

LEGISLATIVE AUDIT ADVISORY COUNCIL

Minutes of Meeting March 20, 2008

A meeting of the Legislative Audit Advisory Council was held on Thursday, March 20, 2008, in the John Hainkel Room of the State Capitol Building in Baton Rouge, Louisiana.

CALL TO ORDER AND ROLL CALL

Senator Ed Murray called the meeting to order at 9:10 a.m. A quorum was present with the following members in attendance:

Members Present

Senator Nick Gautreaux
Senator Ed Murray
Senator Ben Nevers
Representative Neil Abramson
Representative Noble Ellington
Representative Charles Kleckley
Representative Anthony Ligi
Representative Cedric Richmond

Members Absent

Senator Willie Mount

APPROVAL OF MINUTES

Copies of the minutes for the meeting of January 9, 2008, were previously faxed to Council members for review. A motion was made by Senator Nevers that the minutes for January 9, 2008, be approved as read. The motion passed without objection.

HB 1 AND 2 EXTENSION REQUESTS

Senator Murray welcomed the new members to the Council and explained the extension request process for their benefit. Ms. Joy Irwin, Director of Advisory Services for the Legislative Auditor's Office, explained the procedures used by the Legislative Auditor's Office, and adopted by the Council, in approving audit extension requests. First requests for an extension are approved by the Legislative Auditor, subject to confirmation by the Council. Agencies requesting a second extension must be approved by the Council. Those agencies that have requested extension requests for their audit for the first time are: Avoyelles Parish School Board, Cameron Parish School Board, Claiborne Parish School Board, City of Kenner, City of Springhill, City of Tallulah, Town of Clayton, Town of Ferriday, Town of Gramercy, Town of Mooringsport, Town of Newellton, Town of Vidalia, DeSoto Parish Emergency Medical Services, Grant Parish Clerk of Court, North Delta Regional Planning & Development District, Housing Authority of Jefferson Parish, Housing Authority of New Orleans, Associated Hospital Services, Acadiana Arts Council, Children's Bureau of New Orleans, Family Service of Greater New Orleans, HAMPCO, KRVS-FM Radio, Le Petit Theatre du Vieux Carre, New Orleans Computer Technology Village, Serenity 67 Programs, Tangipahoa Economic Development Foundation, and Youth Services of Southwest Louisiana. Ms. Irwin noted that many of these agencies have already submitted their audit reports and are in compliance with the audit law. She made the recommendation that the Council confirm these first time requests.

A motion was made by Senator Nevers that the Council confirm the approval of those agencies requesting extensions for the first time. The motion passed without objection.

The following persons were present to explain their reason for requesting a second extension request for their audits:

Mayor Hiram Copeland, City of Vidalia – requesting extension until April 30, 2008
Peter Lopez, Controller, Housing Authority of New Orleans – requesting extension until
May 15, 2008
Duris Holmes, President, Ben Franklin Charter School – requesting extension until
April 30, 2008
Kathy Jones, Business Manager, Madison Parish School Board; and Louis Bradley,
CPA – requesting extension until June 30, 2008

Mayor Deano Thornton, City of Winnfield – requesting extension until May 10, 2008
Marcy Wade, Comptroller, City of Westlake – requesting extension until March 31, 2008
Soundra Temple, Executive Director, Louisiana Health & Rehab Center and Louisiana Health & Rehab Options; and Alfred Williams, Attorney – requesting extension until May 15, 2008
Terry Simmons, Executive Director, Career Builders of Louisiana – requesting extension until May 15, 2008
Vandale Thomas, CPA, Paillet, Meunier & LeBlanc, representing Associated Hospital Services, Inc. – requesting extension until March 21, 2008
Peggy Shemwell, Community Support Programs – requesting extension until June 30, 2008
Dr. Andre Perry, CEO, and Fitzpatrick Nedd, CFO, of New Beginnings Schools – requesting extension until May 30, 2008

A motion was made by Senator Nevers that the Council approve the extension requests for all those agencies who had representatives present to explain their need for an extension and that the Council reject those entities' requests that did not bother to send a representative to explain their circumstances to the Council. The motion passed without objection.

Senator Murray requested that staff contact the entities who did not have representation at the meeting today to advise them that they will be placed on the agenda for the next meeting and that they should have a representative present if they wish to be considered for an extension request. Those entities include: Plaquemines Parish School Board, Town of Simmesport, Family Service of Greater New Orleans, Louisiana Community Developers, Inc. and Restoration Center, Inc.

LEGISLATIVE AUDITOR'S BUDGET REQUEST FOR 2008-09 AND NEW BUILDING FOR LEGISLATIVE AUDITOR'S OFFICE

Mr. Steve Theriot, Legislative Auditor, presented the 2008-09 budget request for his office to the Council. Mr. Theriot said the budget request includes a \$2.6 million increase over last year's budget, with the majority of the increase coming from self-generated funds. The budget provides for an additional 16 employees, which are needed as a result of the breadth of the federal dollars coming through and the other areas of activity that the office has been engaged in that has been a strain on personnel. Mr. Theriot explained that, as the work in the recovery effort lessens, the office always has positions open through resignations and retirements that those auditors can be placed in. Another cost involves hiring an outside actuary firm to assist the current actuary in the preparation of actuarial notes for the Legislature and because of new standards that have been imposed upon the actuary as a result of the post-retirement benefits program. The actuary firm is also being used in the audit of Citizens and the Department of Insurance. Mr. Theriot provided a spreadsheet that projects the budget of the Legislative Auditor's Office through the year 2013. He said there will be a large expenditure in the future incurred as a result of rental payments. The Office of Facility Planning is constructing a new building on the site of where the old Insurance Building was located, which is supposed to house the Legislative Auditor's Office. The budget for this year and next year includes \$175,000 for rental of additional office space in the Galvez Building because the present space in the First Circuit Court of Appeal building is not sufficient for the number of staff working in the building. Senator Murray added that the First Circuit Court of Appeal has asked the Legislative Auditor to move out of the building because the Court needs the space. He said even though the new building will be a state building, the Legislative Auditor will have to pay rent.

A motion was made by Senator Nevers that the Council approve the Legislative Auditor's budget request for 2008-09. The motion passed without objection.

LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION UPDATE AND DEPARTMENT OF INSURANCE LAWSUIT UPDATE

Mr. Theriot said an RFP was put out for a CPA firm to conduct the audit of Citizens for the 2005-2006 year. A firm was chosen and they are going into Citizens now to look at the Data Mark, which is what was confected to try to extrapolate the data from the accounting system. An actuary was also hired to help determine what exposure Citizens has for the claims. In doing so, another problem was uncovered relating to the miscoding of claims between Hurricanes Rita and Katrina. The CEO, Mr. Wortman, brought in some key personnel because up until the Legislative Auditor began the work at Citizens, Citizens had no employees. PIAL employees were performing the administrative functions and acting as a third-party administrator running Citizens. Citizens is in the process of transferring to itself employees who were employed by PIAL and who were actually administering Citizens. Citizens is hoping to

complete the transfer of employees by the end of this month. Citizens is also having to separate the computer system and phone system from PIAL so that their operations can be independent from PIAL.

Mr. Theriot said there was litigation between PIAL and Citizens, along with the software vendor who developed the software package that was a major root of the problem. The Attorney General has hired an outside law firm to represent the state in this process. Senator Murray added that a grand jury has been impaneled regarding this issue and is still ongoing.

Mr. Theriot informed the Council that the Legislative Auditor will be issuing two additional reports regarding Citizens, one relating to a more in-depth review of expenditures. He said Citizens has been basing their rates primarily on operational information that occurred as of 2004. There was no current information about operations of costs to the policy holders of the state. Once that happens, Citizens will have to pass on assessments to the rate payers. Mr. Theriot said in addition to the fact that the books were in a mess, the bank reconciliations had not been done for two years. The Commissioner of Insurance had his insolvency group to look at the records and it was discovered that there was approximately \$140 million of premiums that had not been booked into the system.

Mr. Theriot gave the Council some background information regarding the lawsuit between his office and the Department of Insurance. He said, as of yesterday, his office and the Department of Insurance finally resolved this matter and a confidentiality agreement has been signed that will allow the Legislative Auditor's Office to complete their audit of the Department of Insurance. Mr. Theriot made a request that the Council, along with himself, rescind the subpoena that was previously issued.

A motion was made by Representative Ellington that the Council recall the subpoena previously issued regarding the Department of Insurance's records. The motion passed without objection.

Senator Gautreaux asked if the Legislative Auditor's Office is tracking the new state initiative where money is given to insurance companies to come in and take part of Citizens. Mr. Theriot said his office is not doing that as of yet. Senator Murray suggested that the Legislative Auditor can do that during the audit process to make sure that program is going the way it is supposed to be going and bring that information to the Council at a later date. Senator Gautreaux said it is his understanding, based on information he has, that all the good risk is being taken. He said he wants to make sure that some of the moderate risk and low risk is also being compounded in there with the good risk.

Senator Nevers asked who makes the decision about which employees are transferred to Citizens from PIAL. Mr. Theriot said he believes the decision came from Mr. Wortman after an assessment of their needs and what each employee's functions are. Senator Murray asked if there was anyone present at the meeting who could answer that question. Mr. A. J. Herbert, Counsel for PIAL, came forward and stated that several months ago, Mr. Wortman and the Executive Director of PIAL started a process of identifying which employees and which functions should go to Citizens. Citizens started identifying the positions and then moved on to the people. Mr. Herbert said it is his understanding that, of the 120 people currently associated with PIAL, about 100 of those will move to Citizens.

Senator Nevers asked who sits on the board for Citizens. Mr. Theriot said the Legislature, during the last session, amended the makeup of the Citizens board. As of today, the same members who sat before are still on the board. He said he has asked the Attorney General for an opinion as to whether the current board is a legal board because there is a provision in the statute that allows individuals who are replaced to remain in place until such time as a new appointment takes place. With the statute being revised, some of the prior board members are no longer eligible to sit on the board. Senator Nevers said he would hope that the opinion from the Attorney General's Office could be expedited so the Legislature can take action in the upcoming session regarding this matter.

A motion was made by Senator Nevers that the Council contact the current administration and request that he make appointments to the Citizens board pursuant to the statute that went into effect August 15, 2007. The motion passed without objection.

Mr. Joel Louque, representing Citizens for Better Insurance, requested that he be allowed to address the Council. He said he resides in St. Amant and has spoken many times before various committees with regard to insurance related issues. He further said his issue today relates to insurance companies rating policies using a zip code. State statute 1404C states that the property address must be used in rating policies. Mr. Louque said in some areas

where he lives they have been given a Livingston Parish or Maurepas address with the zip code 70449, but he actually lives in 70774. He said he gave the insurance agent his Maurepas address where his home is and was charged with the zip code which was a rating of 7 on the fire and property and casualty insurance. He further said he took his documentation and went to another agent with the same company, Allstate. That agent keyed in the physical address and the policy dropped \$685.40 for that year. Mr. Louque asked if the legislators have looked into the statute. He said he has been before the administrative judge division and has spoken before the Rating Commission every month. He said that Mr. Michael Ely, Vice-President of Allstate Insurance, personally called him and told him that he could keep his \$685.40 but he would not renew his policy the following year. Mr. Ely did insure him the following year, but in doing so, his information with his agent was frozen by Mr. Ely and his agent could not get into his policy at all and change any information. Mr. Louque suggested that this should be investigated because across the state insurance companies are not following the state statute when they are rating policies and Commissioner Donelon needs to enforce this statute with the physical address. He said he has done a lot of research and would be glad to meet with anyone regarding this issue.

Senator Murray thanked Mr. Louque for this information and informed him that the Council may ask the Legislative Auditor to look into this, but suggested he may want to meet with Representative Kleckley, who is the Chairman of the House Insurance Committee.

ROAD HOME PROGRAM UPDATE

Mr. Theriot presented the Council with a contract timeline, action plan timeline, a recap of the number of reports that the Legislative Auditor's Office has done relative to the Road Home Program, and a summary of recommendations that the auditors had previously made. The request for proposal was issued by the Division of Administration in April 2006 and ICF was selected in June 2006. In October 2006, the contract was amended, which got the amount up to \$756 million. During the entire time of the contract, there were seven amendments to the contract. As of March 14, 2008, ICF has billed the state approximately \$600 million of the contract. The \$756 million contract, including the \$912 million total, was a ceiling on the contract for the services to be performed. Mr. Theriot said his office is working with the Office of Community Development (OCD) in reviewing the invoices to determine that the documentation was there for the work performed. There were some issues in the contract that the Legislative Auditor's Office had some concerns with. Once the file for an applicant was complete and the grant was awarded to the applicant, ICF wanted to go back and review those files and document the files. Mr. Theriot said those files should have been documented at the time the award was granted. The contract says that they can go back and recoup funds that were overpaid or make a disbursement if they find that the award might have been less than what should have been calculated. He said the state should not be paying ICF to go back and document the files to make the files agree to what the original grant was when that should have been done at the beginning. Mr. Theriot said it is fair to say that there were numerous changes made in the program by the Louisiana Recovery Authority (LRA) and OCD; therefore, the contract had to change and the action plans had to change. There were probably more applications than what was originally envisioned. These changes should have been negotiated along the way and not at the end of the process. Mr. Theriot said he had meetings with ICF and told Mr. Sedaka that ICF needed to act in the capacity as third-party administrator and actually administer the program and take a more hands on role.

Senator Murray asked what the fixed price management fee cost of \$8,572,693 represents. Mr. Patrick Goldsmith, Audit Manager for the Performance Audit Division, said that figure represents 15% of the other direct costs. Mr. David Greer, Director of Performance Audit, explained that Amendment 3 is what set up the primary delivery of the Road Home Program. As part of the discussions of the deliverables is when the 15% fixed management fee came in. The management fee started out higher than 15%, but the fee was negotiated down. Mr. Theriot said one of the objectives in a report issued in June 2007 was the cost impact of policy changes that should have been considered. As of May 10, 2007, there were 124 proposed changes in the program ranging from minor operating procedures to significant program changes.

Mr. Paul Rainwater, Executive Director of the LRA, said when the Governor took office he became the Governor's authorized representative to FEMA so the public assistance process could be streamlined. He said the Governor also asked him to look at the Road Home Program and he has been detailed into Susie Elkins' position. He explained that the LRA was making policies and OCD was implementing those policies and the process was not working. Now, they are bringing policy people and implementers together. There are still policies that need changing in order to streamline the program and make it simpler for people. He said he met with the Disaster Recovery Unit today and demanded that they need quality, accountability,

transparency, accuracy, fairness and benchmarks in this process. He further said it is not ICF's job to do that; it is the state's job. He said he met with the senior leadership of ICF and he made it clear that the relationship needs to be reversed. ICF is a contractor to the state and the state needs to demand those things of ICF. Mr. Rainwater said they are going to start with a blank sheet of paper for the appeals and dispute resolution process and come up with a process that makes sense and is simplified. He said people need to know where they are in the process and the state needs to know how many people are in closings, how many people are in appeals and dispute resolutions, and work the timelines in order to get those out. Once the Inspector General and the Legislative Auditor finish their reports, he intends to go back and look at Amendment 7 and start renegotiating some of that. Amendment 7 was based on a number of about 160,000 closings. Mr. Rainwater said that is not a real number. There were duplicates in that number. He said they are going to talk to ICF about the travel costs and look at real numbers.

Representative Richmond asked for an explanation for giving ICF another \$100 million and why there were no discussions about it beforehand. Mr. Rainwater said he could not explain it nor could he defend it and that is why he asked the Legislative Auditor and Inspector General to look at the process and to talk to people about why this was not brought before the Joint Budget Committee. He said he used to go before the Budget Committee for any amount over \$10 million and it was very unusual to see an amendment of this size. Representative Richmond had questions regarding the appraisal process and there was a discussion on that subject. Mr. Mike Spletto, Housing Manager for OCD, explained the process and the changes that have been made to streamline the process and better serve the applicants. A discussion was also held concerning the farm policy and the appeals process as a result of Senator Gautreaux's concerns in that regard. Senator Gautreaux also said there were people who left their homes after the storm and bought another home and who have now been put on the back of the list. These people did what was right and did not rely on the government. They were told they may never receive any dollars, but these people had homes and should be subject to receiving funds the same as everyone else.

Senator Nevers asked Mr. Rainwater when he expects to conclude the review of Amendment 7. Mr. Rainwater said he did not think it would take longer than two weeks. Senator Nevers asked Mr. Rainwater what action he intends to take if he does not agree that ICF is owed another \$156 million. Mr. Rainwater said if the number was based on 160,000 closings, he may bring that contract number down. The Legislative Auditor is looking at unit cost to make sure those are in line. After the review, they will move forward with some contract negotiations.

Representative Kleckley said ICF called a meeting in Lake Charles and 500 people showed up for that meeting. ICF only had five representatives present and could only talk to 200 people. Cards were handed out to the other 300 people and those people are infuriated because they did not have the opportunity to talk about their issues. He said ICF was very inefficient with the way they handled this matter. He said ICF needs to address the problems by starting at the customer level and get the customers serviced and answer their questions. Mr. Rainwater said he is working with LSU to do a customer service satisfaction survey to each Road Home applicant. This management tool will help them see where other systemic issues exist and to see how people feel so that some adjustments can be made. Mr. Rainwater said he has sent a letter to every ICF employee demanding quality and fairness. He said the relationship has to be reset and the employees have to understand that the state is going to demand a standard. Mr. Spletto and his team are working on benchmarks and they are going to do a better job of demanding those benchmarks and penalizing ICF when they do not meet the standard. Mr. Blankenship has already fired several employees.

Senator Gautreaux commented that if the LRA and OCD would involve legislators in the process, it might solve a lot of the problems because the legislators are the ones that see the problems and get calls from the people.

Mr. Al Blankenship, Chief of Staff for the Road Home Program with ICF, said he takes everything that is said seriously and works every day to try to improve the customer relation issues. He said he will address the situation that happened in Lake Charles and ensure that this is corrected going forward. When a meeting is called, there will be sufficient resources there to address the homeowners. Mr. Blankenship said he assumes responsibility for what takes place on the Road Home, he knows how to implement a program, and he does not put up with foolishness or people who do not respect others. He expressed his commitment to the Council that ICF is here to finish this job and the way that the citizens of Louisiana want it finished. He said every single homeowner is important and it is important to him to make sure that every person involved in the Road Home Program carries out this mission in the way that they are supposed to do.

ELECTION OF OFFICERS

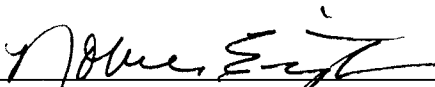
A motion was made by Representative Richmond that Representative Ellington serve as Chairman of the Council for the next two years and that Senator Murray serve as Vice Chairman. The motion passed without objection.

Representative Ellington thanked the members for the honor of serving as Chairman. He said he plans for the Council to try to have a meeting at least once a month, hopefully on the day prior to the day that the Joint Legislative Committee on the Budget meets because some of the members will already be in town for that meeting.


ADJOURNMENT

There being no further business to discuss, a motion was made by Representative Richmond that the meeting adjourn at 1:10 p.m. The motion passed without objection.

APPROVED BY:



REPRESENTATIVE NOBLE ELLINGTON
CHAIRMAN



STEVE J. THERIOT
SECRETARY

May 21, 2008
DATE