



State of Louisiana

**OFFICE OF
STATE INSPECTOR GENERAL**

LAKE CHARLES
PORT COMMISSION

**Report by
Inspector General Bill Lynch**

**Prepared for
Governor Kathleen Babineaux Blanco**

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Report by

B. Lynch Inspector General Bill Lynch

Approved by

K. Babineaux Governor Kathleen Babineaux Blanco
JTB
2/23/05

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Port of Lake Charles

The failure of Port officials to perform prudent business analysis, a lack of due diligence in the performance of their fiduciary duties, and an apparent disdain for reasonableness in expending public funds for travel and entertainment has resulted in the loss of millions of dollars by the Port of Lake Charles.

The Port knowingly submitted false financial statements to the letter of credit bank which may result in the bank requiring the payoff of \$21 million of bonds.

There is ample evidence that members of the Board and key officials, including the Port director, used their positions to engage in a lavish business lifestyle while at the same time failing to perform their fiduciary duties.

The credit bank which extends financial assistance to the Port, perhaps stated it best, in describing the Port's stature: "The misrepresentations and fraudulent activities of former district personnel in attempting to 'cover-up' the effect of the Board's unacceptable performance, policies and condition on compliance ... were deplorable."

In summary, the Board and Port officials were grossly negligent in many of their financial and operational decisions. They operated with a reckless disregard or carelessness amounting to indifference to the best interest of the Port and stakeholders. Their stewardship was substantially below the standard of care expected to be maintained by a reasonably careful person under like circumstances.

This report is not a review of all the myriad problems besetting the Port. At the outset of this inquiry, it quickly became apparent that the avenues of potential investigation would be virtually limitless – the turn of one stone leading to turning the stone under that and then another.

Investigation by both official and nonpublic entities such as the press and the private audit firm and Legislative Auditor have uncovered wrongdoing and highly questionable activities of little value to the Port which we have not addressed. For instance, we do not address the engineering contracts or land purchases or overtime pay or all of the ethics issues. They are amply reported elsewhere.

We focused on sufficient issues relevant to 2002 to demonstrate the need for a dramatic overhaul of the entire Port administration and oversight.

Clearly, Port management from the Board of Commissioners through key staff personnel have been conducting their offices with an arrogant disregard of the public weal. The idea of taking family members on a tour of the country at the Port's expense exemplifies repugnant conduct of public business. Their attitude seems to be that Port Time is Party Time.

Background

The Legislature established the Lake Charles Harbor and Terminal District (Port) and its governing Board of Commissioners by Act 67 of 1924. The Board consists of seven commissioners, five appointed by the Governor; and the Calcasieu Parish and Cameron Parish police juries each appoint a member. The commissioners serve overlapping terms of six years each.

The Board during the period under investigation was:

Hillery J. Langley, Jr., President
Larry R. DeRouen, Vice President
Ozie Rideaux, Treasurer
James C. Watts, Secretary
Charles R. Donaldson, Jr., Asst. Secretary/Treasurer (*resigned in February, 2003*)
George E. Williams, Commissioner
John Chadick Thielen, Commissioner (*resigned in February, 2003*)

Since this audit began, the Board listed above was replaced with a new Board.

The Port is a political subdivision of the state. Prior to 2000, the Port was included as a component unit in the state's comprehensive annual financial report. With the retirement of state obligated bonds in 2000, the Port was removed from the state's comprehensive annual financial report.

The Port contains several land parcels encompassing 4000 acres including docks, wharves, cargo storage facilities, etc. In fiscal year 2002, the Port had total revenues of \$18.8 million that consist of the following:

<u>Revenue Source</u>	<u>Amount</u>
Vessel and cargo services	\$13.8 million
Rental of equipment and facilities	1.6 million
Ad valorem taxes	1.7 million
Interest income	1.2 million
Other	<u>.5 million</u>
Total	<u>\$18.8 million</u>

While having an operating loss of approximately \$28 million over the past 12 years, the collection of ad valorem taxes and interest earnings kept the Port in the black. The Port's net income was approximately \$38.7 million for that period.

Summary of Findings

The following is a summary of findings revealed during the audit:

- I. The Port failed to properly adjust its contract rates for overhead and overtime for Citgo Petroleum Corporation and Conoco, Inc., two Lake Charles area refineries, resulting in \$3.3 million of undercharges during the years 1999 through 2002. According to Port staff, undercharges may have been billed since the mid 1980's.
- II. The Port improperly included \$2.1 million of highly questionable revenues from the Citgo and Conoco LCCHT contracts on its unaudited financial statements for the fiscal year ended Dec. 31, 2002. The Port remitted the inaccurate financial statements to its letter of credit bank. Without the \$2.1 million in questionable revenues, the financial statements would have shown the Port did not meet the requirements of the agreement with its letter of credit bank.
- III. The Port failed to exercise due diligence when it did not perform a prudent business analysis prior to guaranteeing a loan for a customer resulting in an unnecessary loss to the Port of \$309,000.

- IV. The Port failed to exercise prudent judgment when it proceeded with the purchase, installation and construction of a projected \$57 million automated bagging and loading system before determining the project's feasibility. The study should have included a business plan, construction schedule, cost benefit analysis, as well as the viability of the operation in the market place.
- V. During 2002, at a time when Port expenditures exceeded gross operational revenues by \$6.5 million, members of the Board and key staff officials engorged themselves by spending in excess of \$350,000 of Port funds for travel and entertainment expenses as well as at home lunches, dinners and meetings with little or no discernable benefit to the Port.
- VI. The Port failed to maximize interest from investment of idle cash resulting in at least \$414,000 in unrealized or lost interest earnings for the 18 month period of May 1, 2001 through Oct. 31, 2002.
- VII. Mr. Langley had a conflict of interest as a member of the Board, president of the Port, a member of and president of the International Longshoremen's Association (ILA), AFL-CIO Local 1998 Clerks, Timekeepers, Checkers and Tallymen; and an employee of stevedore contractors utilizing the Port. This conflict may be in violation of the state Code of Ethics.
- VIII. On a whole, the terms of the employment contract with Mr. Dees for legal services are not in the best interest of the Port.

I. \$3.3 Million Contract Undercharges

The Port failed to properly adjust its contract rates for overhead and overtime for Citgo Petroleum Corporation and Conoco, Inc., two Lake Charles area refineries, resulting in \$3.3 million of undercharges during the years 1999 through 2002. According to Port staff, undercharges may have been billed since the mid 1980's.

The Port executed separate non-expiring contracts with Citgo and Conoco in January, 1984, to receive and handle green petroleum coke, a residual of refining crude oil. Under the contracts, coke stored at the Lake Charles Coke Handling Terminal (LCCHT), a facility owned by the two oil companies, is moved to the adjacent Port owned Bulk Terminal No. 1 (BT-1) and loaded on vessels. Provisions of the two LCCHT contracts vary in language but the overall terms and conditions are similar.

A. Contract Terms

The Citgo contract provides that the Port receive a basic rate of \$1.72 for each ton of coke handled through BT-1. The Conoco contract provides a basic rate of \$1.70 per ton. The contracts include a provision for the Port to annually adjust the basic rate based on costs increases at BT-1. To calculate the adjusted basic rate for the current year, the provision requires that the prior year BT-1 costs are considered as well as a 22% profit factor and the total tonnage shipped in the previous year. If the computations yield a rate that is less than \$1.72 and \$1.70 due to cost decreases, the basic rates remain the same since these are the minimums allowed by the contracts.

B. Failure to Adjust for Overhead

Port records revealed the Port has not properly annually adjusted the basic rate used for invoicing in accord with contract terms for at least four years.

According to Dan Anderson, recently terminated director of Administration and Finance, not long after he was hired in July, 1990, he became aware that the Accounting Department had not adjusted the administrative overhead cost item of the basic rate despite rising costs. He said other operating cost items were adjusted annually as required. He said he suspected the failure to properly adjust overhead dated back to the late 1980's.

Mr. Anderson recalled he discussed the overhead issue with previous Port directors as far back as 1991. He said none of the directors he advised expressed a desire to change the invoicing practice and determine undercharges to the companies except Terry Jordan, the recently terminated Port director. Mr. Anderson said his notification of previous directors was verbal and he had nothing in writing.

C. Failure to Invoice for Overtime

The Port also failed to invoice contract rates for handling coke during overtime periods.

The contracts include a provision that if coke loadings are performed during overtime hours, the Port will add an overtime charge to the basic rate to derive an overtime rate per ton. The overtime rate is based on the increased labor costs of overtime hours for Port employees and longshoremen.

The contracts define the regular hours of the Port operations and its employees as 7:00 a.m. until 12:00 noon and 12:30 p.m. until 3:30 p.m., Monday through Friday, except

Port holidays. It also states longshoremen regular hours are 8:00 a.m. until 12:00 noon and 1:00 p.m. until 5:00 p.m., Monday through Friday, except longshoremen holidays. Overtime hours are defined as any hours worked which are not listed as regular hours.

The Port's Traffic Department compiles the information for the preparation of invoices to Citgo and Conoco. The information is provided to the Accounting Department, which prepares the invoices. The Traffic Department's marine terminal superintendent, using reports showing how many tons were loaded and the loading times, makes the determination of how many tons are charged at the overtime rate versus the basic rate or straight time rate.

Port records and discussion with employees, including the terminal superintendent, revealed the Port has been charging overtime based on the overtime definition found in the Traffic Department's operations manual. This definition differs significantly from the contract. The manual instructs Traffic personnel to charge overtime hours only for loadings occurring on Saturday and Sundays from 8:00 a.m. until 5:00 p.m. and for all hours on holidays. The lower straight-time rate was charged to Citgo and Conoco for all other hours even when the Port paid overtime labor rates to the longshoremen and/or Port employees for those hours worked outside the contract regular work hours.

The terminal superintendent said she had never seen the contracts until recently and previously assumed the Traffic manual was consistent with the contracts regarding overtime. She said the invoicing practice has been going on since the mid 1980's.

As with the overhead issue, Mr. Anderson said he discussed the overtime issue with previous Port directors but nothing was done until recently under Mr. Jordan's tenure.

The Accounting manager said she suspected undercharges since the early 1990's and verbally advised several of her superiors since that time but the invoicing practices were not changed.

D. Analysis of Undercharges

According to Mr. Jordan, sometime in 2000 or 2001, he became aware the Port may not be charging the two companies in accord with the contracts. He said several employees had voiced their concerns at that time. He said in July or August, 2002, he instructed Mr. Anderson to analyze the contracts and to calculate any undercharges as far back as 1999. He said he selected the period 1999 to the present because 1999 represented his first full calendar year with the Port since beginning work there Aug. 31, 1998.

Mr. Jordan said in hindsight he should have initiated the analysis when he first learned of possible undercharges but there were other Port problems needing attention. He also knew previous Port directors had been advised of the issues and continued doing things the same way.

When asked what prompted him to finally initiate the analysis, Mr. Jordan said there was too much talk among employees and another factor was revenues. He said he felt if the Port was undercharging, it needed to know.

According to the analysis prepared by Mr. Anderson in fall 2002, the Port undercharged the two companies approximately \$3.3 million for the four-year period 1999 through 2002. Since improper invoicing practices may date back to the mid 1980's, undercharges may exist before 1999.

Of the \$3.3 million undercharges, \$2.1 million was improperly recorded to the Port's accounting records as revenues for the Port's fiscal year 2002.

Conclusions:

1. The Port did not insure that its invoicing process adhered to contract terms.
2. The Port undercharged Citgo and Conoco approximately \$3.3 million during the years 1999 through 2002 by failing to properly adjust the contract rate for overhead and overtime in accord with contract terms.
3. Undercharges may exist from the mid 1980's.

Recommendations:

1. The Port should enact procedures that insure invoices adhere to contract terms.
2. The Port should use all reasonable means to recover the \$3.3 million of undercharges.
3. The Port should determine undercharges prior to 1999 and use all reasonable means to recover the undercharges.

II. Inaccurate Financial Statements

The Port improperly included \$2.1 million of highly questionable revenues from the Citgo and Conoco LCCHT contracts on its unaudited financial statements for the fiscal year ended Dec. 31, 2002. The Port remitted the inaccurate financial statements to its letter of credit bank. Without the \$2.1 million in questionable revenues, the financial statements would have shown the Port did not meet the requirements of the agreement with its letter of credit bank.

A. Citgo Invoices

Mr. Jordan said sometime in October, 2002, Mr. Anderson met with him to discuss his analysis of the Citgo LCCHT contract and the calculated undercharges of \$1,565,212 for the period Jan. 1, 1999, through Oct. 31, 2002. Mr. Anderson had not completed his analysis of Conoco undercharges at that time. Mr. Jordan said after the discussion he was convinced the Port had been undercharging Citgo and instructed Mr. Anderson to generate invoices for the undercharges.

On Nov. 21, 2002, in accord with Mr. Jordan's instruction, the Port's Accounting Department generated invoices for Citgo totaling \$1,565,212. Subsequently, by way of meetings and correspondence, Mr. Jordan advised Citgo officials of the undercharges and presented the invoices.

B. Highly Questionable Revenues

Generally accepted accounting principles applicable to the Port provide that revenues should be recognized in the accounting period in which they are earned and become measurable. In addition, for revenues to be recognized, there should be reasonable expectation that revenues are collectible at the time they are recorded.

On Nov. 21, 2002, the Port, inconsistent with generally accepted accounting principles, improperly recorded \$1,565,212 to its accounting system as revenues for fiscal year 2002. Of the \$1,565,212, \$966,903 in questionable revenues was related to 1999-2001 and therefore should not have been recorded as revenues of 2002.

On Jan. 17, 2003, the Port also recorded an additional \$582,198 of undercharges, which were calculated but not invoiced, as revenue to fiscal year 2002. The \$582,198 consisted

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of \$69,172 of Citgo undercharges for November and December, 2002, and \$513,026 of Conoco undercharges calculated for 2002.

In total, the Port recorded approximately \$2.1 million of invoiced and non-invoiced undercharges as revenues in 2002 as follows:

<u>Description</u>	<u>Period</u>	<u>Amount</u>
Citgo invoiced undercharges	January, 1999, through October, 2002	\$1,565,212
Citgo non-invoiced undercharges	November and December, 2002	69,172
Conoco non-invoiced undercharges	January through December, 2002	<u>513,026</u>
	Total	<u>\$2,147,409</u>

Despite the undercharges being the result of misapplied contract terms, Mr. Jordan did not seek a legal opinion of collectibility from Mr. Dees, the Port's general counsel, before the \$2.1 million was recorded as revenues.

Classifying the entire \$2.1 million as revenues was inconsistent with generally accepted accounting principles because a valid assessment of collectibility of the entire \$2.1 million was not made and \$966,903 was the result of prior fiscal years inaccurate invoicing.

The collectibility of the \$2.1 million was challenged by a legal opinion Mr. Dees rendered on Feb. 19, 2003. Mr. Dees concluded there was little or no chance of collecting any amounts claimed to be owed.

Regarding the portion of the \$2.1 million related to recalculating the administrative overhead factor, Mr. Dees reasoned the LCCHT contracts contain no provisions for retroactive adjustments. He also reasoned that the large increase in the factor constitutes a substantial change that would be subject to negotiation and agreement by both parties according to contract terms.

Regarding misapplication of the overtime rate, Mr. Dees reasoned numerous members of Port senior management had known about the billing errors and did not correct the problem for many years. Mr. Dees further reasoned a court would not allow the claim as a "billing error" and would say the overtime provisions of the LCCHT contracts were reformed by the knowing actions (invoicing and payment) of the parties and the Port would be estopped from attempting to enforce the original overtime provisions.

The collectibility is further challenged based on correspondence dated Feb. 18, 2003, from the vice president of the Citgo refinery in Lake Charles in which he advised Mr. Jordan that his company was likely contesting the invoices.

Mr. Anderson and Mr. Jordan said they think the revenues are collectible. However, they did not perform or direct an assessment of collectibility prior to recording the questionable revenues as required by generally accepted accounting principles.

C. Inaccurate Reporting to Dexia

The Port improperly included the \$2.1 million of highly questionable revenues in its unaudited financial statements for the fiscal year ending Dec. 31, 2002.

On Feb. 6, 2003, to comply with reporting requirements of a letter of credit agreement, Mr. Anderson remitted the unaudited financial statements for the fiscal year ending Dec. 31, 2002, to the New York agency of Dexia Credit Local which secured a \$25 million Port bond issue.

Submission of the inaccurate statements violated several compliance requirements in the agreement. The agreement includes a provision prohibiting the Port from submitting financial statements containing any untrue or misleading statements of a material fact. Reporting undercharges from prior years as 2002 revenues is both untrue and misleading. Also, reporting undercharges that are questionable as to collectibility, is misleading.

In addition, the agreement requires the Port to maintain a debt service coverage ratio of no less than 1.75. This ratio is calculated by dividing net revenues (total revenues less operating expenses excluding depreciation) by total payments of bond principal and interest made during the year. The agreement further states the inability to cover the ratio would represent a failure by the Port in fixing, establishing, maintaining, and collecting sufficient revenues.

As part of the financial reports submitted to Dexia, Mr. Anderson reported a calculated debt service coverage ratio of 2.97, which exceeded the minimum 1.75. However, without the \$2.1 million of questionable revenues, the calculated ratio would have been 1.59, which is in violation of the agreement. This would have been the first time the Port failed to cover the required minimum ratio.

In his transmittal letter submitted with the unaudited financial statements, Mr. Anderson falsely certified that the Port complied with its agreement in all respects including the required ratio.

Correspondence from Mr. Anderson to Mr. Jordan indicates that Conoco, as late as Feb. 11, 2003, had not been notified of the undercharges despite \$513,026 of questionable Conoco revenues being included in the unaudited financial statements submitted to Dexia on Feb. 6, 2003, five days earlier.

Correspondence from Mr. Anderson indicates a Conoco official had inquired if there would be a rate adjustment on the contract. Despite Mr. Anderson recording revenues for non-invoiced undercharges to Conoco calculated by adjusting overhead, he recommended to Mr. Jordan that he be allowed to adjust the invoice rate for 2003 by the method done in the past. The past method, inconsistent with the contract, did not include the adjustment to overhead. He also recommended he be allowed to send a letter advising Conoco that its contract is being reviewed and there may have been some errors in the way rates were calculated and tonnages were allocated to straight-time and overtime.

D. Legal Opinion

In his legal opinion dated Feb. 19, 2003, Mr. Dees opined that circumstances suggest the inappropriate recording of the revenues all in year 2002 was intentional and done to make the financial condition of the Port appear better than reality. He also opined that circumstances suggest senior management knew prior to recording the revenues that without the revenues, the required letter of credit ratio would not be met.

Mr. Dees further opined the facts and circumstances would lead a court to conclude that the incorrect expression of the Port's financial condition was intentionally communicated to Dexia and this communication constitutes a violation of federal securities law.

Mr. Dees also opined that the millions of public dollars the Port has knowingly failed to properly collect for many years constitutes a breach of fiduciary like public trust duty of all involved senior management and the whole Board.

Mr. Dees recommended the Port promptly reverse the \$2.1 million questionable revenues from its accounting system and forward corrected financial statements to Dexia.

By Resolution No. 2003-008 adopted Feb. 24, 2003, the Board directed senior management to remove the \$2.1 million of revenues and receivables from its accounting system, remove any anticipated revenues in the 2003 operating budget based on the revised invoicing rates, and to provide Dexia notices of actions taken.

With a memorandum dated Feb. 25, 2003, Mr. Anderson instructed the Accounting staff to reverse the revenues and to process credit memorandums for the Citgo invoices. The Port issued credit invoices to Citgo dated March 27, 2003, reversing the \$1,565,212 of Citgo invoices dated Nov. 21, 2002.

With a letter dated March 3, 2003, Mr. Anderson advised Dexia of the questionable revenues and stated it would be advised of future developments. The Port subsequently

submitted revised financial statements to Dexia which excluded the \$2.1 million questionable revenues.

Mr. Anderson and Mr. Jordan were terminated by the Board effective March 14, 2003. The Board hired Dennis Stine under contract as interim Port director.

E. Breaches and Misrepresentations

In a letter dated March 20, 2003, Dexia advised the Port it had breached its agreement and made representations that were incorrect in material respects when made. It further stated such breaches and misrepresentations constitute an event of default.

Dexia officials visited the Port on March 26, 2003, to review and analyze the matters.

In a letter dated April 15, 2003, Dexia advised the Port of its analysis. Some of its key points are:

- The misrepresentations and fraudulent activities of former Port personnel in attempting to “cover-up” the effect of the Board’s unacceptable performance, policies, and condition on compliance with the letter of credit agreement were deplorable.
- The operating performance, investment practices, and financial condition of the Port are unacceptable.
- Dexia is gravely concerned about the lack of professional port expertise and/or consultant for the Port as well as the lack of assurance of effective on-going management of the Port and effective on-going oversight of such management by the Board.
- The creditworthiness of the Port has deteriorated, the confidence of Dexia in the Port has been destroyed and, in light of the egregious failure of the Board to exercise proper and sufficient oversight and prudent business practice of the Port’s financial affairs, confidence in the Board has been irrevocably lost.
- Dexia has terminated its obligations under the agreement to make advances to the Port.
- Withdrawals from the Port’s Revenue Fund to pay operating and maintenance expenses is subject to prior written approval of Dexia.

- The Port is obligated to pay on demand all reasonable expenses incurred by Dexia in connection with the matter.
- Dexia continues to reserve all its rights and remedies including terminating the agreement thus requiring the Port to immediately payoff the bonds.

According to Mr. Dees' legal opinion, the payoff amount of the bonds is approximately \$21 million.

F. Purported Oversight

When questioned by Inspector General auditors about the handling of the undercharges, Mr. Anderson said in hindsight he should have recorded the undercharges for 1991 through 2001 as prior period adjustments rather than classifying all of the undercharges as 2002 revenue. He said it was an oversight on his part and recognizes he did not follow generally accepted accounting principles.

Mr. Anderson's claim that his actions were mere oversights is refuted by the following facts:

First, according to Mr. Anderson, he has been a certified public accountant since 1982 and currently maintains an active accounting license in Louisiana. By virtue of his professional credentials, Mr. Anderson knew or should have known the proper basic accounting principles to be applied to the undercharges before they were recorded.

Second, Mr. Anderson said he did not give explicit instructions to the Accounting staff to record all the revenues in 2002. He said when he instructed his staff to generate the Citgo invoices, the system automatically recorded the revenue to the current period

However, according to the Accounting manager, sometime in January, 2003, Mr. Anderson gave her a note showing he had calculated \$1.6 million in undercharges to Conoco for the period 1999 through 2002. She said he instructed her to record these amounts as 2002 revenues. This instruction appears deliberate and cannot be explained away as an automatic recording of the revenues to 2002 by the accounting system as is the case with system generated invoices.

The Accounting manager said since the accounting records had already been closed for the year and \$513,026 of Conoco undercharges for 2002 had already been recorded, the entry of an additional \$1.1 million in Conoco revenues was not made.

Third, Mr. Anderson and the Accounting staff generated various monthly financial reports. One of the reports, the Budgeted Revenue and Expense Report showed actual revenues and expenses for the month and year-to-date amounts compared to the budgeted amounts. These reports identify any variances between actual and budgeted revenues.

Accounting staff stated Mr. Anderson would review the reports before submitting to Mr. Jordan for issuance to each of the Board members. However, reports for November, 2002, and December, 2002, incorrectly reflect significantly greater actual revenues than budgeted revenues and the percentage increases due to \$2.1 million as normal revenues without explaining the variances were due to past undercharges.

The November report was submitted Dec. 16, 2002, and the December report was submitted Feb. 6, 2003. It seems unlikely that Mr. Anderson continued to be oblivious to the improper handling of the \$2.1 million and was not alerted to perform an analysis to determine the cause of such a significant increase in 2002 revenues.

The two Budgeted Revenue and Expense reports, containing the questionable revenues, were also sent to Dexia in addition to the unaudited financial statements for 2002.

G. Board Awareness

Conditions indicate at least three Board members were made aware of the undercharges prior to the invoices being generated but there was no discussion of the matter in public Board meetings until more than three months later. At least three Board members were not apprised of the undercharges and invoices until at least 2½ months after the Citgo invoices were generated.

When questioned about current Board members' first knowledge of his analysis of past undercharges, Mr. Anderson recalled a working lunch at a local restaurant on Nov. 1, 2002. He said Messrs. Langley, DeRouen, Watts, Jordan and himself attended.

Mr. Anderson said during the luncheon meeting they discussed the upcoming 2003 budget, the overtime and overhead issues with the LCCHT contracts, the analysis of undercharges going back three years, and the need to invoice the companies. The Citgo invoices were generated three weeks later.

Mr. Langley recalled the meeting and attendees, and said Mr. Jordan told them that the companies owed money and that he was going to invoice them. He said he and the other Board members present did not direct Mr. Jordan to invoice the companies.

Mr. Jordan had less clear recollections but said he recalled a 2003 budget review luncheon with the three Board members in early November, possibly Nov. 1, 2002. He said there was discussion of possible undercharges to Citgo.

When asked if other Board members were advised at this time regarding the undercharges and planned invoicing of the companies, Mr. Jordan recalled 2003 budget briefing meetings held at the Port with each of the Board members in late November, and early December, 2002. He said during these meetings he gave Board members the draft 2003 budget and a recap of various budget concerns including the LCCHT contracts. He said Mr. Dees was also given the draft budget and briefed on the budget.

Mr. Jordan said during these meetings all Board members and Mr. Dees were made aware of the undercharges and the Citgo invoices. However, several conditions are inconsistent with this claim.

Review of Board records revealed documentation substantiating budget briefing meetings were held with all Board members as Mr. Jordan claims. However, the documentation makes no mention of the calculated undercharges and the invoices already generated for Citgo.

In addition, the Dec. 13, 2002, Board minutes, in which the 2003 operating budget was approved, includes no discussion about the undercharges and the invoices despite their significance to the present and future operating status of the Port. Mr. Langley, as Board president, and/or Mr. Jordan should have placed the matter on the meeting agenda but failed.

Chad Thielen, a Board member who resigned Feb. 10, 2003, stated he has no recollection of Mr. Jordan advising him of undercharges and invoices issued to Citgo in the budget briefing meetings.

Mr. Thielen said he first became aware of the undercharges and invoices while reviewing the December, 2003, monthly financial reports. These monthly reports were issued to the Board members with a transmittal letter dated Feb. 6, 2003. He noted substantial revenue increases at BT-1 despite tonnages being down. He said he visited Mr. Jordan and questioned him about the discrepancy. He said Mr. Jordan advised him of the undercharges and the Citgo invoices.

Mr. Thielen said he then contacted Mr. Dees and asked if he was aware of these recorded revenues and if a legal opinion of their collectibility had been obtained. He said Mr. Dees said he was not aware of these matters. During a Board meeting held Feb. 24, 2003, Mr. Dees stated he was not made aware of the back billing of Citgo to 1999 during the budget briefings as being claimed.

Mr. Thielen subsequently resigned. In his resignation letters to the Governor and members of the southwest legislative delegation, Mr. Thielen voiced serious concerns regarding the Port's financial dealings, continuing losses, irresponsible spending, "Enron" type accounting practices, a controlling segment of four Board members, and other similar matters.

Mr. Thielen said Mr. Jordan's revelation about increased revenues at BT-1 due to the invoices contrasted with a recent letter from Mr. Jordan dated Nov. 1, 2002. He explained that on Oct. 23, 2002, he sent a letter to Mr. Jordan asking several questions including why operating income was down at BT-1 and why projected 2002 operating losses were expected to be over \$4 million. In his Nov. 1, 2002, response, Mr. Jordan stated revenues were down because of tonnage losses through BT-1 but that the operating losses had been budgeted.

It is curious that Mr. Jordan makes no mention of the undercharges and planned Citgo invoices in his Nov. 1, 2002, response letter to Mr. Thielen despite advising three other Board members in the luncheon meeting held this same date.

Charles Donaldson, a Board member who tendered his resignation Feb. 19, 2003, also denied that Mr. Jordan advised him of the undercharges and invoices in the budget briefing meetings. Similar to Mr. Thielen, Mr. Donaldson said he became aware sometime in February, 2003, after questioning Mr. Jordan why revenues had increased significantly on the November and December, 2002, financial reports.

In his resignation letters, Mr. Donaldson voiced similar concerns as Mr. Thielen.

George Williams, another Board member, said he was not made aware of the undercharges and invoices until Feb. 19, 2003, when Mr. Dees called it to his attention.

Despite the Citgo invoices being generated more than three months earlier, Board minutes include no discussion of these matters until Feb. 24, 2003, after Mr. Thielen and Mr. Donaldson voiced their concerns in their resignation letters. This suggests these matters were not only withheld from certain Board members but were also never intended to be in public view.

Mr. Langley and/or Mr. Jordan should have placed the matter on the Board agenda promptly after the Nov. 1, 2002, luncheon meeting when certain Board members were advised the companies were going to be invoiced.

Furthermore, the Nov. 12, 2002, Board minutes show Mr. Anderson requesting an amendment to reduce the operating revenues for the 2002 budget by \$1 million due to

lower tonnage handled at BT-1. During this meeting, the Board adopted a resolution to decrease the operating revenues as Mr. Anderson requested. This was done despite Messrs. Jordan, Anderson, Langley, DeRouen, and Watts meeting on Nov. 1, 2002, and discussing increasing revenues from Citgo and Conoco for undercharges.

H. \$28 Million Operating Losses

Without the questionable \$2.1 million revenues, the Port would have shown a 2002 operating loss of \$6.5 million, 63% greater than the 2001 operating loss of \$4 million. This would have been the highest operating loss the Port has incurred since at least 1980.

The Port has incurred an operating loss every year since 1991 except 1993. The operating losses for 1991 through 2002 total \$28 million.

An operating loss occurs when operating expenses including depreciation exceed operating revenues.

Without the questionable \$2.1 million revenues, the Port would have shown a 2002 net loss of \$3.9 million, 580% greater than the 2001 net loss of \$672,000. The Port has incurred a net loss in three of the last four years.

A net loss occurs when the Port's total expenses for the year exceed all its revenues including operating revenues, interest income from investments, and property tax revenues.

According to Board Resolution No. 95-018 adopted Feb. 17, 1995, and reaffirmed by the Board with Resolution No. 2003-001 adopted Feb. 10, 2003, the Port established as its policy, the creation of the maximum number of jobs possible through the handling of labor intensive cargo even if the Port must, from time to time, operate at a temporary loss.

Inconsistent with the Board resolutions, the Port's pattern of operating losses for 11 of the last 12 years and net losses for 3 of the last 4 years does not appear to be "temporary" or "from time to time." This continuous pattern of loss is inconsistent with prudent business practices.

I. Downplay of Port's Financial Condition

Assessment of the Port's financial condition rendered by two Board members during a Board meeting held Feb. 24, 2003, varies widely from Dexia's assessment in its April 15 letter.

During the meeting, Mr. DeRouen stated operating losses are a very, very limited portion of the financial operations. He said a large portion of these losses is attributable to depreciation expense and represents a paper loss, not a cash loss. He also said he did not see how the Board's handling of the Port's financial matters could be called bad fiscal management.

Mr. Watts, a certified public accountant, further added during this meeting that depreciation in a normal business is a legitimate expense and affects the bottom line. He said in the Port's business, the bottom line is not what the Board focuses on. He said paper losses are really of no relevance but whether the Port brought in more money than it spent.

Mr. DeRouen and Mr. Watts downplayed the significance of depreciation, operating losses, and the bottom line. This is inconsistent with a note in previous Port audited financial statements which states the Port uses fund accounting similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration.

Any management philosophy which results in continuous losses is bound to lead to failure and the inability of the Port to remain viable.

Conclusions:

1. Mr. Jordan and Mr. Anderson knew or should have known that inaccurate, unaudited financial statements were prepared and issued for the fiscal year ending Dec. 31, 2002, which improperly included \$2.1 million of Citgo and Conoco undercharges as revenue for 2002.
2. The Port breached its letter of credit agreement with Dexia by remitting inaccurate financial statements which may require the Port to repay its \$21 million loan balance.

3. The issuance of inaccurate financial statements appears intentional. This may be false accounting which according to state law is the intentional rendering of a financial statement of account which is known by the offender to be false.
4. Mr. Jordan and Mr. Anderson breached their fiduciary duties by allowing inaccurate financial statements to be distributed to Board members and the letter of credit bank.
5. Mr. Jordan failed to fully apprise all Board members and the public of the undercharges and inaccurate financial statements.
6. There was no discussion of the undercharges and invoices to Citgo during Board meetings until three months after the invoices were generated despite the significance of the matters on Port operations.
7. Mr. Langley and/or Mr. Jordan failed to place the undercharges and invoices on the Board meeting agenda promptly after the Nov. 1, 2002, luncheon meeting.
8. The Port has experienced an operating loss of approximately \$28 million since 1991 inconsistent with prudent business practices and its own Board resolution limiting such losses to "temporary" or "from time to time."

Recommendations:

1. The Port should develop policies and procedures to insure all financial statements are accurate and meet the requirements of generally accepted accounting principles.
2. The Port should enter discussions and take such actions necessary for Dexia to remove the Port from default status.
3. The Port should explore the possibility of recovering damages to the Port due to the inaccurate financial statements from its errors and omissions insurance and the responsible individuals.

III. Loan Guarantee Loss of \$309,000

The Port failed to exercise due diligence when it did not perform a prudent business analysis prior to guaranteeing a loan for a customer resulting in an unnecessary loss to the Port of \$309,000.

Prior to entering into the loan guarantee, the Port failed to:

- Require or review a business plan;
- Obtain monetary value and capability appraisals of the equipment obtained with loan funds;
- Determine the capability of the customer to fully or partially service the loan with its own funds;
- Determine the capability of the customer to manage the business venture; and
- Even though the loan guarantee allowed the Port to take over the contract upon default, the Port did not ensure it could do so.

The customer, ValueQuest, a newly formed company for the project, with the guarantee by the Port borrowed \$292,000 from a bank then was unable to perform the required services and became insolvent. In addition to the borrowed funds, the owner of ValueQuest, Mark Hopper, spent more than \$200,000 of his own funds on the project and has filed bankruptcy for ValueQuest in Louisiana and personal bankruptcy in Texas.

The loan guarantee may be a violation of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan or pledge of public funds.

A. ValueQuest and Helena Contract

On May 9, 2001, Mr. Hopper obtained a six-year contract with Helena Chemical, Inc., a Delaware corporation. ValueQuest was to design, build and operate bulk storage and handling facilities, and related equipment at the Port of Lake Charles. The project entailed that ValueQuest be capable of receiving, offloading and storing up to 50,000 tons of Helena's liquid and dry bulk fertilizer. At the successful completion of the 50,000-ton capability, the contract would pay ValueQuest no less than \$29,167 per month.

ValueQuest was obligated by its contract with Helena to perform the following requirements related to the design, construction and operation of the facilities by June 1, 2001:

- Obtain needed financing in order to acquire a deep draft tanker/barge, shallow draft barges, other materials and equipment, and to perform all other acts and pay such costs needed to finance, build and operate the facilities;
- Execute all relevant contracts, including any needed with the Port;
- Obtain required governmental permits, licenses and approvals or ValueQuest having substantial assurance that they would be obtained; and
- Other unforeseen requirements for completing and installation of the facilities.

If by June 30, 2001, the facilities were not ready to accept 25,000 tons of liquid fertilizer, then Helena could terminate the contract by giving notice within the following 30 days.

B. Actions and Failures of ValueQuest and the Port

On May 12, 2001, ValueQuest entered into a six-year lease of a barge for a \$150,000 advanced payment and monthly payments of \$6,943. Prior to use, the barge required repairs to the hull and transportation from New Orleans to the Port. ValueQuest anticipated using this barge as the main storage facility for the fertilizer.

However, ValueQuest did not obtain and the Port did not require or perform an appraisal or inspection of the barge before entering into the lease or after repairs to the hull. Therefore, the value and capability of the barge to perform was questionable.

On Aug. 10, 2001, ValueQuest purchased four small tank barges for \$200,000, which required cleaning. ValueQuest anticipated using these barges for additional storage and transport of the fertilizer from Lake Charles to Houston, Tx.

Again, ValueQuest did not obtain and the Port did not require or perform appraisals or inspections of the barges prior to the purchase. The value and capability of the barges to perform was questionable.

On Aug. 27, 2001, the Port entered into a temporary month-to-month ground lease agreement dated Aug. 1, 2001, with ValueQuest for Port property. The agreement was dated approximately one month after Helena had the option to terminate the contract with ValueQuest with a 30-day notice.

On Aug. 28, 2001, ValueQuest made a \$500,000 draw down line of credit loan with Whitney National Bank to finance its acquisition, construction and operation of the facilities with a maturity of Nov. 28, 2001. Whitney required a collateral mortgage agreement, which included the four barges to be purchased with loan proceeds, and that the Port guarantee the loan in case of default.

Mr. Jordan signed the guarantee to obligate the Port without Board authority. Although the Board did not formally approve the loan guarantee by resolution or other vote, the Board nonetheless acquiesced through a lack of action. Board members George Williams and Charles Donaldson stated that they did not know the Port had guaranteed the loan. Mr. Donaldson also stated that Mr. Jordan signed the guarantee obligating the Port without Board approval.

Prior to entering into the temporary month-to-month ground lease and loan guarantee, the Port failed to require or review ValueQuest's business plan, to obtain a feasibility study of the business venture and to perform a financial review of ValueQuest and its owner in case of default. Although a provision in the contract allowed the Port to assume operation of the facilities in the event of default by ValueQuest, the Port failed to develop plans or the capability to carry out the project.

On Aug. 31, 2001, ValueQuest made the final payment of \$189,603 for the four barges using loan proceeds. According to Whitney Vice President Steve Lacy, Whitney did not require an appraisal on the barges prior to disbursing the proceeds because of the Port guarantee.

Mr. Jordan said the Port did not require inspections of any of the barges to determine whether the barges were suited for or could be made suitable for the services required under the Helena contract. Also Mr. Jordan said the Port did not require appraisals of the four small barges to ensure that the value of the barges were at or near the purchase price. When asked why the Port did not require inspections and appraisals Mr. Jordan said he did not know.

C. Loan Default

On Sept. 9, 2001, just 11 days after the loan with Whitney was made, a vessel carrying the first 22,000 tons of liquid fertilizer from Helena arrived at the Port. Before ValueQuest could load 500 tons to its barge, the cargo shifted causing the barge to list. Attempts to stabilize the barge by filling the ballast tanks with water were unsuccessful, so the Coast Guard shut the operation down. According to the Port director of navigation, Captain Jim Robinson, the barge had not been ballasted prior to loading the cargo, as it should have been. A Helena official made the same statement. In addition, he stated that Mr. Hopper did not take into consideration the weight of the liquid

fertilizer, which is much heavier than water at 11 lbs. per gallon. The official said he assumed Mr. Hopper took the necessary precautions to ensure the stability of the barge. The owner of a company hired to help keep the barge afloat, made the same statements as Captain Robinson and Helena's official.

Mr. Jordan stated that he had not reviewed ValueQuest's plans for stabilization of the barges and the loading of the fertilizer. He said he assumed Mr. Hopper knew what he was doing because he was an engineer and had experience in this area.

On Sept. 18, 2001, Helena terminated the contract with ValueQuest because of ValueQuest's failure to perform under the contract. Helena made other arrangements for storage of its product due to ValueQuest's inability to accept the product or cure its default of the contract.

In spite of having an option in the loan that the Port take over the business upon default, the Port failed to plan for or have in place the facilities, manpower, technical expertise and/or equipment to do so. Therefore, it could not exercise its option to continue operations of the business.

On Oct. 15, 2001, the Port paid Whitney \$291,866 to pay off the ValueQuest loan, which it guaranteed. On payoff, the bank transferred and assigned its mortgage in the four small barges to the Port. The Port had two surveys done on the barges. No scrap value could be assigned to the vessels because the cost of cleaning for use as scrap would exceed their scrap value. After negotiating with several companies, the Port finally sold the barges on April 12, 2002, for a total of \$4,000.

Additional costs were incurred by the Port totaling \$20,958 for after the fact appraisals and inspections to scrap the barges, disposal of barge waste, insurance and the Port labor associated with the operation. Therefore, the Port's total loss for guaranteeing the loan was \$308,824.

D. Minimum Actions Required of the Port

At a minimum, the Port should have performed the following actions prior to guaranteeing the ValueQuest loan to determine the probability of success in the ill-starred business venture:

- Require and review ValueQuest's business plan to include pro-forma financial statements;

- Obtain monetary value and capability appraisals of the equipment purchased with loan proceeds;
- Determine the capability of ValueQuest and/or Mr. Hopper to fully or partially service the loan with its own funds in case of default;
- Determine the capability of ValueQuest and/or Mr. Hopper to manage the business venture; and
- Even though the loan guarantee allowed the Port to take over the contract upon default, the Port did not plan for or have in place the manpower, technical expertise, facilities and/or equipment to do so.

E. Constitutional Prohibition

In order to avoid the prohibition against the donation, loan, or pledge of public credit by a political subdivision, such as the Port, under Article 7, Section 14 of the Louisiana Constitution with respect to the ValueQuest transaction, a public benefit must be created proportionate to the cost. This proportionality is in doubt as the Port received no benefit and could not anticipate any benefit as it failed to perform an analysis of the probability of success of the business venture and incurred a \$309,000 loss.

Port attorney Dees reviewed the loan guarantee agreement and advised Mr. Jordan to make the Board aware of possible complications conveying title of the mortgaged barges to the Port in case of default by ValueQuest. He did not advise Mr. Jordan of a possible constitutional violation. However, in his response to an audit performed by Provost, Salter, Harper & Alford, L.L.C., Mr. Dees claimed the legal basis for the loan guarantee was provided in the Port's enabling statute.

Conclusions:

1. The Port director and the Board were grossly negligent costing the Port \$309,000 when they failed to perform a prudent analysis of the ValueQuest loan guarantee to protect Port assets. The standard of care and analysis performed by the Port is substantially below that which would be expected to be maintained by a reasonably careful person under like circumstances. The Port attorney is equally responsible as he failed to advise the director and the Board of their fiduciary duties and possible violation of the Louisiana Constitution.

2. The Port director obligated the Port by guaranteeing a loan without a Board resolution giving him authority to act and the Board acquiesced when it failed to question the director's authority to do so.
3. The Port guaranteed a loan, which may be in violation of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan or pledge of public funds.

Recommendations:

1. Procedures should be implemented to ensure that all future projects and/or business ventures are evaluated for feasibility prior to obligating the Port.
2. The Board should ensure that policies and procedures are in place to prevent officers from obligating the Port without specific authority to do so.
3. The Port should recover the \$309,000 from Mr. Jordan, Mr. Dees and the appropriate Board members for their gross negligence.
4. The Port should determine the constitutionality of guaranteeing a loan.

IV. Automated Bag Handling System

The Port failed to exercise prudent judgment when it proceeded with the purchase, installation and construction of a projected \$57 million automated bagging and loading system before determining the project's feasibility. The study should have included a business plan, construction schedule, cost benefit analysis, as well as the viability of the operation in the market place.

From August, 1995, through March, 2003, nearly an eight year period, the Port has spent more than \$19 million on the automated system, but has failed to make it fully operational or profitable. Of the money spent thus far, \$5 million, was for the spiralveyor, or loading component of the system, which has not been installed since its purchase in 1997; \$9.3 million for the bagging component; and \$4.6 million for construction costs for the terminal which houses the bagging component; relocation of the components, and various engineering and maintenance fees and costs.

The spiralveyor as well as the other mechanical components which make up the automated bagging and loading system is a used system. According to information obtained from Beumer Corporation, the manufacturer of this equipment, the cost of a new system was \$17.3 million at the time the Port purchased the used system for \$14.3 million. The Port did not obtain a proposal for estimated installation costs for a new system, however, Beumer Corporation submitted estimated costs of \$638,800 to dismantle, assemble, and reinstall the used system.

A. Lack of Adequate Study

As early as February, 1988, the Port was aware that Omniport, which was a privately owned terminal in Houston, Tx., that was later purchased by the Port of Houston Authority, and renamed Jacintoport, announced plans to install an automated bagging and loading system. The Port's Board members, as well as most of the other ports in the Gulf became concerned about the impact Houston's automated system would have on their operations. At the February, 1988, Board meeting, the Port decided to jointly participate in and pay \$10,000 for a research study to be conducted by LSU and Texas A& M on the automated bagging and loading system. The Port passed another resolution two months later at the April, 1988, Board meeting, entering into a joint service agreement on behalf of the other Gulf ports, with LSU Ports and Waterways Institute to study the automated system. This resolution also authorized the spending of an amount not to exceed \$10,000. The LSU Ports and Waterways Institute completed the study in 1989, and recommended consideration of the automated system by the Port.

No further action was taken by the Port until July, 1995, six years later, despite the availability of a study that cost the Port \$20,000, which suggested the Port should consider an automated system. Six years earlier, only Houston's Omniport was of concern to the Port, however, by the end of 1995, ABT, Inc., a facility located at the Port of Galveston, was expected to be operating an automated system. It was only after being faced with the realization that another Port was installing the system, that at the July, 1995, Board meeting the Port authorized a feasibility study to determine the viability of implementing an automatic bagging and loading system.

The feasibility study was to be composed of two parts, a financial study which would be undertaken by the Port's staff, and a technical study which would be conducted by Meyer and Associates, Inc., the Port's consulting engineering firm located in Sulphur, LA. The maximum cost of the technical study by Meyer was to be \$28,000, with an expected completion date of Jan. 15, 1996. No deadline was established for the completion of the financial study, despite the urgency of the situation.

Meyer and Associates provided copies of a draft report to the Port for the technical study at its October, 1995, Board meeting, and a final report at the January, 1996, meeting. Meyer's report only addressed the project design and engineering aspects of the system, it did not include a preliminary construction schedule. There is no record of a discussion of what components were to be included in the technical study by Meyer.

There is no evidence of work ever being conducted on the financial study by the Port's staff, or anyone else. In addition to the lack of a financial study, there was no discussion of what components were to be included in the financial study.

B. Purchase of Automated System

During the time of Meyer's studies, Jacintoport's system was already operational, and, ABT, Inc., had already begun construction of its automated system, which went on-line in January, 1996. The ABT facility only operated a few months, and closed in May, 1996, citing high labor costs and an unworkable dock design.

A study conducted by UNO's National Ports and Waterways Institute, in May 2002, revealed that labor costs at Jacintoport are lower than the Lake Charles Port's labor costs, and will continue to be because of the use of non-union personnel. Also, data in the study indicates that shipment volumes for foreign food assistance programs, the primary business utilizing the automated system, will not increase. The total shipment volumes are projected to remain at their current levels. The information about labor costs and shipment volumes in the 2002, UNO study, which was finished after the Port purchased the automated system, emphasizes the type of data that should have been, but was not, evaluated by the Port prior to the purchase.

The Board has ignored the UNO study and recommendations. After the completion of the study, a draft report was delivered to the Port with a request for the Port's input and comments. The Port never formally accepted the draft report, and there is no record of the Port's input and comments, or of receiving a final version of the UNO report. Even after the Port began its financial commitment to the automated system, it continued to fail to take advantage of available research on the project. The total cost to the Port for the incomplete UNO report was \$241,770.

The automated bagging and loading system, the main asset of ABT, was placed in foreclosure in August, 1996. After learning of ABT's closure, the Port began contacting the lenders, CIT Group/Equipment Financing, Inc., to explore the opportunity to acquire the equipment at a reduced cost and, at the same time, eliminate Galveston's port as a major threat to its bagged goods operation. Through informal discussions, the lender

agreed to take the equipment off the market and allow the Port to implement a public bid process at which time the lender would submit its price to sell the system to the Port.

The Port did not encourage competition for the bid. The Port did not advertise in any regional, national or international trade publications or newspapers to reach the target market. The Port only advertised in the Lake Charles American Press, which has more limited demographics and circulation than what the scope of this project required.

The Port proceeded with the bid process, and received one bid on Nov. 27, 1996, from CIT Group in the amount of \$14,375,000. The lone bid was accepted and ratified at the Port's December, 1996, regular meeting. A purchase agreement was signed on March 13, 1997, and the automated bagging and loading equipment was delivered to the Port in July, 1997.

Prior to the purchase and delivery or installation of the equipment the Port did not have independent tests conducted on the equipment to certify the functional condition of the equipment. Several visits were made to ABT in Galveston by the Port's staff, which included an engineer, along with a Meyer and Associates engineer. Meyer and Associates is not only contracted to the Port, but also provided the technical study for the project, which indicates a lack of independence.

The Port purchased the used automated bagging and loading system primarily because it became available, and wanted to ensure that its competitors did not get this equipment. The Port did not determine how or why it felt it would be successful where ABT had failed.

Twenty months passed between the time the Port ordered a study of the automated bagging and loading system and the purchase of the system. The Port had ample time and resources to obtain the necessary studies which would have included all of the crucial data needed for such a strategic project.

The Port has not fully implemented the automated loading system, and does not have an estimated completion date for the system. The \$5 million spiralveyor has not been installed or used, and is temporarily stored on one of the Port's docks, exposed to the elements, with no warranty in effect, and only sporadic preventive maintenance being performed. However, the bagging system was brought on-line in 2000, and is currently in use. Construction began Dec. 2, 2002, on a transit shed, which includes the installation of various loading, unloading, and electrical components, and is scheduled to be completed on July 9, 2004.

Conclusions:

1. The Board was negligent when it did not have appropriate studies completed prior to purchasing the automated loading and bagging system.
2. Without appropriate studies, the Port was unaware of the economic and operational feasibility of the automated system, resulting in undue economic risk to the Port.
3. The Port has purchased a \$14.3 million automated system, which includes a \$5 million component that has been idle for six years. The cost of implementing and bringing this component up to current standards after being idle for so long is unknown.
4. By prematurely purchasing the automated system without regard for needed feasibility studies, the Port lost opportunity to earn interest on the \$14.3 million.
5. Any savings realized through purchasing the used system have been lost due to the failure to fully install and use all of its components.
6. The Port failed to determine how or why it felt it would be successful with the automated system when ABT had failed.
7. A lack of independence may have existed with Meyer and Associates, the Port's contracted consulting engineer firm, also providing the technical study for the project.
8. The Port has spent \$286,067 on three pre-purchase studies and one post-purchase study of the automated loading and bagging system. The Port never received the final report from the post-purchase study that alone cost \$241,770.

Recommendations:

1. The Port should order an independent evaluation of the automated bagging and loading system to determine the feasibility and estimated cost of completing the project.
2. Procedures should be implemented to ensure that all future projects are completely evaluated for feasibility prior to obligating the Port.

V. Travel and Local Expenses

During 2002, at a time when Port expenses exceeded gross operational revenues by \$6.5 million, members of the Board and key staff officials engorged themselves by spending in excess of \$350,000 of Port funds for travel and entertainment expenses as well as at home lunches, dinners and meetings with little or no discernable benefit to the Port.

While this office understands the need for conferences and promotional activities, the Port has incurred promotion and development expenditures beyond that of any prudent businessman whose company's revenues are less than its expenses. In fact, it is clear from the expense reimbursements during 2002 that Port commissioners and staff members have adopted an extravagant business lifestyle at the Port's expense.

Instead of conducting direct meetings at Port or potential customers' facilities, Port officials have used the excuse of promotion to travel around the country and entertain friends and colleagues. Based on the documentation reviewed, very rarely does a Port official attend all the days of a conference, seminar, or convention. During 2002, certain Board members and Port staff charged expenses for the following number of days of out of town travel. There were numerous days of in town travel expense as well.

Mr. Jordan -- 75 days
Mr. Dees -- 58 days
Mr. Langley -- 52 days
Mr. Sukiennik -- 42 days
Mr. Watts -- 31 days
Mr. Rideaux -- 26 days
Mr. Williams -- 25 days
Mr. DeRouen -- 20 days
Mr. Anderson -- 19 days
Mr. Livings -- 18 days
Mr. Theilen -- 14 days
Mr. Polansky -- 9 days
Mr. Donaldson -- 5 days.

Through out the year Port officials attended and/or hosted many different types of events in and out of Lake Charles. Port officials took many trips not covered in this report.

Events attended include:

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Economic Development Trip (*Mardi Gras*) -- Washington, D.C.

7 board members & 4 staff members

Jan. 24 - Feb. 4, 2002 Cost -- \$39,215

United States Department of Agriculture & United States Agency for
International Development Export Food Aid Conference --

Kansas City, MO

5 board members & 2 staff members

April 23 - 25, 2002 Cost -- \$47,220

Legislative Briefing -- Baton Rouge, LA

April 30, 2002 Cost -- \$10,764

AAPA Special Seminar for Governing Boards and Commissions --

Vancouver, B.C., Canada

5 board members & 1 staff members

June 5 - 7, 2002 Cost -- \$17,146

Rice Millers 103rd Annual Convention -- Beaver Creek, CO

5 board members & 3 staff members

June 11 - 14, 2002 Cost -- \$44,852

International Longshoremen's Association Convention --

Hollywood, FL

1 board member & 1 staff member

July 15 - 18, 2002 Cost -- \$2,203

13th Annual Breakbulk Transportation Conference -- New Orleans, LA

1 board member & 2 staff members

Sept. 8 - 10, 2002 Cost -- \$5,888

American Association of Port Authorities Annual Convention --

Palm Beach, FL

4 board members & 1 staff member

Sept. 21 - 25, 2002 Cost -- \$14,493

Social for the Cuban Delegation -- Lake Charles, LA

Sept. 5, 2002 Cost -- \$16,009

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U.S. Agribusiness Exposition -- Havana, Cuba
2 board members & 1 staff member
Sept. 26 – Oct. 1, 2002 Cost -- \$15,256

German Armed Forces, German Beer Night 2002 -- Dulles, VA
1 staff member
Oct. 17, 2002 Cost -- \$658

North American Millers Assoc. Annual Meeting -- Napa, CA
1 staff member
Oct. 19 - 21, 2002 Cost -- \$3,898

Customer Christmas Party -- Lake Charles, LA
Dec. 13, 2002 Cost -- \$12,421

Questionable expenditures include the use of Port funds for:

- Entertainment events under the guise of economic development and promotion.
- Personal entertainment and trips while attending conferences.
- Wasteful and less than prudent manner while on trips.
- Travel and entertainment of several wives of Port officials that included use of a port vehicle.

While a cursory examination of records for the past three years indicates the same pattern, we focused on detailing the last full year, 2002, for demonstrative purposes.

An examination of costs for various functions revealed a lack of documentation describing any legitimate business purpose or benefits received. Many of the charges were identified and described merely as "entertainment." Consequently, we cannot determine that these functions were legitimate promotional expenses. The major benefits received appear to be for personal pleasure and entertainment.

In addition to travel and meeting expenses, we examined such items as \$1,440 in membership fees at the Lake Charles Country Club and the purchase of \$26,000 worth of alcohol, over and above dinner drinks.

A. Port Funds For Entertainment Events

More than \$121,000 of Port funds and \$11,000 of Lake Charles Stevedores money was spent on five separate events purported to be economic or promotional events. More than \$19,700 of the costs was for alcoholic beverages.

The five events were; the Economic Development Trip to Washington, D.C., USDA & USAID Export Food Aid Conference, Kansas City, MO, the Legislative Briefing event, Baton Rouge, the Rice Millers 103rd Annual Convention, Beaver Creek, CO, and a Cuban Delegation social in Lake Charles.

State law allows port authorities to promote the development of industry, trade, and commerce within and for their respective jurisdictions. The law further allows for advertising by various means. However, a review of the documentation supporting the reimbursement or cost associated with the previously mentioned five events, does not indicate a benefit and/or potential benefit to the Port for the promotion, encouragement, or development of industry, trade, or commerce. Documentation did reveal that commission members spent Port funds in less than a prudent manner.

1. Economic Development Trip & Mardi Gras -- Washington, D.C.

Eleven persons from the Port, including all seven commissioners, the director, and its attorney, participated in a business, political and social event from 4 to 12 days costing more than \$39,000.

This trip was termed an economic development trip, with events centered around the annual Mardi Gras Ball in Washington, D.C. in February, 2002.

Lake Charles Stevedores gave the Port more than \$11,000 to help cover the cost of this trip. According to Daryl Didier, vice-president of Lake Charles Stevedores, the director of the Port, Mr. Jordan, asked him to help defray the cost. Lake Charles Stevedores is the exclusive labor contractor for the Port.

This action is a matter for the state Board of Ethics to address.

Problems with this trip include:

- An excess representation of Port officials for this trip. Documentation did not support a need for the Port to bring such a large entourage to the Washington, D.C. Mardi Gras activities. In this case, only Mr. Jordan attempted to present

documentation to show a relationship to economic development for business purposes.

- Approximately \$9,500 for food and \$1,700 for liquor to entertain ball participants in a hospitality suite. Additionally, the director of housekeeping, Wallace Livings, was shifted from his duties at the Port for eight days to run the hospitality suite. The only available document showed 64 persons signed in at the hospitality suite. However, very few guests at the hospitality suite could have any type of business with the Port.
- Rental of an extra room for supplies. It cost \$1,645 for seven days, despite the hospitality suite being rented for only four days. Documentation showed food was catered by the hotel and the liquor was purchased on various days bringing into question the need for a supply room.
- Board member expenses far exceeded reasonableness in the cost per meal at times. For example, on Jan. 29, 2002, five persons, including the president, director, and director of operations, charged the Port \$770 for a meal or a cost of \$154 per plate. The other two persons listed represented Lake Charles Stevedores and the U.S. Department of Agriculture.
- Port attorney Dees, attended the Mardi Gras event at a cost of \$1,335. Most of the cost was for the hotel and plane ticket. Mr. Dees made no expense claims for meals. There was no documentation to support a need for the Port attorney to attend the event.
- Rental of two vehicles, one a luxury automobile (Lincoln Continental) and the other a van, at a cost of \$1,815. The van was rented for seven days but only driven a total of 71 miles. Additionally, \$947 was spent on 51 cab fares. No detail was shown for the necessity of a cab fare.
- Two officials, Mr. Jordan, the Port's director, and Mr. Langley, Board president, spent 12 days in Washington from January 24 through February 2. Mr. Livings was brought to Washington for 8 days. The director of operations for the Port, Nathan Sukiennik, was there for 6 days. Five commissioners, DeRouen, Williams, Rideaux, Donaldson and Watts, and the attorney were there for 5 days and commissioner, Thielen, was there 4 days. As previously stated, Jordan was the only individual attempting to justify his trip as an economic development event.

Former commissioner Thielen best explained the trip when he said he did not like the Mardi Gras Ball trip. He also said he did not find any Port business reason for the trip. He said, after attending in the past, he was reluctant to go. Mr. Thielen further stated

other board members encouraged him to go saying it was part of his job to attend these type of events.

2. USDA & USAID Export Food Aid Conference IV -- Kansas City, MO

The Port spent \$47,220 at a food aid conference staged by the USDA and USAID. The majority of the expenditure was for a reception given by the Port on April 23, 2002, costing \$37,916.

The reception was held the opening night of the conference and catered by the hotel. The banquet included 900 lamb chops, 1,300 crab cakes, 600 desserts, 600 international coffees, 6 smoked turkey breast, 12 roasted beef tenderloins, 5 fruit and cheese trays, 10 smoked salmon displays and 1,200 alcoholic beverages.

Problems noted are the following:

- The Port does not contract with the USDA or USAID. Suppliers and carriers of food products contract with the USDA and USAID. This raises the question of how this can be classified as a promotional and development event.
- The conference agenda indicates it was for informational purposes. Attendees were likely to be other port entities in competition with the Port as well as suppliers and carriers wishing to contract with the USDA and USAID. Again, this raises the question of how the cost of the reception could be classified by the Port as a promotional and development event.
- The Port failed to document that such an extravagant banquet was necessary. The Port also failed to document any of the estimated 600 persons present at the banquet could have an association with Port business.
- It appears the reception was for USDA customers and not for Port customers. The \$37,916 cost of the party benefited the USDA and USAID conference.
- Only one of the seven Port persons who went to Kansas City actually attended the conference – Nathan Sukiennik, director of port operations. Five Commissioners, DeRouen, Rideaux, Langley, Williams and Thielen, and port director Jordan only attended what was described by the Port as a “Customer Appreciation Reception.”
- Expense account records for the group show they spent \$309, an average of \$61 per plate, of Port funds for an additional dinner on the same evening as the

reception. Commissioners Langley, DeRouen, Rideaux, Thielen and the Port director were listed as attending the additional dinner.

- The Port also paid \$2,717 for a dinner for 21 individuals on April 22, which average \$129 per plate. In addition to the seven Port officials, Mr. Didier of Lake Charles Stevedores and Rick Cormier attended, Lash Chretien, Raymond Rideaux and Warren Rideaux of the International Longshoremens Association attended, along with officials from the USDA, USAID, LAPAC, NAMA, Vista Trading, LA Bag Co. and a consultant participated in the meal.
- Messrs. Jordan, Langley and Sukiennik rented 3 Lincoln Town Cars costing the Port \$810. Mr. Sukiennik put 91 miles on his rented car, Mr. Langley put 48 miles on his and Mr. Jordan put only 5 miles on his. In addition, Mr. Jordan charged the Port \$70 for 6 taxi fares.

3. Legislative Briefing -- Baton Rouge, LA

Almost immediately after returning from Kansas City, the Port hosted an event on April 30, in Baton Rouge called a Legislative Briefing. It was held on the grounds at the Pentagon Barracks apartments. The cost to the Port was \$10,764.

There was live music, almost \$6,000 in seafood, brownies, and cheesecakes, and \$2,874 of alcohol and other beverages.

All State representatives and senators were invited as well as a few other officials. Port attorney Dees attended the event as well as Mr. Livings and board president Langley. It is unclear if any other Port representatives attended.

Besides being an excessive expense to the Port, there was no documentation to support the event as promotional and development.

4. Rice Millers 103rd Annual Convention -- Beaver Creek, CO

The Port paid more than \$20,000 for two events at the Rice Millers convention for which there is no documentation of the Port deriving any benefits.

The cost included \$5,820 for a hospitality suite, and a \$14,904 banquet. The tab for alcohol was \$1,717 at the hospitality suite and \$2,320 at the banquet.

Other costs associated with this convention are discussed in other travel expense sections of this report.

5. Cuban Delegation Social -- Lake Charles, LA and Trip to Cuba

In an effort to promote business with Cuba, Port officials entertained two Cuban officials with a social event and later took a trip to Cuba at a total cost of more than \$32,000.

The social event occurred the evening of Sept. 4, at the Port and coupled with related meetings for the Cuban Delegation cost more than \$17,000. Later that same month two commissioners and the Port director flew to Havana, Cuba for an U.S. Food & Agribusiness Exposition spending an additional \$15,256 for that trip.

The Port utilized a 435 person established guest list when hosting the social. The guest list is not specific to target individuals who would be relevant to the event. The guest list is discussed in more detail later in this report. There is a lack of documentation to demonstrate a necessity for the large guest list and extensive cost of the social.

Approximately \$6,050 was spent on food and \$2,750 on alcohol for the Sept. 4, evening social event.

Prior to the social event, a mini-event called a briefing and luncheon was held for 60 people at a cost of \$877.

The day prior to and the day after the social event, the Port director and commissioners entertained the Cuban Delegation with three meals at a cost of \$880. The average cost for the 17 persons total that dined was \$51 per plate.

B. Touring at Port Expense

Mesers. Langley, Watts, and Jordan, and their wives turned two events which totaled seven days into a 17 day 6,175 mile expense paid motor tour of the northwestern United States in a Port van. Expenses claimed by the three officials relative to these conventions totaled \$14,559.

One event sponsored by the American Association of Port Authorities, was held June 5-7 in Vancouver, B.C., and the other by the Rice Millers Association, was held June 11-14 in Beaver Creek, CO.

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Costs for the wives were blended into the officials' expense reports requesting reimbursement. In many instances the costs of the wives meals were improperly paid by the Port.

The Port incurred costs of at least \$4,500 more than if the three had flown round trip to each convention.

Mr. Dees cost the Port more than \$3,400 in unnecessary expenses related to the same conventions while taking a side vacation of his own.

Taking into consideration that Mr. Dees arrived two days early for one seminar and left after only one and half days of the three day seminar, Mr. Dees' entire cost of \$2,197 attributable to that portion of the trip was unnecessary. The additional expense of renting a car for \$1,266 to drive from Seattle, WA to Beaver Creek, CO is also considered unnecessary.

1. Touring Officials

The touring officials left Lake Charles on May 30, 2002, and spent six days traveling from Lake Charles to Vancouver; spending overnights in Wichita, KS, Loveland, CO, Laurel, MT, and Gig Harbor, WA. Several other commissioners flew in to attend the Vancouver seminar. At Vancouver, the three blended into the activities of the overall contingent from Lake Charles.

After leaving Vancouver, the three officials drove to Seattle where they spent the night at the Edgewater Hotel at a cost of \$276 per room. In contrast, two other commissioners who also went to Seattle spent the night at a Hilton Hotel at a cost of \$111 per night before flying back. The three spent the next night in Boise, ID before reaching Beaver Creek.

In Beaver Creek, Mr. Langley and Mr. Watts played golf. Lake Charles Stevedores paid \$250 in green fees for the two commissioners. The Port later reimbursed the company.

This action is a matter for the State Board of Ethics to address.

Mr. Jordan became ill during the conference and flew home with his wife at a cost of \$701. The others left a day before the end of the conference and returned by Port vehicle.

Even if the conferences should have been attended by all the officials, the extra days used by Mr. Langley, Mr. Watts, and Mr. Jordan cost the Port more than \$4,500 unnecessarily. When allowing each individual the cost for round trip airfares to each conference and

additional expenses for the day prior to and the day after the conventions, Mr. Langley cost the Port an additional \$573, Mr. Watts an additional \$418, and Mr. Jordan an additional \$1,551. The additional cost does not take into consideration some of the expenses claimed might have been incurred by the wives of the Commissioners (discussed in a later section). Additionally, the cost of using the port's vehicle is estimated to be at least \$1,976 based on the state rate of 32 cents per mile.

2. Touring Attorney

Attorney Dees and his spouse flew into Seattle, WA where he rented a car and drove to Vancouver on June 3, two days before the seminar began. The cost to the Port for the rental car was \$390 including gas and parking. Despite the Port paying the registration fee of \$485 for a three day seminar, Mr. Dees left after the first day to tour the northwestern states en route to the convention at Beaver Creek, CO. It took Mr. Dees six days to reach Beaver Creek.

After leaving Vancouver, he made stops at Cle Elum, WA, Livingston, MT, Red Lodge, MT, Riverton, WY, Steamboat Springs, CO., and finally Beaver Creek. He and his wife flew home from Colorado. His meal and hotel expenses were relatively moderate.

There is no documentation to support Mr. Dees' Vancouver trip had any benefit to the Port. Considering that along with the lack of time spent at the AAPA seminar, Mr. Dees cost the Port at least \$3,400 of unnecessary expenditures which may be considered personal.

C. Imprudent Expenditures

At a time when operating revenues were less than operating expenses, Port officials concerned themselves very little with curtailing or controlling excessive or unnecessary spending of Port money.

Port officials continued to play host at restaurants, lounges, and entertainment events to individuals who could not benefit Port operations or contribute to the promotion or development of industry, trade, or commerce. Spending was out of control when it came to car rentals. There were multiple rental cars on several trips often of the luxury category. Additionally, it was not uncommon to drive rental cars a very short distance while incurring significant taxi fares on the same trip.

Excessive representation by the Port at various events contributed to a large portion of the imprudent expenditures. Frequently a majority of board members accompanied by senior

management and the head of housekeeping will attend these events bringing the entourage to at least six individuals sent to represent Port interest.

1. AAPA Special Seminar for Governing Boards and Commissions -- Vancouver, B.C.

Seven officials representing the Port of Lake Charles took part in a seminar sponsored by the AAPA, held in Vancouver, B.C., June 5-7, 2002 which cost the Port \$17,146.

The group included Port director Jordan, attorney Dees, and commissioners Langley, Watts, Rideaux, Williams, and DeRouen.

The registration fee for each participant was \$485, a total of \$3,395 for the three-day seminar.

Problems associated with excessive or unnecessary expenses for the seminar were:

- Port attorney Dees arrived two days prior to the start of the seminar but left after only one day of the three day seminar costing the Port an unnecessary \$3,400 for the entire trip.
- Mr. DeRouen, arrived in Seattle and drove to Vancouver on June 4, the day before the seminar opened. He rented a Lincoln Town Car, which he kept until June 11, four days after the seminar ended. He charged the Port \$583 for the car, gas and parking. The car was driven 660 miles. Considering approximately \$73 cost per day for the rental car, Mr. DeRouen has received at least \$292 in excess reimbursement from the Port for the additional 4 days. Mr. DeRouen did not attend the convention in Beaver Creek.
- The evening of June 4, 2002, the five commissioners, the director, and the attorney dined at a restaurant for \$567. All, except attorney Dees, claimed an \$81 expense on their reports for the meal. Mr. Dees claimed half the amount, \$40, as a personal expense attributable to his wife and reimbursed the Port. Mr. Dees stated that the wives of Mr. Langley, Mr. Watts, and Mr. Jordan were there also. The Port improperly paid for their wives' meals.
- The next evening everyone except Mr. Jordan made a similar charge on their expense reports. Dinner at a restaurant cost \$340 and the five commissioners each claimed a meal cost of \$56 while Mr. Dees claimed half that amount, \$28, was a personal cost attributable to his wife. Mr. Langley and Mr. Watts wives dined also

according to Mr. Dees. The commissioners failed to reimburse the Port for the cost of their wives' meals.

- Mr. Jordan dined in his hotel room the night of June 5, claiming \$61 for dinner expense. Mr. Jordan's wife was sharing the hotel room but there was no reduction to expenses on Mr. Jordan's claim form of a reduction of the expense for cost associated with his wife's dinner. When interviewed, Mr. Jordan could not remember if his wife dined with him in that instance. It is probable she did and Mr. Jordan would owe the Port reimbursement for his wife's cost of the meal.
- The five commissioners and the director spent their last evening in Vancouver with dinner at a steakhouse. The cost was \$741 and each of the six men claimed \$123 for meal expense.

2. Rice Millers 103rd Annual Convention -- Beaver Creek, CO

Nine Lake Charles Port officials participated in the Rice Millers Convention in Beaver Creek, CO June 11-14, 2002, which cost the Port \$44,852.

Commissioners attending were Mesers. Langley, Watts, Williams, Rideaux and Thielen. Staff members attending were Mesers. Jordan, Dees, Livings and Sukiennik.

The Port paid a registration fee of \$350 each for six of the Lake Charles group, a total of \$2,100. No registration fee was paid for Mr. Livings, who was there to help stage activities, arriving two days early to perform his tasks. Mr. Jordan and Mr. Sukiennik received complimentary registrations due to Port sponsorship of the convention.

Total of all costs that can be directly attributed to entertainment such as meals, hospitality suite charges, alcohol, banquet food, and other items for the hospitality suite, was \$22,124.

- The Port paid for several events at the convention, including a hospitality suite, which cost \$5,820 total. The hospitality room cost \$3,330 for 6 nights at \$555 each night and \$1,717 was spent on alcohol and food.
- Mr. Livings and Mr. Sukiennik were shifted from their duties at the Port for approximately a week, in order to provide services to the Port's social events being held in conjunction with the Beaver Creek, CO convention.
- \$14,904 was spent for a banquet including \$2,320 for alcohol.

- Port officials rented six vehicles at a cost of \$3,828 instead of considering a means of sharing vehicles. Mr. Willaims charged the Port \$525 for six days, driving 783 miles. Mr. Thielen charged \$363 for 5 days, driving 313 miles. Mr. Rideaux charged \$546 for 9 days, driving 2,952 miles. Mr. Dees charged \$1,254 for 10 days, driving 2,037 miles.
- On June 11, Mr. Sukiennik charged \$1,454 for dinner at the hotel to the Port's credit card. The dinner for 11 included 5 commissioners, the attorney, the Port's consulting engineer and USDA officials. The average cost per plate was \$132.
- On June 12, Mr. Sukiennik entertained Mr. Didier of Lake Charles Stevedores and Mr. Meyer, the consulting engineer, at the Port's expense. Later that same evening, Mr. Sukiennik entertained 10 people including 5 commissioners, the attorney, the head of housekeeping, the consulting engineer and a representative of ADM Milling, for dinner at a cost of \$719 or \$71 per plate.
- There were only five hours 15 minutes of educational seminar time scheduled the entire four days of the convention. The rest of the time was devoted to events such as "White Water Rafting", "Beginner's Golf Clinic", "Betty Ford Alpine Gardens", and "RMA Annual Golf Tournament", raising a question of the benefit received from what appears largely to be a four day vacation at public expense.

3. International Longshoremen's Association Convention -- Hollywood, FL

Mr. Watts attended two days and Mr. Dees only a half-day of the five day convention. The convention was the ILA convention in Hollywood, FL held July 15-19.

The cost wasted for this trip was approximately \$2,203.

Although the convention started on the July 15, Mr. Watts arrived at 10 that night, missing the first day. Mr. Watts then left the resort hotel at 9:15 the morning of July 18.

Mr. Dees arrived at noontime the second day of the convention, July 16. Mr. Dees then left the next morning, July 17, at 9 a.m.

No documentation was provided to indicate the relevance of this trip to Port business or the need for Mr. Watts and Mr. Dees to attend.

4. 13th Annual Breakbulk Transportation Conference -- New Orleans, LA

The Port spent \$5,888 to send Messrs. Langley, Jordan, and Sukiennik, to New Orleans for the 13th Annual Breakbulk Transportation Conference on Sept 8-10.

Mr. Langley and Mr. Jordan drove to New Orleans the day before the conference so they could attend an event billed as a "Riverfront Extravaganza" at the Port of New Orleans Administration Building.

- On September 8, Mr. Jordan charged \$2,395 to the Port for dinner. He listed 17 people as being present at a cost of \$140 per plate. Of the 17 listed, 14 were ILA union members including Hillary Langley. Also present was the lead negotiator for an industry association that represents Lake Charles Stevedores in contract negotiations with the union. According to Mr. Jordan's expense receipt, the document showed "Discussed ILA work rules, ILA rates, Port unloading charges." Not only can the cost of each meal be considered excessive but, Mr. Langley's participation presents a problem because he is the Port president, an officer in the union, and an employee of Lake Charles Stevedores which contracts with the Port.
- The next evening Mr. Jordan entertained 4 ILA members, including Mr. Langley, charging the Port \$248 for a dinner. The cost was more than \$49 per plate.
- On the last day of the conference, which neither Mr. Langley nor Mr. Jordan chose to attend, Mr. Jordan charged \$222 for lunch in Baton Rouge for 6 ILA union members including Mr. Langley. The cost was \$31 per plate. The benefits of this lunch are questionable.

Ironically, Mr. Jordan and Mr. Langley were able to arrive the day before the conference in order to attend a social event but did not attend the last day of the conference.

5. AAPA Annual Convention -- Palm Beach, FL

The Port spent \$14,493 to send five Port officials, Langley, Watts, Williams, Rideaux, and Jordan, to Palm Beach, Florida for the AAPA Annual convention that occurred on Sept. 22-26. There was no documentation to support any benefit to the Port from attending the convention.

- Four of the five attendees rented cars costing the Port more than \$1,850 for rental, gas, and parking.

- The commissioners did not attend all the sessions all of the days. Although the convention was scheduled 5 days, Mr. Williams stayed for 4 days, Mr. Jordan, Mr. Langley, and Mr. Watts stayed for 3 days, and Mr. Rideaux stayed for 2 days during convention events.
- The Port officials spent \$296 of Port money entertaining 6 other port directors and one private company, Sealift.
- Port officials failed to attend all five days of a convention for which the Port paid \$1,050 per official registration fees. No documentation was submitted with the expense report to identify any business related issues conducted at the convention. The registration documents only listed social events. Documents indicate the trip had little or no benefit to the Port.

6. German Armed Forces, German Beer Night 2002 -- Dulles, VA

On October 17, the Port paid for the director of maintenance, John Polansky, to go to Dulles, VA to participate in an event called German Beer Night 2002. Cost for the trip was \$658 consisting almost entirely of the plane ticket and \$174 for one night stay at the Marriott hotel.

No documentation was provided to indicate any relevance of this trip to the Port's business or the need to send the director of maintenance on a promotional trip. The only documentation was registration from the German Armed Forces Command for \$18. The registration indicated there would be entertainment by a couple of groups, German food, beer and wine.

7. North American Millers Association Annual Meeting -- Napa, CA

The Port paid \$3,898 to send Director Jordan, to the North American Millers Association Annual Meeting on Oct. 19-21 in Napa, California. The registration fee was \$1,000.

- Mr. Jordan and his wife arrived in San Francisco on Oct. 18, and stayed overnight at a hotel for \$201. That evening, Mr. Jordan met with Glenwood Wiseman, at the time a consultant for Lake Charles Stevedores, for dinner costing \$218 or \$109 per plate. Mr. Wiseman is the former director of the Port of Lake Charles whom Mr. Jordan replaced. According to Mr. Jordan's expense claim, the men discussed bulk handling rates and bagged cargo.

- On October 19, the opening day of the meeting, Mr. Jordan and his wife drove 50 miles to Napa where they checked in at the Silverado Country Club & Resort sometime after 4 p.m. The arrival time indicates that Mr. Jordan was unable to attend the first day of the meeting. Condos at the Silverado cost the Port \$307 a night. That evening in Napa, Mr. Jordan met with Mr. Wiseman again for dinner. This time Mr. and Mrs. John Didion from Didion Milling were present. According to Mr. Jordan's expense claim, they discussed corn soy blend, USDA rates and supply. The dinner for the 3 men ran \$530 or \$176 per plate.
- Additionally, while on the trip, Mr. Jordan claimed he ate one lunch for \$48 and another for \$80.

The above examples indicate the excessive spending of Port funds. Nothing was provided to show merit of the associations annual meeting relative to Port business. No documentation was provided as how the discussions with the former Port director and now consultant for the Port's labor contractor benefited the Port. Mr. Jordan did not document any expense for his wife's meals may owe reimbursement to the Port.

8. Customer Christmas Party -- Lake Charles, LA

The Port spent at least \$12,421 for what it termed a Customer Christmas Party on December 13 at the Port.

The Port purchased \$5,624 of food and \$3,954 of alcoholic beverages for the event.

The Port has an established invitation list it uses for parties. The list had 435 people on it and consists of business people, attorneys, a few legislators, and a few other state officials, many of the judiciary, school board and private individuals.

The port invited the entire list of 435 people to attend its Christmas event. No documentation was made available for whom or how many actually attended. The guest list is not specific to target individuals who would be relevant to the event. The Port did not document any business reason for the Christmas party.

D. Port Travel Expenses For Wives

There were several occasions where Port officials' wives traveled with them and their expenses were paid with Port funds. It is improper for the Port to for expenses of individuals whose activities are not related to official state business. Interviews with the

former Port director and the Port's attorney indicated that it was common for the Port officials wives to dine with them when they attended on trips and for the meals to be charged on a Port credit card. The Port is responsible for all charges on credit cards issued to officials with the charges being paid monthly prior to submission of any expense reports.

We found the Port attorney was the only official to regularly claim half the meal cost as personal expense for his wife and reimbursing the Port. In interviews, both Mr. Jordan and Mr. Dees identified certain meals in which their wives and other commissioners' wives were present and the Port paid. Mr. Jordan stated he usually notes if his wife dines and his secretary should have split those costs so that he would reimburse the Port. When it was pointed out that was not the case in some instances, Mr. Jordan said it was regrettable that occurred. Mr. Jordan could not remember all instances in which his wife or other commissioners' wives dined with them, nor could Mr. Dees.

There are numerous circumstances showing the Port paid for a spouses trip expenses. The following are examples:

1. Vancouver, B.C. and Beaver Creek, CO Trips

Three Port officials, Mesers. Langley, Jordan, and Watts, brought their wives on a 17 day trip to Canada and Colorado. Expenses incurred that were shared by the wives include:

- A port vehicle was used for the travel. Considering the vehicle was driven 6,175 miles according to the vehicle log and applying the state vehicle reimbursement rate for 2002 (.32 per mile), the cost for the use of the port vehicle is \$1,976. The Port's travel policy states, "Only Commissioners, or District employees may be transported in a District automobile unless the presence of non-District personnel is for purposes of District business." The wives were not present for business purposes and by allowing them to travel in the Port vehicle; the Port was exposed to an unnecessary liability. None of the officials reimbursed the Port for the expense of transporting their wives.
- On May 30, Mesers. Jordan, Langley and Watts stopped at a restaurant in Wichita, KS while en route to Vancouver. The \$341 dinner was charged to Mr. Jordan's Port credit card. Each of the officials' claimed \$113 dinner costs on their expense reports. No costs were attributed to their wives and no reimbursement was made. Mr. Jordan acknowledged their wives were present and their portion should have been claimed as a personal expense.

- On May 31, the three officials stopped at a restaurant in Loveland, CO. The dinner cost \$219 and was charged to Mr. Jordan's Port credit card. Each of the officials' claimed \$73 dinner costs on their expense reports. No costs were attributed to their wives and no reimbursement was made. Mr. Jordan acknowledged their wives were present and their portion should have been claimed as a personal expense.
- On June 4, commissioners Langley, Watts, Williams, Rideaux, and DeRouen, Mr. Jordan and Mr. Dees dined together at a restaurant. Mr. Dees stated that his wife and the wives of Mesers. Jordan, Langley, and Watts were also there. Mr. Jordan charged the \$567 cost of the dinner to his credit card. A review of Mr. Jordan's credit card bill shows the expense was divided evenly among the seven men at \$81 each. Mr. Dees was the only official to reimburse the Port half the meal expense, \$40, as personal costs for his wife's dinner. Mesers. Jordan, Langley, and Watts costs for their wives dinner were improperly paid by the Port.
- On June 5, commissioners Langley, Watts, Williams, Rideaux, and DeRouen and Mr. Dees had dinner at a restaurant costing \$340 that was charged to Mr. DeRouen's Port credit card. Mr. Dees stated his wife and the wives of commissioners Langley and Watts dined with them. As done the previous night, the cost was divided among the six individuals who could claim reimbursement from the Port. All the commissioners claimed \$56 for the cost of the meal. Mr. Dees only claimed \$28, citing that the other half was personal cost attributable to his wife. Commissioners Langley and Watts costs for their wives dinner were improperly paid by the Port.
- On June 5, Port Director Jordan dined in his hotel room claiming \$61 for dinner cost. Mr. Jordan could not remember the meal when interviewed, but it is reasonable to believe Mrs. Jordan's dinner cost was part of the \$61 claimed.

While Mesers. Jordan, Langley, and Watts never reduced meal expenses on their claims documents for their wives, there were several occasions where the amount claimed for one meal was \$100 or more.

Additionally, Mr. Dees claimed the expense for two rental cars. One he used in Canada while the other he used to drive from Seattle, WA to Beaver Creek, CO. Because the vehicles were supposed to be for Port business, Mr. Dees may have placed an unnecessary liability on the Port by transporting his wife, who was not present for business purposes, in the vehicles.

2. *Mardi Gras Trip -- Washington, D.C.*

Four of the board members, Williams, Thielen, Donaldson and Langley, brought their wives with them to Washington. D.C.

None of the members reimbursed any expenses for their wives on claims documents.

3. *Palm Beach, FL Trip*

During September 2002, Mr. Langley, Mr. Watts, and Mr. Williams registered their wives for a convention in Palm Beach, FL.

Again, there were no reimbursements on the claims for travel expenses attributable to the wives. However, Mr. Watts and Mr. Williams claimed over \$1,000 in total expenses for their two rental cars.

E. Unallowable Promotion and Development Expenditures

Port officials designated \$395,240 as promotional and development expenses without assurance in many instances that funds were expended in accord with state law. The Port failed to maintain a separate accounting for local promotion and development expenditures.

State law permits Ports to expend up to 2% of its current year gross income from operations for local promotion and development. Such cost must be expended in its respective jurisdictional boundaries.

However, the 2% is permitted if (1) the Port did not have a deficit in the prior year; and (2) has generated current income from operations.

The Port did not meet these requirements for calendar year 2002. The Port experienced an operational loss in 2001 of almost \$4 million and ended the year with a net loss of \$672,135. In 2002, Port operations failed to generate any current year income ending the year with an operational loss of almost \$6.5 million while sustaining a net loss of more than \$3.8 million.

In addition, the Port does not have an effective means to determine if any funds expended for local promotion and development are in accord with state law. The accounting system does not have an object of expenditure for the compilation of expenses related to local promotion and development.

F. Open Meetings Violations

The Port Board was frequently in violation of the state Open Meetings Law when four or more of the members met for meals or over drinks and discussed Port business. Four is a quorum of the seven member board.

On occasion, attorney Dees accompanied Board members when a quorum was present and Port business was discussed. On those occasions when he was present, there is no record that Mr. Dees advised or warned the commissioners at that time they may be in violation of the Open Meetings Law.

The Open Meetings Law requires public bodies to conduct their business in the open at facilities accessible and open to the general public. It is necessary that a notice of the time and place of the meeting and an agenda be posted at least 24 hours in advance and that the press, if it had previously asked, be notified.

In reviewing expense records submitted by various individuals, it was discovered that a quorum of the commission had met over meals or drinks on at least six occasions that were not posted. The documents cited discussion of Port business as the justification for the expenses charged to the Port.

There were numerous other occasions when a quorum of Board members were present at various functions such as lunches, dinners, social get togethers or conventions wherein the records did not reflect that business had been discussed.

It is permissible for a quorum of boards or commissions to meet at social gatherings such as luncheons or parties as long as agency business is not discussed.

The six occasions found in the records were:

1. On April 22, at a restaurant in Kansas City, commissioners Langley, DeRouen, Rideaux, Williams, and Thielen met over dinner. Port director Jordan and director of operations Sukinnik were staff members present. They met with 14 other individuals from federal aid programs, the International Longshoremen Association, and private companies. Documentation submitted by Mr. Jordan with his claim for travel expense stated they "Discussed USDA shipments and cargo."
2. On June 4, in Vancouver, B.C., commissioners Langley, Derouen, Watts, Rideaux, and Williams, along with the Port director met with the executive director of the

Port of Everett, WA, over drinks at the restaurant in the hotel where they were staying. According to Mr. Jordan's claim for travel expense report, they "Discussed passenger terminals."

3. In another instance at the same restaurant the Port director and 5 commissioners met with the executive director of Duluth Seaway Port Authority over drinks. According to documents submitted by Mr. Jordan with the claim for travel expense, they "Discussed bulk cargoes and coal."
4. On June 11, in Beaver Creek, commissioners Langley, Watts, Rideaux, Thielen, and Williams were present at a restaurant meeting. Attorney Dees, and Mr. Sukiennik were the staff members present. They met with 4 other individuals from the Port's consulting engineering firm and the USDA. Documentation submitted by Mr. Sukiennik with the claim for travel expenses stated they "Discussed USDA shipments through the Port of Lake Charles."
5. On June 12, a dinner meeting was held at a restaurant in Vail, CO. The meeting included commissioners Langley, Watts, Rideaux, Thielen, and Williams. Attorney Dees, Mr. Sukiennik and Mr. Livings were staff members present. They met with a flour company representative and the Port's consulting engineer. The documentation submitted by Mr. Sukiennik with the claim for travel expenses stated they "Discussed grain movements through the Port."
6. On Sept. 5, commissioners Langley, DeRouen, Watts, and Rideaux met over dinner at a restaurant in Basile, LA along with the Port director. They met with the Port's consulting engineer and foreign trade representatives. Documentation submitted by Mr. Jordan with the claim for travel expense stated they "Discussed rice shipments to Cuba – How to obtain VISAS to visit Cuba – How Louisiana Congressional Delegation can work with Cuba for shipment of foodstuffs."

Mr. Dees stated that there is a social exception to the open meetings law that allows for a quorum to meet as long as business is not conducted. However, he said if Port officials document discussing Port business at such meetings that it is hard for him to defend.

When Mr. Langley was asked if Mr. Dees, had counseled the Board against violating the open meetings law, Mr. Langley said not until recently when the Board wanted to meet at a camp to discuss certain issues and Mr. Dees said it might be a violation. He said, Mr. Dees went on to tell them how to call it something else and get around the law but still recommended not having the meeting.

G. Travel Policy Violations & Weaknesses

Port officials failed to adhere to the Port's travel policy but received payments for expenses without anyone questioning the violations. We found numerous expenses that were violations of policy and were not corrected. Additionally, the travel policy does not ensure proper control oversight. Part of the policy may cost the Port excessive money because of its liberal allowances.

1. Violations

- Port policy states that expense reports should be submitted within 30 days following the end of the month. Claim vouchers are routinely submitted late, often 60 days and more.

As a result, most charges are held in a travel advance account that is not cleared as similar accounts are at the end of the year. This skews all figures at the end of the year concerning travel expenses. Each year, some charges are not delegated to the proper accounts before the end of year closing and end up being charged in the next year. In 2002, the travel advance account had an ending balance of \$42,782 that was not properly expensed to travel.

- The Port's policy requires a receipt for any single expense in excess of \$25. When total expenses exceed \$75 a day then receipts are required for all items.

Examples are:

During his trip to Washington, D.C., Mr. Langley claimed \$501 in expenses for meals paid in cash for which he provided no receipt while his daily expenses were over \$75. Mr. Livings failed to provide receipts for \$432 in expenditures.

In Beaver Creek, Mr. Langley charged \$435 in meal expenses to the Port without providing any receipts, again daily expenses were over \$75. Mr. Livings failed to provide receipts for \$537 of cash expenditures.

At the AAPA Annual Convention in Palm Beach, FL, Mr. Langley was reimbursed \$298 in expenses without any documentation while daily expenses were over \$75.

- Port policy provides under the lodging and meals section a total of \$150 per day expenditures for sustenance. This restriction appears meaningless in light of their routinely ignoring it.
- The Port's travel policy requires expenses, such as meals and refreshments, be directly related to or associated with the active pursuit and advancement of district business, to derive revenues or some other specific benefit for the district.

A review of expense records showed, in practice, Port officials liberally interpreted its own definition of "some other specific business benefit" to include events which they failed to document any specific benefit derived.

- The Port charges travel expenses for a trip to either an educational account or promotional account. Some travel and convention expenses, with no discernable educational value, were improperly charged to educational accounts. For an example, the registration costs for the Rice Millers convention in Beaver Creek and for the AAPA Annual Convention in Palm Beach, FL were charged to education. We found little educational benefits to the conventions itself and none to the extensive travel route taken.
- Port policy requires, in order for travel expenses to be eligible for reimbursement, the charges must be "reasonable travel expenses" and for actual expenses claimed, "... all records of travel will be clear and complete. Receipts and other supporting documents must accompany the expense vouchers." As previously shown in this report, officials have violated this provision on numerous occasions.

2. Weaknesses

- All board members sign their own "Claim for Travel Expense" reports with no further approval signature or oversight.
- The Port pays for expenses prior to any documentation being submitted to verify the expense as a legitimate business expense. This occurs because the majority of travel expenses by Port officials and staff are paid by cash advances or Port credit card. As a result of a lack of oversight of expense report many expenses are not properly accounted for timely and some are improperly paid.

Examples are:

The Port has authorized 16 persons use of a commercial credit card account in its name. The Port's credit limit is \$200,000 with the Port director's card

having a \$50,000 limit and the other 15 cards having a \$10,000 limit. The credit cards are utilized mostly for travel expenses. The credit card charges are sent to the Port monthly and paid. The charges are posted to a travel advance account where they remain until reconciled with a claim for travel expense report and recorded in the appropriate expense account. More than \$215,000 was charged and paid on Port credit cards in 2002. The travel advance account ended year 2002 with more than \$42,000 in expenses that were paid but not yet documented.

Mr. Livings was provided a \$4,000 cash advance to attend the Mardi Gras Ball in Washington, D.C. He claimed \$2,260 in cash expenditures paid but failed to document \$432 of it.

For the Beaver Creek convention Mr. Livings was provided a \$2,000 cash advance. He claimed over \$1,600 in cash expenditures paid but failed to document \$537 of it.

In Sept. 2002, the Port provided a \$9,000 cash advance to the port director for a U.S. Food & Agribusiness Exhibition in Havana, Cuba. Approximately \$4,000 was expended in cash during the trip but Mr. Jordan failed to provide documentation for \$567 of it.

- The Port pays for meals documented solely by credit card receipt instead of an itemized meal ticket.
- The Port reimburses expenses without any documentation. For example, during the Washington, D.C. Mardi Gras, Mr. Jordan claimed \$1,012 in entertainment expenses with no explanations. The Port paid those expenses.
- The travel policy allows Port officials to obtain excessive reimbursements for the use of their private vehicles by paying them a liberal car allowance and allowing them to claim mileage expenses under certain circumstances.

The travel policy allows payment for mileage when using a personal car outside the district boundaries. The Port pays the Internal Revenue Service rate which was 36½ cents per mile and 34½ cents per mile in 2002. According to IRS, the rate is used in lieu of actual cost for operating a vehicle, gas, insurance, depreciation, etc.

There were at least 7 Port officials receiving a car allowance in 2002. The Port director and attorney received \$800 a month and the other 5 received \$600 a

month allowance. Additionally, the Port pays all insurance costs by carrying the officials and their vehicles on the Port's insurance policy. In addition, the officials claim mileage reimbursement for travel outside the districts boundaries. It may be an imprudent and wasteful business practice to pay a combination of these. The Port failed to document the most cost effective method for paying Port business transportation costs. This perk costs the Port \$62,716 in 2002 without including the mileage reimbursements.

- Liberal interpretation of the travel policy allows Port officials to entertain without the Port receiving any discernable benefit. Often meals and drinks are charged as entertainment expense when incidental contact is made at a convention or other event. Port officials attempted to justify it by stating that cargo was discussed, or rates, or security measures. Often the persons being entertained are officials from other ports, union members, the consulting engineer, lobbyist, other Lake Charles Port officials, and the like. There is no reason for the expenses when business can be discussed during regular hours.

H. Country Club Memberships

In the past, the Port purchased memberships for promotional purposes at the Lake Charles Country Club to be used by the director, commissioners, and the Port's attorney.

The Office of Inspector General issued a finding in a 1996 report on the Port, citing country club memberships as being improper expenditure of public funds. Memberships for use as promotion by the director and commissioners eventually ceased. Mr. Dees ignored the finding after responding, "The District's Country Club membership allows it to effectively promote itself with business customers." In 2002, only Mr. Dees was provided a Country Club membership at a cost of \$1,440 to the Port. The Port accounted for the cost as a promotional expense.

Accounting personnel at the Port stated that the cost of Mr. Dees' membership was not listed on his Internal Revenue Service form W-2 as compensation. Port human resource personnel could not find any documentation in Mr. Dees' file that indicates he was receiving a Country Club membership as part of a benefits/compensation package. However, Mr. Dees stated that his CPA has a copy of his contract and has accounted for the cost of membership on his annual tax return since he was hired.

In 2002, the Country Club mailed invoices to Mr. Dees at the Port that only contained personal expenses incurred for such items as meals, drinks and boat docking fees. Mr. Dees paid for these personal expenses. We found no business related charges on the

account. As previously reported in 1996, we found no business purposes for these charges or evidence the Country Club was used to promote Port business.

In reviewing executive director contracts, we found that a Country Club membership was provided for business purposes and that incidental personal use was allowable with the director to pay those additional charges. Past arguments by Mr. Dees and interviews with other Port employees indicate the membership utilized by the director was considered, documented and treated as a promotional expense and not a fringe benefit to the director.

Mr. Dees' employment contract contains a clause granting him all fringe benefits received by the director. The contract does not provide Mr. Dees a personal membership at the Country Club, as the executive director never received a personal membership. In addition, we find no business purpose for the Port to pay for Mr. Dees' membership in the Country Club, as we found no business conducted there.

We found no justification to provide the Port's attorney a business or personal membership in the Country Club.

I. Excessive Alcohol Purchases

In addition to drinks purchased with meals, the Port spent at least \$26,000 of public funds on alcoholic beverages in 2002. There was no documentation to support a public purpose for the purchase of such a large quantity of alcoholic beverages.

A review of purchases at a local store showed that \$11,982 was spent on alcohol in 2002 for local events.

There was over \$15,000 spent on alcoholic beverages at events out of state.

Conclusions:

1. The Port recorded \$395,240 of expenses in various promotion and development accounts with no assurance in many instances the expenses were in accord with state law.
2. The Port's accounting system does not properly segregate local promotion and development expenditures.

3. The Port's policy of charging travel to Port credit cards and providing cash advances coupled with the lack of oversight has allowed the payment of improper expenses.
4. Travel policy oversight is nonexistent. Despite numerous violations, we found no instances where the Port refused to pay a claim due to an improper charge.
5. Board members, the Port director and other staff members failed to document legitimate business reasons for much of their travel paid by the Port. Additionally, they failed to document the necessity for many in town business meal meetings.
6. Documentation was insufficient to verify that major events paid by the Port were legitimate promotional expenses.
7. The Port Board violated the state Open Meetings Law on at least six occasions while traveling and dining as a quorum out of state.
8. The Port improperly paid the costs of Board members' wives and Mr. Jordan's wife's travel expenses.
9. The Port spent more than \$26,000 on alcohol during the year with no apparent legitimate business reason.
10. Board members and staff spent excessively on travel, entertainment and meals with little discernable benefit to the Port.
11. The Port improperly paid \$1,440 for a Country Club membership for its attorney that provided no business purpose to the Port.

Recommendations:

1. The Port should insure that its accounting system properly segregates expenditures for local promotion and development.
2. The Port should insure that all charges to Port credit cards and cash payments meet the requirements of its travel policy. The Port should consider requiring individuals that travel to obtain a corporate credit card with the individual as guarantor.

3. The Port should assign an individual to be responsible for review of travel documents for compliance with travel policy, regulations and law. The Accounting Department should verify accuracy.
4. Board members should exercise self-control in restricting members' travel to only the minimum that is necessary and then it should be well documented as to reason and purpose. In town business meal meetings also should have a definitive purpose and be well documented as to the reason the work is conducted outside regular business hours.
5. The Port director should restrict his and staff travel to that which is necessary to the conduct of Port business. The travel should be well documented to the reason and purpose. In town business meal meetings amongst the director and staff should be restricted to that which cannot be conducted during regular business hours and should be documented as such. Business meal meetings with others should be documented as to the relevance and benefit to the Port.
6. The Port should review its promotion policy in determining benefits to be derived.
7. Open Meetings Law violations should be referred to the appropriate authorities.
8. Former Board members and the former Port director should meet with the Port Accounting Department to determine how much reimbursement is due the Port for expenses related to their wives travel. Port officials should document their wives expenses and should pay for them separately in order to reduce the possibility the Port pays any expense for their wives.
9. The Port Board should review its travel policy for reasonableness and members should abide by that policy.
10. The Port Board should establish clear guidelines for the purchase of alcohol.
11. The Port should eliminate the Port attorney's Country Club membership.

VI. \$414,000 LOSS OF INTEREST

The Port failed to maximize interest from investment of idle cash resulting in at least \$414,000 in unrealized or lost interest earnings for the 18 month period of May 1, 2001 through Oct. 31, 2002.

The Port did not prepare cash flow projections or review other investment options when investing a monthly average of \$27 million during the 18 month period. This lack of due diligence regarding cash management resulted in the Port foregoing investments in higher yielding options.

Without cash flow projections, an entity can neither be assured cash will be available to timely meet disbursements, nor will data be available to determine short term or long term cash needs to determine maturity requirements in order to maximize interest earnings. In addition, a knowledge of available investment option earnings and maturities is required to maximize earnings.

Our cash management review was limited to the investment in the Louisiana Asset Management Pool, Inc. (LAMP) and did not include the cash management activities of the Port's operating bank account, direct investments in U.S. government securities or funds on deposit with the trustee bank for bond indenture, letter of credit and sinking funds which were the majority of funds.

A. Port Investment Policy

The Port's current Cash Management and Investment Policy was implemented in July, 1994. The policy provides broad parameters for cash management in the area of permitted investments, financial intermediaries, fiscal agent banks, and procedures for delivery, possession and safekeeping of securities, etc.

The policy places overall cash management responsibilities with the Port director or his designee in consultation with the Cash Management Task Force, which is comprised of the Port director or his designee, general counsel, Board president, Board secretary, Board treasurer and the director of finance.

The policy requires the Task Force to meet periodically (not less than once quarterly) to review, revise, update and implement the investment plan developed and carried out by the Port director. The policy also requires monthly reports reflecting all investments including cost and market value and yields to be furnished to the full Board.

While the policy mentions a “determination of the Districts cash-flow needs”, it is silent concerning the requirement for a periodic formal cash flow projection. Such a projection should have included, at a minimum, a monthly update to include beginning cash balance, anticipated cash receipts, estimated disbursements and remaining balance available for investment. Utilizing the cash flow projection, a plan of investment based on cash needs and maturity options could have been prepared. However, rather than the preparation of periodic cash flow projections with monthly updates, it appears the annual budget was used to determine cash disbursement requirements and investment maturities on an annual basis.

We found no evidence that the Task Force met during the 18 month period or whether there was any reporting of cash management activity to the Task Force. We found no evidence the Task Force requested any information from the Port director.

In a memorandum dated Oct. 8, 2002 to Mr. Dees, Mr. Jordan said the Task Force had not met in several years. Mr. Langley said, the first time he heard about the Task Force was in the summer of 2002. He said, when he became Port president in 1995, no one told him about the Task Force.

B. LAMP

LAMP was created in 1993 as a non-profit cooperative venture to assist local Louisiana governmental entities in the investment of their cash balances. Municipalities, parish governments, school boards, levee boards, sheriff departments, assessors, clerks of court and other political subdivisions are among the more than 450 LAMP members. By pooling assets and resources local authorities can benefit from the same level of professional money management otherwise available only to larger institutions.

LAMP funds are professionally managed. Standard and Poor ranks LAMP as AAAM, the highest available for public market funds. LAMP only invests in securities and other obligations that are permissible under Louisiana law for local governments.

LAMP investment guidelines require that at the time of purchase all securities have a maximum remaining maturity of 397 days, and the dollar weighted average maturity of the LAMP portfolio shall not exceed 90 days. The LAMP actual dollar weighted average maturity for the 18 month period was approximately 50-60 days.

One of LAMP's primary objectives is daily liquidity. In effect, a member may withdraw all of its funds at anytime.

LAMP provides its members an excellent cost effective short term investment option which meets the requirements of Louisiana law and prudent investment policies. However, LAMP's short weighted average maturity and daily liquidity provision limits its earning rate.

Entities with a large idle cash balance and the option of longer term maturities may have opportunities for greater earnings than provided by LAMP by utilizing other investment options.

Mr. Anderson served on the LAMP Board of Directors for four years, beginning September, 1999.

C. Cash and Securities Balance

On May 1, 2001, the Port's Regular Portfolio Cash and Securities totaled \$46.8 million. The \$46.8 million included \$27.5 million on deposit with LAMP. These balances do not include cash and securities on deposit with the trustee bank for bond indenture, letter of credit and sinking funds.

D. LAMP Balance – Earning Rate

For the 18 month period of May 1, 2001, to Oct. 31, 2002, the Port had on deposit with LAMP an average monthly balance of more than \$27 million. The LAMP investments earned an average rate of 2.55% for the 18 month period.

E. Other Investment Opportunities

We found no documentation that the Port prepared a formal cash flow projection prior to or during the 18 month period. Also, we found no documentation that an analysis was performed to determine if other investment opportunities were available immediately prior or during the 18 month period.

Had the Port prepared a moderately accurate cash flow projection for the 18 month period and conducted an analysis of the investment options available, the Port would have been aware that investments could have been made with maturities that exceed the LAMP

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requirements. Generally, investments with longer maturities provide rates of return that exceed the LAMP rates.

Table I, lists some of the alternative investment options easily available to the Port on May 1, 2001, October 31, 2001 and May 1, 2002 with 6 and 12 months maturities. Based on simple interest calculations, for each $\frac{1}{2}\%$ increase in rate of return the Port could have earned an additional \$202,500 on the \$27 million during the 18 month period.

In addition to those investment options in Table I, investment in U.S. government backed mortgage securities with similar maturities were available at rates that exceeded the LAMP rates.

TABLE I
SELECTED AVAILABLE RATES WITH 6 AND 12 MONTH MATURITIES VS. LAMP RATE
FOR THE 18 MONTH PERIOD MAY 1, 2001 TO OCTOBER 31, 2002

Survey Dates	Maturity	Rates From Louisiana State Treasury Surveys							LAMP Average Rate For Period
		National ¹ CD Rate	CD Rate Available at Louisiana Financial Institutions			Louisiana State Rate	Discount Rate on Treasury Bills		
			Best Rate Small	Best Rate Large	Average Rate Best Small/Large				
May 1, 2001	6 month 5/1/01 - 10/31/01	4.210	4.500	5.300	4.750	4.252	3.870	3.707	
May 1, 2001	12 month 5/1/01 - 4/30/02	4.350	4.850	5.300	4.925	4.352	3.780	2.925	
Oct. 31, 2001	6 month 11/1/01 - 4/30/02	2.055	3.100	2.100	2.450	2.127	2.005	2.143	
Oct. 31, 2001	12 month 11/1/01 - 10/31/02	2.280	3.200	3.000	2.950	2.402	2.080	1.974	
April 30, 2002	6 month 5/1/02 - 10/31/02	2.020	1.960	2.490	2.075	1.948	1.880	1.805	

¹ General level of U.S. Certificates of Deposit rates from Bloomberg Professional®

Table II shows that had the Port invested the \$27 million average balance in a 12 month CD at the National CD rate of 4.350% on May 1, 2001, and 6 month CD at the National CD rate of 2.020% on May 1, 2002, the average rate of return for the 18 month period would have been 3.573%. The 3.573% return is 1.021% greater than the LAMP return and would have increased interest earning more than \$414,000 for the 18 month period.

TABLE II
EXAMPLE: AVAILABLE INCREASE IN EARNINGS
SIMPLE INTEREST
18 MONTH PERIOD MAY 1, 2001 - OCTOBER 31, 2002

18 Month Period Average Rate of Return

National Certificate of Deposit	3.573%
LAMP	<u>2.550%</u>
Increase Available	<u>1.023%</u>

Increase in Return Simple Interest Calculation

Average LAMP Balance	\$27,000,000	
X Increase in Rate of Return Available	<u>1.023%</u>	
Simple Interest from May 1, 2001 through April 30, 2002		\$276,210
Simple Interest from May 1, 2002 through October 31, 2002		<u>\$138,105</u>
Increase In Return For 18 Month Period		<u>\$414,315</u>

F. Subsequent Events

In mid 2002, there was a resurgence of interest by the Port regarding the investment of its idle cash. In July, Port officials met with Calcasieu Parish officials concerning assistance with investments.

Currently, the Calcasieu Parish Finance Director is assisting the Port with its financial problems including investment of idle cash.

Conclusions:

1. The Port did not perform the necessary tasks and activities, such as preparing and updating cash flow projections and reviewing available investments and rates of return, to effectively manage and invest idle cash.
2. Due to its failure to effectively manage and invest idle cash, the Port failed to earn or lost at least \$414,000 in interest earnings during the 18 month period of May 1, 2001 to Oct. 31, 2002.
3. The Port director and Cash Management Task Force members failed to perform their duties to insure prudent cash management investment activities were performed as required by the Port's Cash Management and Investment Policy.
4. The Port director, Cash Management Task Force and the Board failed to perform due diligence in the operation, review and evaluation of the Port's cash management activity.

Recommendations:

1. The Port should have a professional evaluation of its Cash Management and Investment Policy performed to insure it meets the current needs of the Port. The evaluation should include all options currently available in law, and make available current cash management technologies and activities.
2. The Port should perform a full evaluation of its Cash Management and Investment Policy requirements and actual cash management and investment activities for all cash balances since Jan., 2001.
3. The Board should insure its Cash Management and Investment Policy is being adhered to by periodic reviews of the policy versus actual cash management activities.
4. The Port should investigate the personal liability of the former Port director, Task Force members and Board regarding their lack of due diligence in the Port's cash management activity which resulted in at least \$414,000 of lost interest income.

VII. CONFLICT OF INTEREST

Mr. Langley had a conflict of interest as a member of the Board, president of the Port, a member of and president of the International Longshoremen's Association (ILA), AFL-CIO Local 1998 Clerks, Timekeepers, Checkers and Tallymen; and an employee of stevedore contractors utilizing the Port. This conflict may be in violation of the state Code of Ethics.

As president of the Board and president of Local 1998, Mr. Langley was privy to confidential information of both entities which may have conflicting and/or opposing purposes and agendas.

Mr. Langley is and has been employed by stevedore contractors including Lake Charles Stevedores, Inc., for many years. In his previous position as member of the Board and in his current capacity as president of the Board, Mr. Langley has voted for and executed agreements between the Port and Lake Charles Stevedores, Inc.

A. Langley's Position With Port and Local 1998

Mr. Langley has been a member of the Board since 1988 and has served as president of the Board since 1995. Mr. Langley said his duties as Board president included negotiating contracts for the Port and bringing them before the Board for approval. He also negotiated contracts for Local 1998.

Mr. Langley as president of Local 1998 receives a salary of \$400 per month. Mr. Langley has been president of Local 1998 for 24 years. Local 1998 is one of three ILA Locals operating in the Lake Charles area. Each of the Locals has differing jurisdictional responsibilities such as deep sea, warehousing and clerks and checkers. The primary responsibility of clerks and checkers is to account for ILA members hours worked and account for cargo. Mr. Langley's principal work is employment by Lake Charles area stevedore contractors.

Local 1998 is the collective bargaining representative of the clerks and checkers. Mr. Langley said his duties as president of Local 1998 include negotiating contracts for Local 1998 with stevedore contractors.

B. Employee Relationship

Currently two stevedore contractors, Lake Charles Stevedores, Inc., and James J. Flanagan Stevedores, Inc., provide services for shippers utilizing the Port. These contractors are members of the West Gulf Marine Association, Inc. (West Gulf). West Gulf members hire ILA union members in ports from Brownsville, TX to Lake Charles. West Gulf is an agent of and represents members such as Lake Charles Stevedores and Flanagan when negotiating labor contracts with the ILA. West Gulf also provides payroll services, safety training, legal advice, drug testing, unemployment insurance, and represents members in labor hearings and ILA grievances.

When a stevedore contractor is contracted to load, unload or otherwise move cargo, the company calls the local union business agent and describes the work to be performed and the number of "work gangs" required.

When a union member is called out by a stevedore contractor at the Port, West Gulf processes the wage payments as agent for the contractor. West Gulf generates payroll checks, payroll registers, and various other reports remitted to the Internal Revenue Service, the Social Security Administration, etc. Payroll checks identify the stevedore company name and hours worked for each company during the work week. Wages and taxes withheld are reported under the Federal Identification Number of the respective stevedore company. Union members receive Form W-2's from each stevedore contractor with the respective contractor's Federal Identification Number. Unemployment compensation and workers compensation employee cost are borne by the stevedore contractor. Stevedore contractors pay for union members benefits for retirement, vacations, etc., based on the labor contract.

Superintendents of the respective stevedore contractor direct ILA members to what, when and where to perform a job. In addition, the ILA member utilizes tools and equipment provided by the stevedore contractors. ILA members must adhere to the particular procedures and policies of the stevedore contractor.

Both the Internal Revenue Service and the Louisiana Worker's Compensation Law regard the contractor, for whom a union member provides services for wages, as the employer of the member. In fact, an Internal Revenue Service publication has a specific example which defines a union member as an employee of a contractor when the member is called through the union to provide services for the contractor.

Mr. Langley said West Gulf is not an association of individual ILA members but an association of companies. He said West Gulf is not his employer. He also said he is not an employee of Lake Charles Stevedores, which is in conflict with Internal Revenue Service Regulations.

C. Questionable Actions

In 1992, the Port and Lake Charles Stevedores entered into an exclusive contract. Under the contract, Lake Charles Stevedores provides all loading and unloading services for cargo handled within the areas of the Port not leased to others. The contract has been amended several times since 1992.

Mr. Langley, as a member of the Board, has voted for the exclusive contract and subsequent amendments between the Port and Lake Charles Stevedores, his employer, as follows:

June 8, 1992 Regular Meeting Resolution 92-075. Mr. Langley offered the motion for the Port to contract with Lake Charles Stevedores to provide exclusive stevedore services.

November 14, 1994 Regular Meeting Resolution 94-105. Mr. Langley voted for a motion to amend the Lake Charles Stevedores exclusive contract to include locomotive services.

Mr. Langley, as president of the Board, executed resolutions and documents to amend the Port's exclusive contract with Lake Charles Stevedores, his employer, as follows:

September 8, 1997 Regular Meeting Resolution 97-048. Mr. Langley executed the resolution to amend the contract with Lake Charles Stevedores to (1) provide that Lake Charles Stevedores will be the operator of the Port's semi-automated bag loading facility, and (2) lease a parcel of Port property to Lake Charles Stevedores.

February 14, 2000 Regular Meeting Resolution 2000-10. Mr. Langley executed a resolution to amend the Lake Charles Stevedores exclusive contract.

April 3, 2000 Regular Meeting Resolution 2000-19. Mr. Langley executed the necessary documents consenting to the purchase of Gulf Services, Inc., the parent company of Lake Charles Stevedores, by International Terminal Operating Company, Inc. The resolution to purchase included the transfer of the exclusive contract with Lake Charles Stevedores.

D. Questionable Representation of Port or Local 1998 at Meetings

Mr. Langley has participated in meetings in which issues directly affecting the Port and the ILA were discussed. Examples are as follows:

<u>LOCATION</u> <u>DATE</u>	<u>ATTENDEES</u>	<u>ITEMS DISCUSSED</u>
Darrell's March 3, 2002	Lash Chretien –ILA Raymond Rideaux – ILA Daryl Didier – P&O Hillery Langley – Port of LC Larry DeRouen – Port of LC Terry Jordan – Port of LC	Cargo handling cost.
Hunter's Harlequin Steak March 4, 2002	Lash Chretien – ILA Raymond Rideaux – ILA Larry Rutherford – ILA Warren Rideaux – ILA Daryl Didier – P&O Lash Chretien, Jr. – P&O Chris Hyatt – P&O Hillery Langley – Port of LC Larry DeRouen – Port of LC Terry Jordan – Port of LC Ozie Rideaux – Port of LC	Stevedoring rates, use of back warehouses, cost of moving cargo to dockside-compare to rail demurrage.
Ruby Tuesday March 26, 2002	Lash Chretien – ILA Hillery Langley – Port of LC Terry Jordan – Port of LC	Cost to transfer cargo; stevedore rates.
Jean Lafitte Inn April 16, 2002	Lash Chretien – ILA Hillery Langley – Port of LC Terry Jordan – Port of LC	Handling of cargo on City Docks – rates-space.
Hyatt Regency, N.O. Sept. 9, 2002	Lash Chretien - ILA Warren Rideaux – ILA Larry Rutherford – ILA Hillery Langley – Port of LC Terry Jordan – Port of LC	ILA rules. Retention of USDA cargo, stevedoring rates.

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T.J. Ribs Sept. 10, 2002	M/M Lash Chretien – ILA Larry Rutherford – ILA Warren Rideaux – ILA Oscar Jordan – ILA Dennis Ware – ILA M/M Hillery Langley – Port of LC M/M Terry Jordan – Port of LC	Handling of container NSCSA, USDA cargo and rates – stevedoring.
Pat's of Henderson Oct. 25, 2002	Benny Holland – Gen VP – ILA Ozie Rideaux – Port of LC Warren Rideaux – ILA Raymond Rideaux – ILA James Pittieway Lash Chretien – ILA Hillery Langley – Port of LC Terry Jordan – Port of LC	Labor, future trends, retaining present cargos, high tonnage for week, how port and labor can work together.

Mr. Langley acknowledged that stevedore rates discussed at these meetings with ILA members present and subsequent Board decisions have an impact on him and his family since he is a ILA member. He also acknowledged that resulting Board decisions would impact him and his family. Mr. Langley said whenever he is serving as the Board representative at these meetings he always wears the Port's hat.

When questioned concerning possible conflicts of interest when discussing such topics as stevedore rates, Mr. Langley acknowledged that there could be conflicting interest with the three parties [Port, ILA, stevedore contractors], but added there have been no grievances at the Port in recent times. He said he wears a bunch of hats. He also said some of these discussions would influence future decision-making as a Board member.

All of the examples above were meal meetings paid for by the Port.

E. Previous Ethics Opinions

There have been several opinions by the Louisiana Board of Ethics regarding the propriety of Mr. Langley as a member of Local 1998 serving on the Board.

In March 1988, in response to a request for an advisory opinion, the Board of Ethics concluded that Mr. Langley's appointment is prohibited.

In August, 1988, the Board of Ethics reversed its original opinion and allowed Mr. Langley to serve on the Port Board. The Ethics Board concluded ... "it now appears to the Commission that the ILA Local [1998] does not have interest that would be substantially affected by the performance or non-performance of official duties by Mr. Langley, a member of the Lake Charles Harbor and Terminal District."

In November, 1995, the Board of Ethics opined, based on additional information, the services that Mr. Langley provides as a stevedore are rendered to West Gulf Marine Association. It further opined, Mr. Langley's relationship with Lake Charles Stevedores does not meet the legal test for an employer/employee relationship and that, to the contrary, Mr. Langley is not rendering compensated services as an employee to Lake Charles Stevedores, Inc. This Board of Ethics opinion is in conflict with Internal Revenue Service Regulations.

Conclusions:

1. West Gulf Marine Association, Inc. is an agent of Lake Charles Stevedores, Inc. As agent for Lake Charles Stevedores, West Gulf processes payroll and provides other administrative services for Lake Charles Stevedores, Inc. Mr. Langley is not an employee of West Gulf.
2. According to the Internal Revenue Service and Louisiana Department of Labor, when performing longshoremen services for Lake Charles Stevedores, Mr. Langley is an employee of Lake Charles Stevedores. In light of these regulations, we have concluded Mr. Langley is an employee of Lake Charles Stevedores and not West Gulf.
3. Hillery Langley as president of the Port and president of Local 1998 had an inherent conflict of interest, as these entities may have conflicting and/or opposing purposes and agendas.
4. Hillery Langley, as president of the Port, president of Local 1998 and an employee of a company under contract with the Port, may have been in violation of the state Code of Ethics. This is a matter to be determined by the Board of Ethics.

Recommendation:

1. The Board of Ethics should review its previous position of Mr. Langley being an employee of West Gulf.

VIII. Sweetheart Contract

On a whole, the terms of the employment contract with Mr. Dees for legal services are not in the best interest of the Port.

Mr. Dees' salary is excessive. In addition, certain benefits provided to Mr. Dees are excessive. In fact, the total of his benefits exceed the salary of comparable state attorneys. The contract also contains clauses which negate or hamper the ability of the Port to limit the contract period and includes an unreasonable penalty for termination.

From 1976 to 1994, Mr. Dees provided the Port legal services under a consulting agreement between the Port and a Lake Charles area law firm.

At a special meeting on Oct. 12, 1994, Mr. Langley offered a resolution No. 94-093 to authorize then Board President DeRouen and then Executive Director Glenwood Wiseman to finalize the terms and conditions of an employment contract for legal services and execute such contract with Mr. Dees. The motion was unanimously approved. The resulting contract remains in force today with amendments to increase salary and benefits.

Commissioners who voted for the resolution were Hillery Langley, James Watts, George Williams, Martin Guillory, Russell Tritico and Donald Tousand. As Board president, Larry DeRouen was not required to vote.

Under the employment contract, Mr. Dees is an unclassified employee in the Civil Service System and is directly responsible and answerable only to the Board.

A. Salary and Benefits

Mr. Dees' salary and benefits under the contract in 2002 are as follows:

Base Salary	\$179,374
On Call Duty Pay	10,400
Life, Health and Dental Insurance	12,662
Retirement Contribution	26,117
Annual and Sick Leave	33,116
Medicare	2,944
Auto Allowance	9,600
Auto Insurance	2,362
Deferred Compensation	5,500
Country Club Dues	1,440
Total Salary and Benefits	<u>\$283,518</u>

In addition, the Port paid \$19,323 for Mr. Dees' education and professional dues and law library and research.

B. Other Contract Clauses

- Contract automatically renews and extends for successive one year periods.

Unless the Board establishes cause for termination as defined under Civil Service Rules, case law and requirements provided for in the contract, Mr. Dees has a life time contract.

- Salary, benefits and leave provisions cannot be reduced.
- Golden parachute.

In the event the contract is terminated for any reason except by mutual consent; conviction of a state or federal felony offense; intentional or purposeful breach; or just cause under Civil Service Rules, the Port must pay minimum liquidated damages of three years annual salary and all benefits and allowances. Based on Mr. Dees' 2002 salary and benefits, the termination penalty would be more than \$714,000.

Prior to termination for breach or just cause the Port must submit the termination to arbitration.

C. Comparative Salaries

Mr. Dees	\$189,774
First Assistant State Attorney General	\$105,000
Deputy State Attorney General (Program Director)	\$ 83,000
General Counsel:	
Division of Administration (max.)	\$ 90,730
Department of Transportation (max.)	\$ 90,730
Port of South Louisiana* (Contract Attorney)	\$ 64,522
Port of New Orleans	
Legal Division Director	\$ 90,000
3 Staff Attorneys w/average salary	\$ 65,000
Port of Baton Rouge * (Contract Attorney)	\$ 70,000

* Contract attorneys paid under Louisiana Attorney General approved rates of \$100, \$125 and \$150 per hour, depending on experience.

Conclusions:

1. For 2002, Mr. Dees' compensation benefits, access to legal research and educational and professional dues cost the Port in excess of \$158.00 per hour. This cost does not include the cost or value of Port office space, secretary/paralegal, equipment, supplies or utilities.
2. Mr. Dees' salary and some benefits are excessive, especially when compared to the salaries or fees for similar public legal services.
3. The self-perpetuating contract term, near impossible termination ability and unreasonable termination penalty clauses results in a lifetime contract.

Recommendations:

1. The Port should take the necessary steps to amend the excessive compensation, untenable automatic renewal, almost impossible termination of services and termination penalty clauses of Mr. Dees' contract.
2. The Port should review whether Mr. Dees' contract may be abrogated for just cause under Civil Service rules or any other justifiable reason.

IX. Environmental Issues

The Port received consolidated compliance orders and notices of potential penalties from the Louisiana Department of Environmental Quality in August, 2000, for air quality violations. The Port was also cited in February, 2001, for water quality violations.

The Port has taken several major steps to correct the air quality violations listed in the compliance order, including the completion of a \$1.2 million project in August, 2001, which corrected deficiencies of, and improved components involved in the loading of coke onto ships and barges. The penalty aspect of the air violations is being appealed.

As to the water quality violations, the Port is in the process of constructing a \$4.1 million water retention, collection, and settling pond, along with a secondary pond to service a specific area at Bulk Terminal No. 1 with an estimated beginning construction date of July, 2003.

In summary, the Port has corrected the air quality violations listed in the consolidated compliance order, and has taken action to avoid monetary penalties by Department of Environmental Quality. Additionally, the actions necessary to resolve the water quality violations are estimated by the Port to be completed by July, 2004. Penalties related to those violations have not yet been assessed by DEQ.

Overall Recommendation:

1. The report should be submitted to the appropriate authorities.

Responses:

Responses from Dennis Stine, John Chadick Thielen, Charles R. Donaldson, Jr., and George E. Williams are attached. Terry Jordan, Dan Anderson, Wallace Livings, Ozie Rideaux, Daryl Didier, and Nathan Sukiennik did not provide a written response to the report.

Summaries of lengthy responses from three former commissioners, Mike Dees, and Meyer & Associates, Inc. are also attached.

IG Comment:

We have summarized two of the lengthy responses to a draft report, one from three former commissioners and the other from the Port attorney, primarily because of their length, but also because of frequent misstatements of facts which would require extensive rebuttal, thereby lengthening the report even more.

BL/CB

File No. 1-03-0061

June 17, 2003

Mr. Bill Lynch
 Inspector General
 224 Florida Blvd
 Baton Rouge, LA 70804-9095

Mr. Greg Lindsey
 Office of Inspector General
 224 Florida Blvd
 Baton Rouge La. 70804-9095

Re: Lake Charles Harbor &
 Terminal District - Draft.
 Report - June 6, 2003 -
 Response of Manager

Dear Mr. Lynch and Mr. Lindsey:

On March 2, 2003, the Board of Commissioners contracted to retain me as Manager for the District and, pursuant to that contract, I have actively managed the day-to-day business and financial affairs of the District.

At your request, I am providing these comments in response to your letter and preliminary draft report dated June 6, 2003 and these comments are based on my personal knowledge of the District's business and financial affairs gained as Manager for the past several months.

As you may be aware, the legislative Auditor has also conducted an audit of the District and has reviewed the same items addressed in your draft report. In connection with the Legislative auditors report, I submitted a response and have begun to address the issues raised in the Legislative Auditors report and which are duplicated in your draft report.

GENERAL COMMENTS AND OVERVIEW

I concur that there has been a general failure to prudently manage the business affairs of the District and have begun implementing extensive changes to the management and financial structure of the District to address the issues raised in your findings.



Lake Charles
 Harbor
 Terminal
 District

Office Box 3753
 Lake Charles, LA 70602
 Phone 337-439-3661
 Fax 337-493-3523



Upon coming to the District, I found a general lack of effective and appropriate management tools in various operations of the District, which, in my view, led to operating and non-operating public dollar losses to the District. As a consequence, the financial condition of the District was declining and deteriorating, threatening the long-term viability of the Port and its important transportation and job creation role in the local, state and national economy.

In my view, the most important aspect of any review such as yours is identifying needed corrective action to address identified problems and developing a plan to implement that corrective action. To that end, I am separately addressing each of your findings and set forth below responsive actions, in accordance with your recommendations, which have been, or will be shortly, taken to ensure total compliance with all applicable laws, provide an effective management and financial structure for the District and reverse the financial decline of the District. This will restore public confidence and trust in the operations of the District.

On Monday May 29, 2003, the Governor, acting on newly adopted legislation, replaced the entire Board remaining after the resignations of Mr. Thielen and Mr. Donaldson.

With on-going implementation of these corrective actions and as a result of the appointment of a new Board, I am confident that the District will, within a reasonably short period of time, become financially stable and return to its status as a viable economic entity capable of sustaining, on a long-term basis, creation of the jobs and services so essential to our economy.

FINDINGS AND CORRECTIVE ACTIONS FOR THE FUTURE

Finding I

Management Controls Over Billings:

a) Citgo and Conoco Agreements

In March, 2003, corrective steps were taken to notify both Citgo and Conoco that the over-time add on factor would be charged in accordance with the express terms of the agreements and not in accordance with past District practices. Citgo and Conoco have been paying these additional charges but have reserved

their rights to seek recovery of these increased amounts. The Manager and staff have begun analyzing all cost factors and competitive issues and arrangements will soon be made for meetings to negotiate with both Citgo and Conoco relative to back amounts which may be due the District as well as new and revised terms relative to future bulk handling services to be furnished by the District to Citgo and Conoco. Based upon the outcome of these negotiations, new procedures will be developed for implementation of the newly negotiated agreements with Citgo and Conoco. Both these procedures and the new agreements will be reviewed periodically to ensure that their terms serve the best interest of the District.



Finding II
Letter of Credit and Reimbursement Agreement
Covenants:

- a) The acting Director of Administration and Finance and General Counsel have been in almost daily telephone contact with representatives of the Letter of Credit bank (LOCB) since the notice of default (the notice) was issued by the LOCB. The LOCB has been advised of and consented to all expenditures by the District since the notice and both monthly financials and amendments to the 2003 Capital budget of the District have been sent to the LOCB. Further, a tentative agreement has been reached between the District and the LOCB under which the District will secure a back up letter of Credit BLOC from the District's Depositary Agent, Hibernia Bank. The BLOC will secure the obligations of the LOCB and , in exchange for the BLOC, the LOCB will forebear invoking remedies to which the LOCB is entitled under the Reimbursement Agreement between the LOCB and the District. It is intended that the BLOC will remain in effect through expiration of the Letter of Credit (LOC) issued by the LOCB, which is August 13, 2003. The District has commenced negotiations with other banks for a permanent replacement for the LOCB.

Finding III

ValueQuest:

- a. All future projects or business ventures will be evaluated for feasibility prior to obligating the Port.
- b. The Board will develop policies and procedures to prevent the Executive Director from obligating the Port without board approval.
- c. Outside Counsel must be retained for an opinion of the likelihood of any recovery from any responsible party, following which appropriate action will be taken.
- d. The Port will determine the constitutionality of guaranteeing a loan.



Finding IV

Semi-automated Bag Handling Facility Project:

- a) A detailed and realistic financial pro-forma will be prepared within 90 days of this response to assess the financial operations and contractual obligations of the present system and the whole system, once it is completely operational. Appropriate changes will then be sought to the contractual agreements between the District and Lake Charles Stevedores as dictated by the financial pro-forma.

Finding V

Travel, Entertainment, and Promotional Activities:

- a) The Director of Administration and Finance will establish procedures to monitor the total promotional expenditures to gross income from operations in order to maintain compliance with state law.
- b) Management will prepare a formal travel policy that uses the State of Louisiana travel policies as a guide. This policy will incorporate all recommendations detailed in Finding 2002-13 of the supplemental report for the year ended December 31, 2002.

Finding VI

Investing District Funds:

- 
- a) The Manager and the Port staff have prepared cash flow projections for 2003 Capital expenditures and compared this projection with those in the original 2003 Capital Budget. We have reduced the original projected budgeted capital expenditures by \$ 7,000,000.00 and the Board on May 12, 2003 amended the 2003 Capital Budget accordingly.
 - b) Management is currently in the process of reviewing the 2003 Operating Budget with the goal of reducing expenses and increasing positive cash flow. These adjustments will be presented in the form of budget amendments to the Board for their approval. Certain administrative management decisions have already been made to immediately reduce operating expenses. For example, the matching portion of the Employee deferred compensation program has been eliminated.
 - c) The above Capital and Operating Budgets, as amended, will be used to determine 2003 cash flow needs and what monies are available for investment. For the balance of 2003 and for the years forward, available monies will be invested on an appropriate investment time horizon so as to maximize the investment return to District. All investments will be made in accordance with applicable law and with appropriate investment safety in mind and necessary changes to the District's cash management policy will be made. A monthly review by the Board and appropriate Port staff of all investments will be made a part of the cash management policy and the review will be accomplished each month.

Finding VII

Code of Ethics:

- a) The Executive Director will report to the Ethics Board for disposition of those matters raised in your report.
- b) The Executive Director will develop written policies and practices regulating ethical conduct of Board members and all employees of the District.

- c) An ethics seminar by the staff of the Ethics Board is being arranged in order to familiarize the new Board with all provisions of the Code of Ethics.

Finding VIII

Contract - General Counsel

1. Mr. Dees' contract will be reviewed by the Board as to all aspects, including compensation provisions. Respecting the renewal and termination provisions, these issues will be addressed and resolved through discussions and negotiations and, if not successfully resolved, all appropriate steps to resolve such issues will be taken.
2. The Port will review whether Mr. Dees' contract may contain provisions as to termination for just cause under Civil Service rules or other justifiable reason. The President notes the prior Board of Commissioners engaged outside counsel on this issue and the prior Board took no steps to terminate Mr. Dees.



CONCLUSION

Thank you for the opportunity to comment on and respond to your draft report.

In my view, your report along with the excellent in-depth review and resulting reports of the Legislative Auditor have provided a very solid basis from which needed corrective action can and will be taken which will provide a dramatic improvement in the financial and operational condition of the District which will substantially better the District's transportation and job creating role in our economy.

Sincerely,

DENNIS STINE,
MANAGER

Former Commissioners' Summarized Response

The following is a summary of a lengthy response from former Commissioners Langley, DeRouen and Watts. Their full response may be obtained at the Office of Inspector General or the respondents may be contacted.

General Comments

Basically, the commissioners deny any of their activities were improper or imprudent business decisions. They blamed much of the problems that have come to light over the past several months either on faulty audits, bad assumptions or actions by the Port attorney.

The principal philosophy of the Port, they said, was not to be a profit making body, but to have an impact on the community by providing jobs.

The former commissioners noted that prior audits have not reported any material weaknesses with the Port's internal controls over financial reporting or operations even though the Port procedures in question have been in place during all previous audits. They also said the mission of the Port is much broader than just being committed to making a profit like a private business.

They claimed they were unable to fully respond because key officials, namely the former Port director, Finance officer and Port engineer, were no longer available to assist them. They said the dismissal of the Port director and Finance officer from the Port further hampered their effort to respond.

They asserted that the Office of Inspector General has no one capable of making judgments about prudent business analysis, due diligence in the performance of fiduciary duties, or reasonable spending of public funds in the port industry. They claimed that the report's statement about the loss of millions of dollars is unfounded.

The former commissioners agreed the unaudited financial statements submitted to the letter of credit bank included incorrect information. They said the recording of prior year adjustments as current period revenues was incorrect. However, this same practice had taken place on prior statements without change by the Port's independent auditor. An incorrect billing of this size should have been found and corrected in the normal course of the audit, they maintained. Any multi-million dollar business will have incorrect information on its unaudited financial statements, they said.

They disagreed with the letter of credit bank statement which stated: "The misrepresentations and fraudulent activities of former district personnel in attempting to 'cover-up' the effect of the Board's unacceptable performance, policies and conditions on compliance were deplorable."

The three stated that the credit bank had received monthly reports and audited financial statements since 1996 and should have been well aware of Port performance, policies and conditions. They further claimed the credit bank failed in its due diligence or it is being used by some Port and political figures to give the media and auditors ammunition for criticism. The credit bank, they said, was not as concerned as its scathing letter suggested because it told the current Port director to stop an attorney from working on an explanation. The Inspector General did not get the whole story before making judgment, they said.

The response stated the Office of Inspector General is grossly negligent in most of its opinions and operated with reckless disregard for the truth. They said the report is shallow and substantially below expected quality from auditors and inspectors representing the State of Louisiana. The Office of Inspector General has left important stones unturned in an attempt to go along with the shallow work done by the Legislative Auditor and the media, they said.

The response accused the Office of Inspector General and the Legislative Auditor of attempting to take over the role of the state Board of Ethics, wherein the Inspector General's report comments on an issue affecting one of the commissioners that had been ruled on three times in favor of the commissioner.

Their response stated that the Office of Inspector General had not demonstrated the need for a dramatic overhaul of the entire Port administration and oversight. They said they believe people with hidden agendas wanted control of the Port and they have used misinformation to achieve their objectives.

The former commissioners stated net income after depreciation for the 12 years was approximately \$38.7 million. They said without depreciation the Port's positive cash flow was over \$70 million for the past 12 years and was available to undertake major projects needed to stay competitive.

\$3.3 Million Contract Undercharges

The former commissioners generally agreed with the report conclusions. However, they stated when Mr. Jordan and Mr. Anderson tried to remedy the situation they were fired.

Inaccurate Financial Statements

Citgo Invoices and Highly Questionable Revenues

The former commissioners responded that the Inspector General characterizes these revenues as questionable but under a reading of both contracts, the District is clearly entitled to these amounts.

The former commissioners said the District made a mistake in the reporting of the \$2,147,409 as current year (2002) gross revenue on the face of the income statement. They said the District should have reported \$1,180,506 as current year (2002) gross revenue, and \$966,903 (which related to under billings from 1999 to 2001) at the bottom of the income statement as a prior period adjustment. They stated these changes would have no effect on the District's net income for the year 2002. Furthermore, the proper recordation of \$1,180,506 in 2002 gross revenues would have resulted in a debt service coverage ratio of 2.35, which is greater than the 1.75 minimum. Based on this, they said the District has met the debt service coverage ratio for 2002 and is not in violation of Section 6.01(1) of the Reimbursement Agreement.

On March 17, 2002, the District did in fact delete the entire amount of the under billed revenue booked and revised the financial statements according to the former commissioners. They said they now firmly believe that the under billings for 2002 should be restored as 2002 revenues and the ratio adjusted to reflect the 2002 revenues.

The former commissioners said generally accepted accounting principles state the revenues should be booked in the year earned if they are collectible. They said there is no question that over \$1 million of the revenues were earned.

The former commissioners further responded the Inspector General's assumption that the under billed amounts are uncollectible is totally unsupported by any legal analysis of the contracts, or any credit analysis of Citgo and Conoco.

The former commissioners stated the Port's outside legal counsel had challenged the Port attorney's opinion and the old Board had authorized the independent outside legal counsel to pursue the collection of the under billed amounts owed the District. They said the outside legal counsel opined that the under billings are legally owed by Citgo/Conoco. They said it is their view now, as it was then, that the District is owed this money and that it is collectible. They said they fully expect it to be collected.

Inaccurate Reporting to Dexia

The former commissioners responded they disagree with the report regarding use of the words "highly questionable," "misleading," and "violated." They again stated the ratio

briefings and therefore it is understandable that they did not need to come up in the Board meetings.

The former commissioners saw no reasons that Mr. Jordan or Mr. Langley should have placed the matter on the agenda because it was discussed in the briefings.

Also, they said Mr. Anderson's handling of the amendment to adjust the operating revenues was proper in that it was based on information known at the time. The actual billing amounts to be adjusted were not yet finalized.

\$28 Million Operating Losses

The former commissioners responded the District was not legislatively created as a for-profit venture. They said the enabling legislation for the District found at La. R.S. 34:201 et seq., specifically discussed the Legislature's intent that the District induce and encourage the location of enterprises which would have economic impact upon the area served by it and lease lands presently owned by it for the general development of tourism, etc. They further said the old Board, through its stated mission, did everything within its authority to attract business, create jobs, and otherwise develop the Port's economy for the citizens of this area. According to the former commissioners, the District's financial condition in recent times is as good or better than any of the ports in this state.

The former commissioners commented that while revenues from operations have not exceeded expenses in some years past, income from other sources has more than made up for any differences.

The former commissioners said the report states the Port's net income was approximately \$38.7 million for the past 12 years. They stated that figure is after depreciation of approximately \$38 million, so the Port's positive cash flow for that time frame is over \$70 million. They said this is not bad for the so-called poor management practice and failure to do due diligence.

According to the former commissioners, it is obvious to anyone in the business world what should be important to the Port. They said a positive cash flow and jobs are more important than a paper operating income.

Downplay of Port's Financial Condition

The former commissioners said our conclusion about Mr. DeRouen and Mr. Watts downplaying the significance of depreciation, operating losses and the bottom line shows a gross lack of understanding of financial statements on our part, especially in a situation where the entity is there for its economic impact in the community rather than making money. They said whether the Port uses fund accounting or not has absolutely no bearing

on what its mission is nor does it dictate how it should operate. They asserted the term "operating profits" is totally meaningless in the area that ports, airports, cities, parishes, and other governmental agencies operate. They said ports are here to provide services and economic impact, not to pile money in the bank. They believe that the decisions made by the old Board were made based on economic impact to the whole community, not just the Port's bank account.

The former commissioners further responded that our last statement about a management philosophy which results in continuous losses is bound to lead to failure and the inability of the Port to remain viable is correct if you are referring to the continuous net losses. They said continuous operating losses are meaningless as long as you have continuous total profits like the Port has had 12 of the past 14 years under the old Board.

Loan Guarantee Loss of \$309,000

The former commissioners responded that the project was attractive to the Port because it was an attempt to bring fertilizer to the area, which would have made the area rice farmers more competitive, and the potential for success was great enough that the Board was convinced to guarantee the loan. They said the Port attorney did not advise against it.

According to the former commissioners, the Port was not in the fertilizer business and did not want to be or it would have done the project itself. They said the Port had no intention of taking over the ValueQuest operation in case of default because of the reasons stated in the Inspector General report.

The former commissioners stated that the project failed because the barge ValueQuest initially intended to buy was sold out from under them and the barge leased to replace it was not good enough. They said it would not have done much good for the Port director to review the ValueQuest stabilization plan. They further said Mr. Hopper was the engineer not the Port director.

The former commissioners also said when an engineer with 30 years experience, a Port director with 40 years port experience, and a Port attorney with 26 years port industry experience discuss a project, it should have been analyzed enough for the Board. They also said monetary value and capability appraisals appear to be something the bank would do.

The former commissioners concurred with the Inspector General's finding regarding constitutional prohibition. However, they disagreed with all other conclusions.

Automated Bag Handling System

The former commissioners disagreed with all of the findings. Their position is that the automated bagging and loading project was done to save the future of the Port of Lake Charles in the break-bulk industry. They stated, had the project not been undertaken, the future of the Port and the people who depend on it would be at stake. They said, to not do the project would have been a failure of the Board to perform its fiduciary duties.

The former commissioners also said that several financial analyses were performed. They said Dr. Darryl Burckel did a study which was used, as well as Meyer and Associates. As to obsolescence of the automated bag handling system, they commented that the manufacturer of the equipment said it is still state of the art equipment.

According to the former commissioners, any lost interest opportunity is more than offset by taking the equipment off the market from competitors. They stated the extra interest which would have been sitting in the bank account would have had absolutely no impact on jobs at the Port, and would not have provided an economic benefit. They further stated they knew what ABT did wrong and the Port of Lake Charles had the resources to do it right. They said, a final post-purchase report was not received because some of the former commissioners didn't have time to go over it and the acting Port director removed the funding for it.

Travel and Local Expenses

Overall, the former commissioners disagreed with the report in all areas of travel and local expenses except two. They admitted there might have been some instances in which documents did not indicate that their wives' dinners were paid by the Port and should have been reimbursed. However, they also said it is a common business custom worldwide to have your wife present if the customers' wife is present. They stated in these cases the Port should and did pay for the wives. They also agreed with the report concerning the Port attorney's travel. The former commissioners felt their travel and entertainment was justifiable and beneficial to the Port.

The former commissioners specifically disagreed the Port incurred additional costs for some wives at conventions, that there was excessive and unnecessary spending, and that there was excessive representation at events by the Port.

\$414,000 Loss of Interest

The former commissioners responded that the Port spent thousands and thousands of dollars on cash management in the early 1990's. They said policies were put in place by

cash professionals and they have been followed ever since by the director of Accounting and Finance. The Port did perform the necessary tasks and activities such as preparing and updating cash flow projections and reviewing available investments and rates of return to effectively manage and invest idle cash, they said. They said the Calcasieu Parish Police Jury follows basically the same system as the Port. They claimed whatever cash the Port decided was not needed in the near future was invested in higher paying securities that were spread out by maturity dates.

They commented the only thing that changed in the last couple of years was the need for more liquid investments because of the finalizing of two major projects. They also said the BT-1 project and the spiralveyor project were coming to a close and required the need for liquid investments. They said the spiralveyor project not only cost the Port more of its own money than expected, it was drawn out over a longer period of time than expected.

The former commissioners disagreed with the conclusions. They said using hindsight, some can say the Port did not make the best investments. They said most of the world in recent times has not made the best investments.

Conflict of Interest

The former commissioners responded this issue had gone before the Ethics Commission three times since 1988, and each time it found no violation. They said Mr. Langley strongly disagrees with the Inspector General finding and conclusions. However, they said LSA-R.S. 42:1141e (12) & (13) prohibits him from being able to comment at this time.

Sweetheart Contract

The former commissioners agreed with comments and analysis of this issue which involves the legal service employment contract between Mr. Dees and the Port.

The former commissioners responded that the report does not include other costs to the Port for work that the Port Attorney was hired to do in 1996. They said the then outside legal counsel was paid \$300,000 per year to do contract work, state lobbying in Baton Rouge, national lobbying in Washington, and all real estate work. They said the amount also included the cost of his secretary. They said after coming to work full time for the Port, the Port attorney had the Port hire a lobbyist in Baton Rouge at \$50,000 per year, and a lobbyist in Washington at \$72,000 per year. The former commissioners said that was one of the major mistakes they made and they apologized for it.

Environmental Issues

The former commissioners responded that one of the two major projects that caused the drain on cash for the past four years was the BT-1 project. They said one of the major objectives of this project was to help solve this problem and it will.

Mike Dees' Summarized Response

The following is a summary of a lengthy response submitted by Mike Dees, Port attorney. Mr. Dees' full response is available at the Office of Inspector General or Mr. Dees may be contacted.

Loan Guarantee Loss of \$309,000

Mr. Dees said the decision to enter into the agreement with ValueQuest and the business terms of that arrangement were primarily the responsibility of the executive director, Terry Jordan, and secondly, the Board. He said advice was given to both Mr. Jordan and the Board in an extensive memo dated Aug. 15, 2002, on the role of the Port attorney and how it affects their fiduciary duty. He said the advice was ignored.

Mr. Dees said due to a number of legal and other concerns, he sent a memo to Mr. Jordan on Aug. 24, 2001, advising him not to proceed without further review and Board approval. He said Mr. Jordan ignored the advice and on Aug. 27, 2001, signed the loan guarantee with Whitney Bank. Therefore, the statement made by the Inspector General that the Port attorney committed "gross negligence" is clearly wrong, according to Mr. Dees.

Mr. Dees further stated the draft report's assertion that actions taken by the Port relative to ValueQuest violate Article 7, Section 14 of the Louisiana Constitution misrepresents that provision of the Constitution and overlooks an explicit exception contained in Article 7, Section 14(B) which states:

"Nothing in this Section shall prevent... (3) the pledge of public funds, credit, property or things of value for public purposes with respect to the ...evidences of indebtedness to meet public obligations as provided by law; ..."

According to Mr. Dees, the Port's powers to lease property and create debt for the construction of improvements on its property have been held to be a legitimate public purpose and these powers are set forth at La. R.S. 34:203 and 215. He said the powers of the Port are specifically recognized in Article 6, Section 42 of the Louisiana Constitution.

Mr. Dees recommended a review of Attorney General Opinion Nos. 92-708, 95-141 and 97-448A for other similar approved economic development initiatives by public bodies, which in the opinion of the Attorney General do not violate Article 7, Section 14 of the Louisiana Constitution.

Mr. Dees further said the draft report wrongly concludes that because the ValueQuest project ended as a financial failure, the expenditures of the Port constituted “donations.”

He said Mr. Jordan was charged with handling the business affairs of the Port, and not the Board and himself. He further said the Board and he relied upon the many assurances of Mr. Jordan that the project was sound and would be a significant revenue-generating project for the Port.

\$414,000 Loss of Interest

Mr. Dees responded the draft report erroneously ignores facts concerning memos he sent to the Board in an attempt to obtain compliance with the District Cash Management Policy and other facts, and wrongly suggests a lack of due diligence on his part as Port attorney.

Travel and Local Expenses

Mr. Dees responded that the report fails to distinguish between Board members’ travel policy and employees’ travel policy.

Mr. Dees stated that he travels solely at the direction and control of the Board or the executive director. According to Mr. Dees, he had absolutely no choice or decision and often was required to travel to an event over his objection.

Mr. Dees said the report is incorrect in alleging that he spent 56 days in 2002 on out of town travel and that the correct number is 46 days. He claims much of his travel was for legitimate business reasons such as required court appearances, litigation proceedings, and administrative hearings. Mr. Dees asserts the decisions to expend money for his travel, whether it was wise or not, were made by Mr. Langley and the Board.

He also claims arrival and departure times were dictated by Mr. Langley, including arriving 2 days early for the AAPA seminar in Vancouver, B.C. Mr. Dees said he left on Thursday, June 6, 2002, following the class time portion of the seminar.

Mr. Dees also said he was directed to attend the International Longshoremen’s Association convention in Hollywood, Florida by Mr. Langley.

Mr. Dees stated the Port is not liable while his wife travels with him in a rental car while on Port business. He further stated that his personal liability insurance provides primary coverage of \$1 million while in a rental car.

Mr. Dees stated the Legislative Auditor confirmed with him that he properly documented a cost comparison of two separate flights versus the method he utilized on the Vancouver/Beaver Creek trips. He said the cost comparison was provided by Mr. Langley and Mr. Jordan with instructions to use those travel arrangements or a less costly method.

Mr. Dees said he has given numerous oral opinions and advice on compliance with the Open Meetings Law. He said he provided opinions to the Board that its travel falls under an exception in the Open Meetings Law that allows for chance meetings or social gatherings.

Mr. Dees claimed his Country Club membership is part of a compensation package and not related to the prior reported issues. He stated there is no prohibition on his receiving a social membership. He said if the Port accounted for the membership as promotion, then the Accounting Department was in error.

Sweetheart Contract

Mr. Dees responded the Inspector General did not obtain any information as to the amount or quality of services and did not speak to him on this issue.

He claimed the draft report contains numerous errors as follows:

1. The listing of itemized compensation erroneously shows certain payments as received by him, but were paid to others as normal indirect employee benefits.
2. The itemized compensation erroneously includes as an annual payment to him, \$33,116 for annual and sick leave.
3. The \$33,116 is an eight (8) year accumulated balance of annual and sick leave.

LAKE CHARLES, LA 70602

(337) 436-9401 PH
(337) 436-5266 FX

JOHN CHADICK THIELEN
414 PUJO STREET
LAKE CHARLES, LA 70601

June 16, 2003

Office of the Inspector General
Mr. Bill Lynch
P. O. Box 94095
Baton Rouge, LA 70804-9095

Dear Mr. Lynch:

RE: File #1-03-0061
Inspector General's Report
Lake Charles Port and Terminal District, Lake Charles, Louisiana

I am in receipt of your report on the Lake Charles Harbor and Terminal District and generally concur with your findings and conclusions. I would, however, like to comment on several of the items that you investigated

First I would like to comment on the Value Quest fiasco. When this proposal first came up I had already begun asking questions about the excessive overtime and lack of contract renegotiations at BT-1. This resulted in my being left out of the loop by the controlling members of the Board. I was unaware of the trips made by other Board members to meet with Mr. Hopper and knew of no discussions about this venture. When first presented to me it was already a "fait accompli". I did question the backing of the loan as to the legality and the precedent that existed for the District to enter into such an agreement. I was assured that this type of process was both legal and had been done before, so it was not an unusual event. The potential for financial gain for the District certainly existed as it was presented to me. I was assured that the staff was performing all of the necessary due diligence. Unlike the controlling members of the Board, I was not involved in running the day-to-day operations at the Port and did not feel it was correct to do so. At that point in time, I was not fully aware of the incompetence of the staff and was not even cognizant of the true involvement of the controlling members of the Board in the day-to-day operations. Having only been on the Board for a short period of time, I was still on what could be best described as "the learning curve".

The subsequent failure of the endeavor and the District's inability to take over the operation were entirely the fault of the Executive Director and those controlling Board members who actually ran the day-to-day operations. Your recommendation that the Board members be held liable for the lost funds should not be attributable to either Charles Donaldson or me. I asked all the right questions, although they were asked in the briefing meeting forum where no minutes were taken, and the answers I received did not prompt me to vote against the proposal. The failure to perform due diligence led to the District's loss, but the accountability should be placed on those who were responsible for making the decisions.

Mr. Bill Lynch
Page 2
June 16, 2003

The second item I wish to comment on is the loss of interest income due to the District's funds being deposited in the LAMP account. I became aware of this practice in the early summer of 2002. When I questioned this practice I was told that Mr. Watts had advised Mr. Anderson that this practice was acceptable and was necessary because of our ongoing capital expenditures and the consequential need for ready cash. I requested at that time that a finance committee be established to better monitor our cash needs and the disposition of these funds. I was informed by Hillary Langley that all committees had been abolished some years back and none was needed. In October of 2002 I sent what I refer to as my "demand letter" which again refers to this issue. I had learned that a finance committee had indeed been established yet had never even bothered to meet. I was not part of this committee nor were any of my concerns ever addressed. Again I would suggest that if remuneration is due from any Board members it be attributed to those who ignored my concerns and actually operated the Districts' finances.

As to the entertainment expenses that could be attributable to my wife on one or two of the trips, I will contact the District's Financial Officer and offer to reimburse any meals or other expenses that may have been incurred. I always made every effort to pay any personal expenses, but it is possible a limited number of items were missed. In fact, on many of these occasions I was under the impression that we were the guests of the engineering firm or the stevedoring company that did business with the District.

It should be noted that the position I took in regard to the practices that existed at the Port placed me in a very precarious situation. Veiled threats were directed at me and caused me great concern for both my safety and that of my family. I could have very easily resigned from this Board under the "personal reasons" excuse, yet I chose the much more difficult road which is the honorable one; to do the best I could for my community. If financial or criminal liability exists, let it accrue to those that were responsible; not to those who tried to correct the problems. Thank you for your consideration of my response and for the overall validation it reflects with regard to the position I took in trying to correct the situation that existed at the Port.

With best regards,



Chad Thielen

jma

CHARLES R. DONALDSON JR.
1455 S. Chateau Circle
Lake Charles, LA 70605

July 16,2003

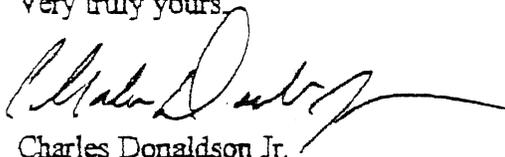
Bill Lynch
State Inspector General
224 Florida Blvd.
Baton Rouge, LA 70804-9095

Dear Mr. Lynch,

Enclosed is my response to your recent review of the Port of Lake Charles.

I hope this will provide additional helpful information for your final report to the Governor.

Very truly yours,

A handwritten signature in black ink, appearing to read "Charles Donaldson Jr.", with a long, sweeping underline that extends to the right.

Charles Donaldson Jr.

RESPONSES TO THE STATE INSPECTOR GENERAL'S DRAFT REPORT CONCERNING THE PORT OF LAKE CHARLES

Response to the statement on page one:

"In summary, the Board and the Port officials were grossly negligent in many of their financial and operational decisions. They operated with a reckless disregard or carelessness amounting to indifference to the best interest of the Port and stakeholders."

Your findings in this and many other matters were the exact concerns I listed in my letters of resignation to Mayor Roach and Governor Foster. From my first day as a board member, I was faced with a long serving controlling segment of the Board who were uncompromisingly in total control of every decision. Most of my knowledge, business expertise, input, or efforts were ignored or blocked as were those of other new board member, Chad Thielen. I often voted on matters and was told by the Executive Director I had all the information. Later I would learn I was not given all of the information or I was given incorrect information. As the controlling segment of the board became more and more stubborn and even less willing to listen and as the financial situation of the port continued to spiral downward, I concluded the only way to fulfill my fiduciary duty was to resign and make my concerns known. I resigned on February 19, 2003.

Response to the Value Quest and Helena Contract

I was told by Mr. Jordan as were the other commissioners, that he had fully investigated Value Quest and that this deal would make the Port a great deal of money. We were told if Value Quest folded the Port could take over improvements and operate itself. I knew nothing of the Value Quest bank loan with Whitney Bank and the requirement of the Ports guarantee. Mr. Jordan signed the guarantee obligating the Port without Board approval. I was never convinced Mr. Jordan was the best man for the Port Director's job after Mr. Wiseman's retirement. After the Value Quest disaster I believed Mr. Jordan to be incompetent. When I voiced this opinion, it was rejected by the controlling segment of the board. They did not see the seriousness of this loss. They did not recognize Mr. Jordan's inability to manage the port effectively for the tax payers nor did they recognize the importance of it.

G.E. WILLIAMS
P.O. BOX 911
Lake Charles, La. 70602
337-439-3267 O 337-477-4189 H

June 17, 2003

FAX TO:

Mr. Greg Lindsey
Inspector General Office
Baton Rouge, La. 70804
Fax # 225-342-6761

FROM: George E. Williams
Commissioner-Port of Lake Charles
File # 1-03-0061

This is my response relative to the recent review of the Port. I trust you will find this response in order.

Page 1 of 4 including this page.

G.E. Williams

P.O. Box 911
Lake Charles, LA 70602
(337) 439-3267 O • (337) 477-4189 H

June 11, 2003

In response to the Inspector General's Audit, I offer the following:

Items I & II

I was not made aware of any of these items before 02-19-03 when Mike Dees called this to our attention.

Item III.

I did not know the Port had guaranteed this note.

Item IV.

This item was presented to the board along with recommendations.

Item V.

I asked the Port counsel if these trips were permissible and was assured by the counsel of record that they were.

Item VI.

This item was handled by staff only!

Item VII.

Not applicable to George E. Williams

G.E. Williams

P.O. Box 911
Lake Charles, LA 70602
(337) 439-3267 O • (337) 477-4189 H

Page 2 of 3

Item I.

3.3 million dollar contract under charges were handled by staff and Port counsel. I knew nothing of this before 2003.

- A. Handled by staff and counsel
- B. Handled by staff and counsel
- C. Handled by staff and counsel
- D. Handled by staff and counsel

Item II.

Inaccurate financial statements were handled by staff and counsel. I was not informed of any of these inaccurate financial statements before February of 2003.

Item III.

I did not know the Port had guaranteed this loan.

Item IV.

This was handled by the staff.

Item V. Travel and Local Expenses

All trips and reservations were planned and made by the staff members. If additional days were used, it was because airline reservations were limited and earlier departures were not available.

On Pages 40, 46 & 47 of inspector general's report, an error was made. It stated my wife, Mrs. Williams, was a participant in this trip. She did not accompany me on this trip and therefore, Mrs. Williams certainly did not participate in any meals.

It has always been customary to submit a detailed expense report to the staff for reimbursement. It has always been in accordance with the travel policy of the Port.

When I attended meals where numerous people were included and paid for by staff personnel, I did not know how the distribution was allocated and no notices were ever received asking for reimbursement to the Port.

G.E. Williams

P.O. Box 911
Lake Charles, LA 70602
(337) 439-3267 O • (337) 477-4189 H

Page 3 of 3

The trips that I made were for the following reasons:

1. To learn more about Port operations from other ports and try to apply the best ideas and practices to our Port.
2. To promote our Port in every way; trying to obtain more business and always attempting to obtain better business for our Port.

Meyer & Associates Summarized Response

The following is a summary of a lengthy response submitted by Meyer & Associates, Inc. Meyer's full response is available at the Office of Inspector General or the firm may be contacted.

Automated Bag Handling System

Meyer and Associates stated it was not involved in any aspect of acquiring the automated bagging and loading equipment from the CIT Group. Meyer said the purchase was handled totally by the Port's staff. Meyer stated that its study, completed in 1996, was not a feasibility study, and the scope of the related 1996 report was substantially different from the actual project that was implemented.

With respect to a lack of independence between functions, Meyer stated it did not perform a feasibility study on the proposed project, and further, its role as general consultant to the Port only involved those duties after the purchase of the equipment.

Meyer cited extensive changes to the scope of the construction project and delays in state funding as reasons that the spiralveyor has not been installed.