

LEGISLATIVE AUDIT ADVISORY COUNCIL

Minutes of Meeting March 10, 2010

A meeting of the Legislative Audit Advisory Council was held on Monday, March 10, 2010, in Senate Committee Room A on the State Capitol.

CALL TO ORDER AND ROLL CALL

Senator Murray called the meeting to order at 9:50 a.m. A quorum was present with the following members in attendance:

Members Present

Senator Nick Gautreaux
Senator Edwin Murray, Chairman
Senator Ben Nevers
Senator John Smith
Representative Noble Ellington, Vice Chairman
Representative Charles Kleckley
Representative Anthony Ligi

Members Absent

Senator Willie Mount
Representative Neil Abramson
Representative Cedric Richmond

APPROVAL OF MINUTES

Copies of the minutes for the meeting of January 25, 2010, were previously emailed to Council members for review. A motion was made by Representative Ellington that the minutes for January 25, 2010, be approved and with no objections, the motion passed.

HOUSE RESOLUTION NO. 114 – CRESCENT CITY CONNECTION DIVISION

Daryl Purpera, Temporary Legislative Auditor, said his office produced two reports regarding the Crescent City Connection Division which include the financial audit and one responding to the House Resolution 114 (HR 114) of Session 2009.

Paul Pendas, Director of Financial Audit, said the financial report was a special purpose report that they had an unqualified opinion on and did not have any findings on the financial statements which includes parts of the Crescent City Connection Division (CCCD) operations. The second report prepared was based on HR 114 as a request of the House to review certain information, and he proceeded to discuss the contents of the report.

Representative Patrick Connick thanked the legislative auditor for looking into the CCCD and stated that the tolls are set to expire in 2012, and the legislature must decide to extend or end it. Before making that decision, they need to have confidence in the organization. He explained the concerns regarding the 6,000 square foot building expansion and renovations which has cost \$5.20 million so far, which began in 2004 and not complete yet. His concern is what the money was spent for, and if the tolls expire the building may be empty in the future.

Representative Connick explained the problems with the toll bridge traffic and the improvements that were never complete. Representative Connick said by law any tolls collected by the CCCD must be used for the projects of the CCCD, and believes that some funds were used illegally for other projects. When he asked the auditor to review where the money was spent, there was no mention of the LA 1 project in the audit, so he asked that it be addressed.

Representative Connick shared the issue of the 35 man police department which there are usually 19 police cars parked while insurance is being paid. A bill he is introducing in the coming session is to have the state police give oversight to the CCCD police. He said that he had been told that two CCCD police vehicles are being used in Galliano for the LA 1 Project, which is not allowed under the law. He was concerned regarding the insurance policy purchased after Katrina by a no bid contract. He requested that a further in depth audit be done by the Legislative Auditor regarding the expenditures of the CCCD, and in discussion with Mr. Purpera was assured that the auditor will go further. Representative Connick was told by Risk Management when he asked them about the insurance policy on CCCD that it was none of his business. His main point was that if a toll is paid by the citizens of the New Orleans area, they want a good reason to pay the toll and why give more money if not being used properly.

Representative Connick shared an article from the Times Picayune on February 18, 2010, regarding the Attorney General's (AG) issuing of a warrant for JaRoy Construction Inc. in St. Bernard for several allegations of schemes involving the expansion of the CCCD offices. He asked the committee to request the auditor to take a second look for the purpose of seeing where the money was spent.

Senator Murray stated his concern that since the Attorney General's office is investigating the CCCD, of having two agencies with limited resources trying to do the same work. Representative Connick said the AG's office can proceed with their investigation, and the Legislative Auditor can proceed with a further review. Mr. Purpera said they have spoken with the AG's office and are cooperating with them, and providing information to them.

Representative Kleckley asked what the 35 man police force is responsible for. Representative Connick said they are responsible by statute for the ferries, patrolling the bridges, and ensuring the traffic flows, and for the 14 miles around the bridge. He discussed the problem with CCCD not having any real oversight by DOTD, and that the oversight board only has the authority to spend surplus funds, and are supposed to meet quarterly. Representative Kleckley asked how many employees work for the CCCD. Representative Connick said about 240 employees. He explained that tolls collect \$22 million per year, and of that about \$12 million goes to salary and benefits, and the remainder is to run the ferries, which it runs a deficit. He said they also receive \$5 million from the Highway Trust Fund #2 which is going to end soon and the legislature will need to address.

Senator Murray pointed out that the oversight board has no authority. Representative Kleckley asked if the executive directors report directly to the DOTD. Representative Connick said the people are on the board but have nothing to do, and tried to get the board to review the inner working of CCCD and report back to the public, but it was killed in the Senate Transportation Committee.

Representative Ellington questioned the expenses for the renovations and timeline, and if any explanations were provided by CCCD. Representative Connick said the appropriation was made in 2004, and as per the details in the audit \$5.375 million was appropriated for the expansion. Mr. Pendas said the answer given by the CCCD that it was not just the square footage, but the renovations were included in the cost of the project, and the bidders are included in the audit report. Representative Connick asked that the auditor do further digging to get the answers to bring before the Senate so they can make informed decisions. Representative Ellington stated that with the Attorney General's office and Legislative Auditor's office investigating, they should get to the bottom of it.

Representative Ligi commended Representative Connick for his attention to the issue and the positive direction seen. He asked if the audit had deficiencies from the resolution's intents. Representative Connick said that more could have been done, and after discussing with Mr. Purpera they had so much work to do, and may need more people because this is an important issue, and he asked them to refocus. Representative Connick said that the Legislative Auditor has received information contrary to what the DOTD provided earlier. Senator Murray said there are different types of audits done by the Legislative Auditor, and based on information received he will go back with his limited resources to do further work. Representative Connick said the resolution may not have been clear enough.

Senator Smith said he would not want Mr. Purpera's office to be limited because it appears there are issues that need to be quickly viewed, and do not want them to be hindered in their process. Senator Murray said regarding the article mentioning kickbacks, it appears that the AG's office is looking into that. Mr. Purpera said they are involved with the AG's office, and there may be some possible prosecution issues taking place, and the auditor's office does not want to get in the way of that, and will continue to communicate with them. Mr. Purpera said that Representative Connick pointed out some very good points, which they will take those seriously and do further work.

Representative Kleckley questioned who paid for the audit and will pay for the further audit. Mr. Purpera said it will be done out of the general fund appropriation. Representative Kleckley asked if there will be a time that CCCD will pay for the audit. Mr. Purpera said they have two audits taking place- the financial audit is based upon a billing, but for the HR 114 and the continuing work will be done through general fund appropriation. Representative Kleckley said he understands there are different levels of audits, and asked if the next audit of CCCD will be taken to the highest level. Mr. Purpera said in the first audit we provided the information that the HR was requesting, but now there are questions regarding transactions, and his office would do a compliance audit on those issues.

Senator Murray mentioned this issue will be before the Transportation Committee and the House Appropriation Committee and at some point the Senate Finance Committee on the item of expenditures and whether they are appropriate, and he encouraged Representative Connick to follow with those committees since the CCCD is a unit of the DOTD. Senator Murray said the legislative auditor will proceed and if he is unable to get cooperation from CCCD or the responsible parties, the council will invite them before the committee to answer questions. Representative Connick said at the right time may need public hearings so everything can be wide open.

EXTENSION REQUESTS

Ms. Joy Irwin, Director of Advisory Services for the Legislative Auditor's Office, said the lists include the Act 36 Emergency and non-emergency extension requests that are less than 90 days late, and over 90 days late. The extension requests less than 90 days are administratively approved by the legislative auditor, and affirmed by the council. She said the Housing Authorities of Homer and Natchitoches Parish are highlighted because they are late on both 2008 and 2009 audits, and would address them both later in the meeting since the council requested both Housing Authorities as well as the Housing Authority of Slidell to appear before the council.

Representative Ellington moved to approve all extension requests on item #6A, and with no objections they were approved. Ms. Irwin said representatives from the various agencies on the over 90 day non-emergency extension request list have been asked been invited to discuss their extension requests as per the council's previous practice.

Bossier Parish Council on Aging

Ms. Mary Anne Rankin explained their problems with payroll companies including not posting taxes and incorrect postings, which were not found until the audit was started in fall 2009. The auditor hired is working with another accountant to clarify the payroll issues and proceed with the audit shortly.

Senator Murray asked the auditor's office if they feel comfortable with their progress. Representative Ellington made a motion to approve their extension request and with no objections, the motion passed.

Carter Plantation Community Development District

Ms. Tracie Eisworth said they requested a greater extension to May 31, 2010, because Carter Plantation is suffering financial difficulties and had to find the funds to pay the first retainer for the auditor, and had just began the audit. Ms. Eisworth said it is located in Livingston Parish and has a bond issue that is in default, so having the money to pay the auditor has been the issue. Senator Murray asked if there are any outstanding dollars due from the state. Ms. Eisworth said they are funded by a bond issue, and user fees by sewer and water.

Senator Murray asked the legislative auditor if they do not receive any funds, why would they be on the list since the list represents entities receiving funds through HB 1 and HB 2. Ms. Irwin explained that whether or not any money is received by the state, all reports that are late go on the noncompliance list. Senator Murray said he thought it was limited to appropriations from HB1 and HB2, due to the language regarding extensions. Ms. Irwin said the noncompliance list is all agencies that are deficient in reporting to the Legislative Auditor. Ms. Schaye, General Council for the Legislative Auditor, said it changed with Senator Marionneaux's legislation where he made it all agencies that were quasi public, and so that is how it changed and expanded the list. Senator Murray said in respect to all agencies if the council does not approve the request, they have no enforcement to hold up any dollars that they receive.

Ms. Irwin explained that happens at times such as previously discussed about the Housing Authorities because most of their fundings are federal direct, with no money flowing through the state. Senator Murray said so the latest version of this is that it applies to all political subdivisions. Senator Nevers moved to approve the extension request to May 31, 2010, and with no objections, the motion was approved.

New Beginnings Foundation aka Pierre Capdau and Medard Nelson Charter Schools

Dr. Andre Perry, Chief Executive Officer of the New Beginnings Schools Foundation and the Associate Dean for the College of Education at the University of New Orleans, said the delay was caused by a vacancy in the position. Senator Murray said at the last council meeting they had a discussion regarding charter schools' accountability, and if there is anything they could do to have some uniformity and accountability for charter schools to report better in terms of fiscal control.

Dr. Perry said the manpower needed to deal with the number of federal reimbursement grants needs to be reconsidered. If one person is running the shop and if they leave, then that school system is in jeopardy, which occurs all over the place. He said the theft at Langston Hughes was an anomaly from the rest of them, but the lack of robust infrastructure for all of the schools is something the charter community can address as a whole. They see a lot of movement as they develop expertise in those areas, as the employees go to the highest bidder and the others are burned out. Dr. Perry said they have not seen any discrepancies that would suggest any type of malfeasance of any kind, but only experienced a vacancy.

Senator Murray said that Langston Hughes had insurance to cover part of the dollars, and asked if most charter schools have insurance to cover theft. Dr. Perry said after the Langston Hughes incident they reviewed their insurance policies. Most charter management systems have about \$300,000 in insurance to cover theft. Part of the charter application is to show it, but the dropping of it would be a problem. Senator Murray asked if each charter agency has to have a Chief Financial Officer. Dr. Perry

said typically they will have one person as a Business Manager and/or an assistant, but across the state they have to deal with federal and state reporting systems that are causing a log jam in reporting.

Senator Nevers questioned regarding the losses of Langston Hughes, and was told by Dr. Perry that \$300,000 was not covered by insurance. They discussed the insurance coverage needed, and the fact that it was the character of a person, not indicative of leadership of charters.

Mr. Purpera said that his office discussed with Superintendent Pastorek to send auditors and advisors to look at the schools processes and procedures and do training on fraud protection with their schools. Senator Murray said that would be very helpful because many charters operate independently and do not have the resources to help. Senator Nevers suggested that the limits on insurance to protect public funding should be discussed, and the auditor could bring a recommendation to the appropriate committee. Dr. Perry explained that an actuary determines the amount of needed insurance based on probability of occurrence.

Representative Ellington moved to grant the extension request for New Beginnings Foundation to April 30, 2010, and with no objections, the motion was approved.

Southern Hills Business Association

Mr. Purpera explained that he spoke with Mr. John Albritton on numerous occasions and also with Senator Cheek. Unfortunately, Mr. Albritton was unable to attend the meeting, but it was his desire to have an audit to assure himself that he had a good system. Mr. Purpera said after reviewing their level of funding, Southern Hills is only required to provide a compilation, which is a much less than an audit, and Mr. Albritton would have a CPA do a compilation within a few weeks. Mr. Purpera said that Mr. Albritton will still proceed to do an audit for his own information.

Senator Murray said that in his discussions with Senator Cheek that this entity is not required to have an audit, and only a compilation. Representative Ellington moved to grant the extension request for Southern Hills until April 30, and with no objections, the extension was approved.

Bayou Pierre Water System, Inc.

Ms. Irwin explained that Bayou Pierre Water System's initial extension request was greater than 90 days. The water system receives funds from HB 2 and there is a lag in the allocations from HB 2, so the agency was just recently set up. She said that this entity has also not turned in its 6/30/09 report, which an extension request has not been made.

Mr. Roy Payne, President of the Board, said it was a matter of simple ignorance on their part, because it was the first and only time of receiving state funds. They have only a volunteer board and a bookkeeper that handles paperwork monthly. Mr. Payne said by the generosity of the legislature received the funds to upgrade their system to give water to the 475 rural citizens. He explained that he was unaware of their reporting requirements until the Legislative Auditor notified them, and has a CPA ready to start on the audit and expects to have it ready approximately one month after tax season ends.

Senator Murray clarified that they needed extensions for both years. Mr. Payne said that is correct because the funds were received over a two year period. Representative Ellington moved to grant the extensions for the fiscal year end 6/30/2008 and 6/30/2009 until May 21, 2010, and with no objections the extensions were approved.

Act 36 Extension Requests

Ms. Irwin pointed out the Act 36 extension list for less than 90 days, which required to be confirmed by the council. Representative Ellington moved that they grant those extension requests, and with no objections, they were approved. Ms. Irwin moved on to the list of entities with greater than 90 day extension requests under Act 36.

City of Franklin

Mr. Raymond Harris, Jr., Mayor of the City of Franklin, explained that he had hired an accountant in 2009 that did a terrible job of their books causing many problems. In December he rehired the previous CFO and they believe to have their books ready and the audit complete by March 31st. Representative Ellington moved to grant the extension to March 31, 2010, and the motion carried.

Terrebonne Parish Sheriff

Mr. Thomas Lanoux, external CPA for the Terrebonne Parish Sheriff's office, and Ms. Hope Brunet, the Chief Civil Deputy, were present to explain their situation. He explained that Hurricane Gustav caused a great workload on the sheriff's office, and they were able in January 2010 to change to a new general ledger and are approximately 60% complete on the audit. Due to the tax season, and going through a conversion by an actuary on the post retirement benefits, they must have that

information to complete the audit. Senator Smith moved to approve the extension request and with no objections, the motion approved.

Cameron Parish Police Jury

Darrell Williams, the assistant treasurer for Cameron Parish Police Jury, explained that Hurricane Rita, and the massive amount of work and interagency activity created the delay. All of the Project Worksheet (PW) activity went through the police jury, so the reimbursements went to the police jury, but the districts were spending a lot of their own hurricane recovery expenditures. Then after Hurricane Ike, the work greatly increased. He said tracking all the PW's and interagency activity has created the delay. He said he has done all of the schedules and is in the hands of the auditor, which he will do his reviews and intends to have it done by April 30th. Mr. Williams shared that the 2009 audit will not be late.

Representative Kleckley said that Cameron Parish has done an incredible job coming from 2005 to today, and still a lot of work to be done, and made the motion to grant the extension request for Cameron Parish to April 30, 2010. Senator Smith asked if Mr. Williams was comfortable with that date since had already received three extension requests. Representative Ellington commended the people of Cameron people on their resilience. The motion was passed with no objections.

Noncompliant Entities

Mr. Irwin shared that this list of entities are ones continually having problems, and request that the council invite these entities to appear before them for the next council meeting. Representative Ellington moved that these agencies appear at the next council meeting, and with no objection, the motion was approved.

Housing Authorities

Ms. Irwin said in review of the minutes of the last Audit Advisory Council meeting, the council had requested that these entities appear before the council: Housing Authority of Homer, Housing Authority of Natchitoches Parish, and the Housing Authority of Slidell. Senator Murray asked them to explain why their reports are not turned in and when can they expect to receive their audits.

Ms. Theresa Gibson, Executive Director of Natchitoches Parish, explained the problem began with changes in regulations in submission from HUD to the Real Estate Assessment Center (REAC). She said it took about three months for that to clear up, and once that was done, their fee accountants submitted the information to HUD, and of course it was then rejected two or three times, once it was submitted and approved, that was when the auditor began his field work. He finished that and tried to submit, and there were problems with the fee accountant because he did not receive the reports in a timely manner so he states. She said the auditor has still not submitted to the REAC, but assured her the day before that all the paperwork is done and is ready to submit. She was told by the auditor that he has the fieldwork done for 2009, and once he submits 2008, then he can submit 2009, and believes he will have it complete within two weeks.

Michelle Brown, representing the Homer Housing Authority, said the same is true regarding their Housing Authority, and they share the same auditor who assured her that their 2008 should be ready. She said that the auditor wrote them up on a lot on the 2008 audit, and she had to put together a corrective action plan. The auditor told her that he would submit it, and regarding the 2009 audit, the auditor informed Ms. Brown that he will not be able to perform her 2009 audit, even though he was engaged to do it. She said she is in the process of finding another auditor for the 2009 audit, which is very difficult at the last minute. Senator Murray asked how long before they could expect the 2008 audit. Ms. Brown said the auditor was sending it to the fee accountant and hoping to have it complete within two weeks. Senator Murray asked if the engaged auditor had told her that he cannot do it. Ms. Brown said that is correct, she was just told on Monday.

Paul Andoh, CPA with Bruno & Tervalon, LLP, and the auditor for the Housing Authority of Slidell said he was not representing the entity. Mr. Andoh said he spoke with Marvin Butler, Executive Director, on Monday who was currently in Kansas City on a personal family emergency. Mr. Andoh said he was not sure when he was due back. Mr. Andoh said part of the challenge that the Housing Authority encountered is they lost 50% of their houses, so strained in term of resources. He said that also impacted their level of capacity necessary to assist his office in completing the audit. They began in late January drafting financial statements. Mr. Andoh said they are drafting the report based on where they are and sending with necessary opinion modifications. He said in speaking with the Legislative Auditor, anticipating possibly by April to get it in, in light of Mr. Butler's situation. Senator Murray told the attendees that they appreciated their appearance, and told them it is important to get the audits in, and asked Mr. Purpera if necessary to get them back again, which he agreed.

Charter Schools

Senator Murray introduced Mr. Jerome Smith from New Orleans to discuss charter schools. Mr. Smith representing a project called Balls and Books which is a recreational program and connects to education because every member on the team has a library card. Mr. Smith said that charter schools are

good when there is excellent performance. He said across from their center (Treme Community Center) is the Craig School (Joseph A. Craig Elementary School) and recently Paul Vallas, Superintendent of Recovery School District (RSD), intends to turn over the Craig School over to Front Line to become a charter school. A letter he received from the Department of Education rating the Front Line group showed to have lower scores than the Craig School that they are taking over. He shared the issues with the long travel time for the students, and the traumatic effects on the children from Katrina. Mr. Smith said that Mr. Vallas displayed serious insensitivity by RSD changing the school administration, and issues of socialization of the children. In his meeting with Mr. Vallas, he discussed the difficulties in transition to review a time frame, and his concerns for children being negatively affected.

Senator Murray stated the issue of charter schools in terms of audit perspective may have to be addressed this session. He asked Mr. Smith to summarize the issue about Craig School and the selection process of how it is going to a charter, and any input from the community. Mr. Smith said there was no input from the community, and they were not given expanded options. He said in the three meetings with Mr. Vallas that he lied repeatedly to him, and would only advocate one external manager without looking at other options. Mr. Smith said the school opened up within the month, and he had pleaded with them, because of the millions of dollars spent on the renovations, but has seen signs of deterioration and lack of upkeep.

Senator Murray said there are many charters in New Orleans where money is spent on buildings that are turned over to private charter agencies without any requirements for maintenance on the buildings, and without community input. He said besides discussing the fiscal operations of charters, he wanted to make the point regarding the education of children.

Mr. Smith said there is no real oversight for charter schools, and if they compromise children in special education just to deal with a slogan than they are guilty of something criminal. He commented that there are some fine charters, so this is not a wholesale criticism, but in terms of Craig School, we need time, and serious oversight in terms of the arrangement.

Senator Nevers agreed that early childhood development is the key, and the head start programs try to help at risk children as early as possible, but still have a long way to go to meet all the needs. Senator Nevers said just prior to their meeting in New Orleans, BESE held a board meeting in New Orleans, asking if Mr. Smith had the opportunity to address them. Mr. Smith said he was out of town. Senator Nevers said he may want to ask BESE to come back to address those issues. He said input from the committee is very important, because the foundation of this country was based upon faith based community in our school system, and this has been dismantled in many areas.

Mr. Jerome Smith said children come into Craig School at least twice a month from other parts of the country. However, the charter school does not have that difficulty, they just turn youngsters away, and then they get a shiny showcase, and reiterated that it all needed to be examined with a great degree of efficiency. Senator Nevers said he will see an examination of the successes and failures, and his concern is the long bus rides. Senator Murray said the Recovery School District has the idea that all of the schools should be city wide access, so the buses are crisscrossing all over the city which is not just bad for the kids, but the cost is high too. Senator Nevers said that it is costing dearly from an educational standpoint to put a child on a school bus three hours and twenty minutes in a day, especially when talking about young children.

HORSEMEN'S BENEVOLENT PROTECTION ASSOCIATION

Mr. Purpera said his office attempted to do an audit of certain funds going to the Horsemen's Benevolent Protection Association (HBPA). According to the law the auditor has very specific authority to audit the bookkeeper account, and they wanted to extend the audit to also some other funds that they believe should be in the bookkeeper account, that are statutorily set aside for the HBPA. Upon attempting to conduct the audit, the HBPA made the decision that the auditor's office was not allowed to look at those particular books and records, so they have filed a lawsuit against the Legislative Auditor's office.

Senator Murray introduced former member of the House, Mr. Arthur Morrell, who currently works as a clerk of court in New Orleans and is also a member of HBPA. Senator Murray asked Mr. Morrell to testify regarding the HBPA. Senator Nevers made the motion to put this item on the agenda, and the agenda was amended to include HBPA.

Mr. Morrell said after leaving the legislature three years prior, he felt that it was important to express his concern about HBPA. He said he supports an audit by the state auditor, and the reason why was when he was a member of the HPBA board he tried to see documents and was denied access. Since then he had gone to court to get a court order to look at documents, but unable to see some documents due to an ongoing federal investigation. Mr. Morrell said he had seen documents that are contrary to the bylaws of the HBPA. One in particular is that the president is receiving salary of \$2,000 a week which the bylaws state that cannot happen. He stated that he personally saw credit card receipts showing the president used his HPBA American Express card in the eight month period for approximately \$300,000 for shoes and other items. He said it is a problem when HBPA bylaws state

specifically that no board member receive any compensation other than for expenses in the business they are doing. He said he would like to find out where the horsemen's money is being spent.

Mr. Morrell said he has seen checks written to a construction company that repaired the main office totaling \$700,000, and 90% of the checks were written and signed by the president only. He said that HBPA mandates two signatures to be on the checks and that is not happening. Just recently in the Times Picayune newspaper it was disclosed that some money from the hurricane relief fund that was supposedly given to a person, was actually paid to someone to put a sound system in the president's house. He expressed concern because the legislature gave the horsemen the authority to receive money from the race tracks and various types of activities – video poker, slot machines, simulcast. Currently there is one board member presently serving who is also asking the same thing, but he has been denied an answer. Senator Murray said that the auditor will consider the information given and move forward through the litigation, and would address this issue and put on the agenda again.

Senator Gautreaux asked Mr. Morrell if the money that he was talking about came out of the bookkeeper account. Mr. Morrell said it came out of the operating account for the HBPA. Senator Gautreaux asked Mr. Purpera if the independent auditors LaPorte was on the approved list. Mr. Purpera said yes, they are. Senator Gautreaux asked Mr. Morrell if he had filed a lawsuit in the past two years with these similar allegations. Mr. Morrell said there have been a few lawsuits and it could have been his or someone else's.

Senator Gautreaux said his understanding is that when auditors hear there is a pending lawsuit concerning something they actually go in and look for those particular issues. Mr. Purpera said auditing standards would require them to consider those types of information and base their audit upon that. Senator Gautreaux said maybe they could contact LaPorte to ask if they had heard those allegations, and ask if they did look into it when doing the audit, or if they were not aware of them.

Mr. Purpera said there are several audits taking place, first the bookkeeper account is audited by LaPorte, and they provide that audit to his office. There are about four other organizations that he does not see the audits of those, but is informed that they are audited by LaPorte.

Senator Gautreaux asked of those, are the insurance ones ordered by the insurance department. Mr. Purpera said the insurance one is audited by the insurance department. Senator Gautreaux asked would it be of those four, two of those are actually audited by insurance. Mr. Purpera said the insurance audit is for a different purpose, it is not a financial statement audit. Senator Gautreaux asked if they would do fraud or forensic auditing when they do an insurance audit. Mr. Purpera said he could not answer that.

Senator Murray asked Mr. Morrell to give the information to the auditor and they would follow up on it in the course of their work with HBPA. Mr. Morrell said he had read the audit and it is not an audit - it is a balance sheet.

LOUISIANA CITIZENS PROPERTY INSURANCE AUDIT

Mr. Purpera said at the last meeting the council asked that he bring the last audit done on Citizens and for a summary of five previous performance audits. Ms. Kerry Fitzgerald, LLA Chief Administrative Officer, reviewed several of the five performance audits and informational reports conducted by the Performance Audit Division of the LLA released from 2006 - 2009 which assessed Citizens' rate assessment, rate setting, and issues in their calculations.

Mr. Paul Pendas stated that the former Legislative Auditor decided that because Citizens Insurance was in the state's financial statements and critical to the state, that LLA would do the audit of year ended 12/31/2008. The auditor's office performed the financial audit with the result that they could not render an opinion on the financial statements due to inadequacies in their informational systems and controls, deficiencies in Citizens' processes to develop loss liabilities, lack of control over service providers, receivables, other financial statement information and other findings as outlined in Exhibit B in the financial audit released. Mr. Pendas explained the historical facts and problems found in Citizens systems and verified to Representative Kleckley that no fraud was found.

Mr. Pendas discussed in detail the following findings as detailed in Exhibit B of the financial audit:

- Lack of controls over administering and monitoring user access (pages 1-3)
- Lack of monitoring over service providers (pages 3-5)
- Inadequate loss reserve development process (pages 5-10)
- Noncompliance with state eligibility requirements (page 10)
- Uncertainty in premiums receivable (page 10-12)
- Inaccurate and incomplete annual fiscal report (pages 12-14)
- December 1008 rate-filing did not comply with state law (pages 15-16)
- Noncompliance with policy take-out program requirements (pages 16-18)
- Inaccurate calculations of emergency assessments on premium changes (pages 18-19)
- Lack of internal audit function (page19)
- Inadequate program/system change controls (pages 19-21)
- Inadequate controls for securing and monitoring systems (pages 21-22)

- Lack of contracts for information technology services (pages 22-23)
- Inadequate documentation of information systems (pages 23-25)
- Lack of information technology policies and procedures (pages 25-26)

Mr. John Wortman, Chief Executive Officer for Louisiana Citizens Property, stated he began April 23, 2007. He shared some history of the Citizens Insurance creation. He stated that after outside and internal investigations were done regarding the problems with their old system, they decided to replace the system. Citizens awarded the Request for Proposal (RFP) to a company out of Florida called Westpoint to build the system, and their goal is to implement by year end or first of new year. They had begun quoting on the new system for new policies in February 2010, effective March 1st and subsequent, and renewals effective April 1st, and will be completely on the new system within a year, with hopes to turn off Louisiana Plans Management System (LPMS) in April 2011. Representative Kleckley said the reason is because if they turned it off now all the manpower required to shift everything. Mr. Wortman said he had never seen it work to convert it all at once.

Senator Murray questioned the process used to depopulate Citizens. Mr. Pendas said it was to be done in bundles of 500 policies with both Coastal and Fair policies and explained the legal requirements and where it deviated from the most current law. Senator Murray summarized that Citizens allowed the private insurance companies to choose the policies they wanted out of all of their policies, rather than bundling the high and low risk together.

Senator Nevers said the incentive program was meant to force companies that take incentives to take 25% of the book, would be a fair amount of the risk associated with the policies, but that did not happen. Mr. Wortman said their goal was to depopulate the book, and thinks they did a pretty good job of it. Senator Nevers said they probably depopulated the book with the lowest risk on the books. Mr. Wortman said absolutely, but still reduces our exposure to assessment, and kept the highest risk as they should, since that is the purpose of the market of last resort to take the stuff that the private sector will not take. Senator Nevers said they should take some of it, since the incentive program was for them to take 25% of business from Citizens it would be some average at risk factor plugged in, but they went through and took whatever they wanted to.

Mr. Pendas said the reason for the finding was because they did not bundle the good and bad, just open the book. Senator Murray said it was supposed to be a mix, not just take the best policies, because that is not really spreading the risk around. Senator Gautreaux said his problem is that they have increased risk because only the bad ones. Mr. Wortman said the premiums should go with the risk. Mr. Wortman explained Citizens' new system will be owned by Citizens and cost less than \$3 million, which would be recouped by savings on printings and mailings. Senator Nevers asked if the auditor agreed with the savings. Mr. Purpera said they will be evaluating the new system during the 2010 audit which will be performed by an LLA approved independent CPA firm, overseen by the LLA.

Mr. Purpera discussed the cost and billing for the audit performed by the LLA of Citizens. Jerry Carlisle, Chairman of the Audit Committee since December 2009 and Citizens board member since August 2009, said the audit committee will meet quarterly and take the deficiencies seriously, and review how the company is correcting those. Mr. Carlisle expressed his disagreement with LLA's billing for the audit performed for year ending 2008, since another proposal was received for less. Senator Murray asked if the scope of the audit proposed by LaPorte was on the level of the scope of what the LLA requires. Mr. Carlisle said he would need to ask the Legislative Auditor, and as far as he was concerned LaPorte had all the competence to do the audit.

Mr. Wortman shared history on the work involved and process of having the 2005-2007 income statements qualified as a result of not being able to do a management letter, but the balance sheet for 2007 was unqualified as they were able to do a management letter.

Senator Nevers asked the number of hours estimated by LaPorte to do the audit compared to the auditor's, and having been through the process so often, many of the problems with Citizens would not have happened if accurate audits had been done and presented to the council. Senator Nevers pointed out the \$15 million computer system that was going to be scrapped was not owned by Citizens. He said we want to be sure that we are getting what we paid for, and respect your fiduciary concerns, but as we weigh if the audits are comparable - must compare the number of hours used, and documents produced.

Mr. Carlisle said collectively what they are questioning if LaPorte would have given a professional audit for 2008, and they are approved and made all the requirements to do audits. Senator Murray said LaPorte does great work, but questioned the scope of the audits. He said if the audits had been done properly, may not have to do this huge bond issue because one big thing that came out was Citizens did not have the proper reinsurance at the time of the hurricanes hit. They could have possibly avoided the huge bond issue which is still paid for today by those not insured by Citizens.

Representative Kleckley said he did not think it mattered what kind of audit was done in 2005-2006, that still would not have prevented from having an assessment, because Citizens did not have the reserves to pay the claims due to Katrina. Representative Kleckley commended Mr. Carlisle's audit advisory committee for addressing these issues and looking at the deficiencies and plans to address those. He said the scope of what was done by the auditor was greater than LaPorte did, as seen from

the findings, and that is a good thing. He explained that the rub comes with the board for the \$480,000 bill that they were handed and did not have any opportunity to say yes or no. The board felt their fiduciary responsibility was to at least have the opportunity to negotiate. The reserves were strong in Gustav and Ike, and no emergency assessments needed due to high reserves, and want to be prepared for the future. Representative Kleckley said it is now in the past and moving forward in the right direction, but the issue is on how it was done.

Senator Murray said he did not know that anyone else negotiates when the auditor sends a bill for their costs, and does not know why Citizens should be treated differently, unless they want to go back and say they are private, but believes they are past that issue. Senator Gautreaux stated that the differences between the audit, as seen with other companies with clean audits, is that LLA digs deeper.

Mr. Wortman said that no one in the world would have had enough reinsurance after Katrina. Senator Gautreaux said an in depth audit would have helped if done previously. Mr. Carlisle said he would ask Mr. Purpera if he agreed to the amount of reinsurance by Citizens, and answered Senator Murray that he believed Citizens had enough. However, Mr. Wortman expressed his opinion that more would be better. They discussed the amount of reinsurance and if an audit would reveal the answers to their questions. Mr. Wortman said Citizens pays about \$65 million for \$400 million worth of reinsurance, which is about 15%, lowering their exposure.

Senator Murray questioned the depopulation process and statistics. Mr. Wortman said a little over 10% came out of the Coastal Plan, so geographically it was balanced with their premium. He explained more about their depopulation coming up in 2010. Senator Murray asked Mr. Wortman to provide the number of policies that the depopulation is happening at, particularly in New Orleans, to see what is happening in that market. Mr. Wortman said he has a breakdown by parish as to which companies took which business out of which parish, including the numbers. Senator Murray said to send it to the committee or the auditor.

Senator Murray asked if Mr. Wortman expected some resolution to the bill sent by the LLA to Citizens, and what he expects to pay. Mr. Wortman stated that one of the responsibilities to the audit committee is to ask the Legislative Auditor to give more back up data, like how many hours by which kind of function, since he only had an invoice. He said their audit committee meeting will take it to the full board. Senator Murray asked if the back up data shows to be more than \$480,000, based on the number of hours, will they pay that higher amount. Mr. Wortman said he is sure the hours is greater because he saw some place that estimated hours were 6,000, and billed at \$95/ hour rate, so that would be around \$600,000. Senator Murray said then why would he ask for back up then, if just a delay and busy work. Mr. Wortman said he had not seen it, only heard it, and believes they need a detailed invoice.

Mr. Carlisle asked the auditor if they had done a lot of compliance work as part of this financial audit. He said the legislative auditor is given money to do compliance work for state agencies by the legislature, and does not charge for compliance work, only for financial audits and that was what LaPorte bid for \$120,000.

Senator Murray said no other agency in state government gets to negotiate their bill, when the auditor says this is the bill that is what they pay. Mr. Carlisle said basically the statutory authority of the legislative auditor usurps his fiduciary responsibility as a board member and he has a problem with that. He stated that if the board or audit committee is not going to perform to get rid of them, but that they are taking away his fiduciary duty to the stakeholders of Citizens. Senator Murray said he would not debate that with him.

Mr. Carlisle discussed the process for the use of an independent auditor and that it is the responsibility of the audit committee to ensure the CPA firm performs. Senator Murray asked if this is the first public body that Mr. Carlisle has served on, and explained that this works differently because a public entity. Mr. Carlisle questioned who determines that Citizens is included in the comprehensive annual financial report, and where is the requirement that they are part of it.

Mr. Purpera said it is a full scope audit, a GAGAS- Generally Accepted Governmental Accounting Standards audit regardless of whether his office, LaPorte or someone else does it- it has to be done according to these standards. Mr. Purpera explained that when the legislative auditor does work, they have the ability to do in strict compliance with the standards, and also have the ability from a professional judgment perspective if necessary to go more in depth in other areas. Citizens IT controls was viewed as a major problem by the auditors, which is the reason for the many findings. It is still a major problem because to end up with good financial records, you must start off with a good system to get there.

Mr. Purpera said it is the LLA's responsibility to decide who does the audit, it is not the audit committee, not Citizens' - it is the legislative auditor's responsibility. It is included in the comprehensive annual financial report of the state because of the standards by which that report is put together. The Division of Administration goes by the same standards as we do, so they make the decision that it is going to be included or not. Now understand if the Commissioner decided that Citizens would not be included the CAFR and the legislative auditor believes that in accordance with GASB 14 it should be included, then that is going to effect the opinion that we would have on the state's financial statements. Therefore, the Commissioner of Administration has decided for the last two years to place Citizens within

the State of Louisiana. As far as the billing, the process just talked about the LLA receiving the funds and then paying the auditor - that is what is in the law and the reason proceeding as such.

Mr. Purpera said Citizens audit cost was estimated by Mr. Theriot to be \$480,000, based upon the estimate and could have come in at \$200,000, or \$120,000, or \$800,000, all depending on the number of hours spent to do that audit, and is up to the professional judgment of the auditors doing the work. He said they did not charge this entity any more per hour than charged to any other entity, and it is computed on a very complex procedure and is the same for all.

Mr. Purpera said he would differ with the comments made that excessive cost results in increased rates. He believes that an audit pays for itself, and if you do a good audit, then will be able to correct problems today so they do not reoccur tomorrow and in the end be better off. Mr. Purpera explained the reason their costs were increasing was because of bad systems. If Citizens did not have bad systems their audit would have been done quicker and less expensively, so it was not the cost of the audit that caused their rates to go up. Mr. Purpera said from LLA's perspective the LaPorte firm does a great job and they have a good relationship with that firm. In this particular situation, Mr. Theriot decided and it was his responsibility as the legislative auditor to decide that he wanted to do the audit, not the audit committee's, and that is just the way it is.

Senator Murray said LaPorte could not take the engagement unless the auditor approved it, even if Citizens wanted to use them - that is the reason the auditor has to approve the engagement to make sure of the scope. Mr. Purpera said that is what the law is, and his auditors wanted to give Citizens a road map for success in the future, and they believe they have done that by these findings which laid out a lot of problems. As they address these problems it will make them better in the future.

Representative Kleckley asked Mr. Purpera for an explanation of the funding for the CCCD audit and the Citizens audit. Mr. Purpera said his office is budgeted some by general funds, and allocate some costs to various agencies, and also bill certain audits. CCCD is a full scope financial audit and done because of their bonds, thus they do not allocate costs to them, but actually bill them, and they are included in the CAFR, very much like Citizens. Mr. Purpera explained that the other work for House Resolution 114 was done using general fund money received from the legislature. Representative Kleckley asked if the second audit of CCCD will be billed. Mr. Purpera said this is an extension of HR 114 since Representative Connick expressed that they fully met the HR 114, so it will do that under the general fund. This situation is different because it is a billed audit, and it is part of the CAFR. LLA's compliance division is financed through general funding, but the GAGAS requires that some compliance work is done since it is required by the standards of a full scope audit.

Senator Murray said if LaPorte had performed this audit and found the same things, they could have done the additional work and billed for it. Mr. Carlisle said LaPorte did the audits for 2005-2007, and knew what they were getting into and not a situation where they had not seen it. Senator Murray said the auditor must approve the engagements and scope of what needs to be done and pointed out that Mr. Carlisle was new to this.

Mr. Purpera said he will work with the auditor that is selected who will have access to their work papers and staff, so that work done already does not have to be redone so it will reduce the cost for Citizens in the future. Senator Murray said they will wait to see what Citizens decides to pay the auditor and this may be back on the agenda. Mr. Carlisle asked their options and if Citizens could pay a lesser amount. Representative Kleckley said they are all professionals and the fact is the audit was complete and giving some areas to work on, and Mr. Carlisle will be meeting quarterly to be sure these deficiencies are resolved and move forward to make this the best company as far as residual insurance market is concerned. Mr. Purpera explained that the way that the office is funded, if Citizens does not pay for the cost, and no doubt the cost was more than the billed \$480,000, it will affect all agencies across the board.

CITY OF NEW ORLEANS

Mr. Purpera said that his office was contacted a few weeks ago by Doug Thornton and already met with them. The transition team specifically asked for advisory service in areas of city finances and services. The auditors are meeting with them and will continue to meet with them, and have expressed to them that they must maintain independence so cannot become a member of the team. Mr. Purpera told the council that his compliance auditors have been in the city for some time and will be there to give them value. Senator Murray said it is along the same lines as the auditor's office is doing with Jefferson Parish to get a snapshot of what is there, and make recommendations and help things move smoothly.

UPDATE ON KATRINA COTTAGES PROGRESS

Senator Murray said the council had requested of Mr. Jacobs in advance of the meeting, and no one had a chance to review the report. Ms. Robin Keegan, Executive Director with the Louisiana Recovery Authority, said they will set a policy that the council will receive the report five days in advance of the meeting to allow members time to review the information to have a productive conversation. Senator Murray said many members have questions about this program, about why it cost so much, and taking so long.

Mr. Patrick Goldsmith, LLA Performance Manager, pointed out to the council that they have a copy of the standard update, the sixth one and another one titled Louisiana Alternative Housing Pilot Program Update to Legislative Audit Advisory Committee in their folders. He suggested walking through Representative Abramson's request which resulted in these reports. Mr. Goldsmith said after the auditor's performance audit was issued in March 2009, Representative Abramson sent a letter to the LRA for the first week of each month to provide five items including: updates on the environmental approval, the construction starts, the cooperative endeavor agreements, the occupancy plan, which is whether formal protocol had been developed, and the occupancy of the cottages. Some items are addressed, some are not as clear.

Senator Murray said being as Representative Abramson was not present, and at some time during the session the council will have a meeting, they hope to get the information prior to the meeting. Senator Nevers suggested that if the council does not have the information five days before their next meeting that they write the Governor and ask to replace the people over this program. Senator Nevers said he would make that motion at the next meeting. He said they are tired of playing around about this information. Senator Nevers pointed out that Mr. Jacobs told the council at their last meeting in New Orleans that he apologized for not having the information to the council and it was no use for them to be there. Ms. Keegan said they will get the information to Senator Nevers.

Mr. Goldsmith said they also recommended to ask the LRA to specifically address those five items would also help facilitate those items. Ms. Keegan said they would revise it to those five items. Mr. Jacobs asked the council to let him know anything else they would like to know because most of the issues that they pointed to were not amongst those that were requested in the letter but there was a lot of issues about costs and timings.

Senator Murray said because of the timing is the reason it continues being on the agenda, and it was on the agenda for the last meeting. Senator Murray pointed out that when Mr. Jacobs was at the table discussing what had been sent to the council, but no one had received it, and he assured them that they would receive it in advance of the next meeting. He said this council has met on this issue numerous times and the information is not as forthcoming as it should be, and when they ask for it, expect to have it. Senator Gautreaux said to include everything pertinent because the more information the better – good and bad. The council discussed the LRA meeting scheduled on the next day.

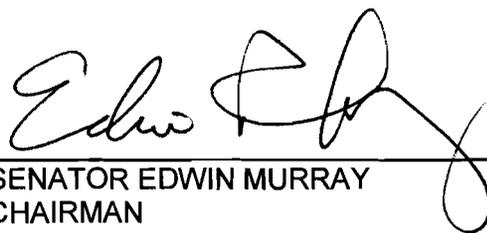
OTHER BUSINESS

Mr. Purpera said to give an update on Jefferson Parish from the last meeting that the auditor's office was working there. He said regarding the Louisiana High School Athletic Association that they were doing the audit currently and it was going smoother.

ADJOURNMENT

There being no further business, Senator Gautreaux made the motion to adjourn. Senator Murray adjourned the meeting at 2:46 p.m.

APPROVED BY:



SENATOR EDWIN MURRAY
CHAIRMAN



DARYL G. PURPERA
SECRETARY

6-29-10
DATE