting to see when it came out rather than trying to schedule another meeting today, so they we would have a date for certain to schedule it. Mr. Purpera said as soon as we know the release date on the RSD report, we will contact you and let you know when that date is so we can plan accordingly for the next meeting.

ADJOURNMENT

There being no further business, Representative Ellington thanked the committee and adjourned the meeting at 12:15 p.m.

APPROVED BY:



SENATOR EDWIN MURRAY
VICE CHAIRMAN



DARYL G. PURPERA
SECRETARY

1/25/2010

DATE