

UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND

AUDITED FINANCIAL STATEMENTS
AND
OTHER FINANCIAL INFORMATION

YEARS ENDED JUNE 30, 2004 AND 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1-26-05

UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND

June 30, 2004 and 2003

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Bain, Freibaum, Sagona & Co., L.L.P.
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
United Teachers of New Orleans
Health and Welfare Fund
New Orleans, Louisiana

We have audited the accompanying statements of net assets available for benefits of United Teachers of New Orleans Health and Welfare Fund as of June 30, 2004 and June 30, 2003, and the related statements of changes in net assets available for benefits and the schedules of expenses for the years then ended. These financial statements and additional information are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Fund's third-party benefit claims processing function was not audited and we were unable to form an opinion regarding the amount of program benefits incurred in the accompanying statement of changes in net assets (stated at \$3,331,652 in 2004 and \$2,782,272 in 2003). We understand the Fund is contracting with an auditor to review the self-insured claims.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had program benefits been susceptible to satisfactory audit test, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of United Teachers of New Orleans Health and Welfare Fund as of June 30, 2004 and June 30, 2003, and the changes in net assets available for benefits and the schedules of expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2004 on our consideration of the United Teachers of New Orleans Health and Welfare Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BAIN, FREIBAUM, SAGONA & CO., L.L.P.
Certified Public Accountants
October 25, 2004

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**
Statements of Net Assets Available for Benefits
June 30, 2004 and 2003

<u>June 30,</u>	<u>2004</u>	<u>2003</u>
Assets		
Investments, at fair value:		
U.S. Government securities	\$ 7,215,261	\$ 5,400,529
U.S. Agencies securities	2,962,424	957,121
Money Market Funds - Governments	396,281	3,643,724
Total investments	10,573,966	10,001,374
Receivables:		
Due from Fringe Benefits - employee and dependent dental and vision premiums	430,307	259,975
Other receivable	-	174,907
Accrued interest	91,381	40,950
Total receivables	521,688	475,832
Property and Equipment, at cost:		
Land	211,773	211,773
Furniture and equipment (net of accumulated depreciation of \$ 258,958 in 2004 and \$ 258,380 in 2003)	4,771	5,349
Building (net of accumulated depreciation of \$ 459,106 in 2004 and \$ 423,914 in 2003)	948,575	983,768
Total property and equipment	1,165,119	1,200,890
Prepaid expenses	1,083	13,385
Deposits	4,863	4,863
Cash in bank	2,427,935	2,541,239
Cash held by third party	226	37,766
Total assets	14,694,880	14,275,349
Liabilities		
Accounts payable and accrued expenses	166,858	230,352
Bank drafts outstanding	178,679	142,690
Estimated claims incurred but not reported or processed:		
Dental and vision claims	541,800	474,400
Hospital income protection claims	25,400	14,300
Medical dollar account claims	165,600	134,700
Total liabilities	1,078,337	996,442
Net assets available for benefits	\$ 13,616,543	\$ 13,278,907

See accompanying notes to financial statements

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**
Statements of Changes in Net Assets Available for Benefits
June 30, 2004 and 2003

<i>June 30,</i>	2004	2003
Additions to net assets attributed to:		
Investment income:		
Net realized and unrealized (depreciation) in: fair value of investments	\$ (350,326)	\$ (127,106)
Interest	334,096	235,545
	(16,230)	108,439
Less investment expenses	(38,433)	(23,263)
	(54,663)	85,176
Contributions	5,089,415	5,116,623
Dental and vision premiums	997,773	1,183,158
Miscellaneous income	2,348	2,346
Total additions	6,034,873	6,387,303
Deductions from net assets attributed to:		
Payments for :		
Dental and vision program benefits	2,666,181	2,205,521
Medical dollar accounts benefits	831,967	749,335
Hospital income protection benefits	122,385	46,128
Insurance premiums for life and health benefits	688,442	710,210
Insurance administrative fees	87,393	84,485
Health education	-	56,638
Teacher's centers	636,769	452,812
	5,033,137	4,305,129
Administrative expenses	664,100	567,663
Total deductions	5,697,237	4,872,792
Net increase	337,636	1,514,511
Net assets available for benefits:		
Balance, beginning of year	13,278,907	11,764,396
Balance, end of year	\$ 13,616,543	\$ 13,278,907

See accompanying notes to financial statements

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

Notes to Financial Statements
June 30, 2004 and 2003

A. DESCRIPTION OF FUND

General

The following description of the United Teachers of New Orleans Health and Welfare Fund (the Fund) provides only general information. Participants should refer to the Fund agreement for a complete description of the Fund's provisions.

The Fund is a Taft-Hartley Fund created under the authority of Section 1224 of Title 27, Louisiana Revised Statutes. The Fund was organized on January 28, 1980 to receive and invest contributions from the Orleans Parish School Board made under the Collective Bargaining Agreement in effect between the Orleans Parish School Board and the United Teachers of New Orleans Bargaining Unit. The Fund provides members of the bargaining unit with a program of dental, vision, hospital income protection, life, disability, a medical dollar account and other participant benefits.

Although the Orleans Parish School Board appoints half of the Trustees of the Fund, the School Board is not financially accountable for the Fund; All assets and income of the Fund are held for the exclusive benefit of the participants and cannot revert back to the School Board.

Benefits

The Fund provides a program of health, dental, vision, hospital income protection, disability, life and other related benefits due to sickness, disability or death and also provides professional development programs and activities, which relate to student instruction.

The various welfare benefits are provided through a multi-option plan where participants elect which benefit module they would like. The benefit modules are approximately equal in cost. The life, AD&D, and disability benefits are fully insured while others are self-insured. Fringe Benefits Management Company and Total Benefit Services, Inc. are the third party administrative companies that administer various segments of the Fund programs. The Fund does not pay any of its own claims, but the responsibility for payment of self-insured claims is retained by the Fund.

Effective September 1, 2001, a Medical Dollar Account was established for participants. Each Participant can file for reimbursement of eligible medical expenses once their expenses exceed \$20. The Medical Dollar Accounts provide for a limit on reimbursement of \$300 per participant during the 2003/2004 and for the 2002/2003 school years. The Fund increased the reimbursement to \$400 the 2004/2005 school year.

(Continued)

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

Notes to Financial Statements
June 30, 2004 and 2003

(Continued)

A. DESCRIPTION OF FUND - (Continued)

Benefits - (Continued)

The dental and vision plan is self-funded. The dental and vision claims are processed by a third party administrator, but the responsibility for payment of claims is retained by the Fund. The Fund also has established a PPO program to provide dental and vision discounts to the members.

The hospital income protection program is self-insured. The hospital income protection claims are processed by a third party administrator, but the responsibility for payment of claims is retained by the fund.

During 1988, the Fund assumed responsibility for the operations of the Center for Professional Growth and Development established to assist participants in their professional development, during 2003 the Fund added an additional center.

Contributions

The majority of the Fund's support comes from the annual contribution (made in monthly installments) from the Orleans Parish School Board per the Collective Bargaining Agreement. For the years ended June 30, 2004 and June 30, 2003, the Fund received an annual contribution of \$778 in 2004 and \$766 in 2003, for every employee who is a member of the bargaining unit. The contribution was based on the number of employees employed thirty days after the start of the school year.

Cash Held by Third Party

The Fund had arrangements whereby, on a monthly basis, the Fund deposited cash into the checking accounts that are held by third parties. During the year ended June 30, 2003 the disbursements were combined with the fund's operating account under a cash management program.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the United Teachers of New Orleans Health and Welfare Fund have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to Health and Welfare Benefit Funds, and in accordance with the terms of the trust agreement. A summary of the Fund's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of accounting

The accompanying financial statements are presented on the accrual basis of accounting.

(Continued)

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

Notes to Financial Statements

June 30, 2004 and 2003

(Continued)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Valuation of investments

The Fund's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year.

Receivables

The Fund considers amounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives (ranging from 5 - 40 years) on a straight-line basis. Depreciation expense was \$35,770 and \$ 37,009 for the years ended June 30, 2004 and 2003, respectively.

Fund benefits

Fund liabilities for dental, vision, prescription drugs, hospital income protection and medical dollar account claims incurred but not reported or processed as of June 30, 2004 and June 30, 2003 are estimated by the Fund's consultant.

C. USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

Notes to Financial Statements

June 30, 2004 and 2003

(Continued)

D. INVESTMENTS

Investment management companies hold the Fund's investments. The following reflects the cost and fair market value of the investments.

	June 30, 2004		June 30, 2003	
	Cost	Market	Cost	Market
U.S. Treasury Notes	\$ 7,423,619	\$ 7,215,261	\$ 5,462,403	\$ 5,400,529
U.S. Agencies Discount Notes	3,000,240	2,962,424	956,934	957,121
Money Market Funds-Government	396,281	396,281	3,643,724	3,643,724
Total Investments	\$ 10,820,140	\$ 10,573,966	\$ 10,063,061	\$ 10,001,374

Investments of the Fund's net assets at June 30, 2004 are identified below:

	Face	Rate	Maturity	2004 Cost	2004 Market
U.S. Treasury Note	\$ 100,000	1.62%	1/15/05	\$ 99,814	\$ 99,969
U.S. Treasury Note	100,000	1.50%	2/28/05	99,890	99,844
U.S. Treasury Note	300,000	1.87%	12/31/05	300,094	297,563
U.S. Treasury Note	300,000	2.62%	11/15/06	302,391	298,032
U.S. Treasury Note-IPS	1,027,367	3.37%	1/15/07	1,125,877	1,118,937
U.S. Treasury Note	400,000	3.25%	8/15/07	421,438	400,376
U.S. Treasury Note	555,000	3.00%	2/15/08	566,750	547,369
U.S. Treasury Note	925,000	2.63%	5/15/08	933,145	896,094
U.S. Treasury Note	225,000	3.13%	9/15/08	230,414	220,781
U.S. Treasury Note	400,000	4.75%	11/15/08	450,438	417,752
U.S. Treasury Note	1,100,000	5.50%	5/15/09	1,264,838	1,184,568
U.S. Treasury Note	1,450,000	6.50%	2/15/10	1,628,531	1,633,976
FHLB Note	300,000	3.25%	11/15/04	304,974	302,016
FNMA Disc. Note	250,000	Disc.	1/7/05	247,767	246,830
FHLB Note	300,000	2.12%	11/5/05	300,234	298,220
FHLB Note	300,000	2.87%	9/15/06	302,016	298,829
FHLB Note	500,000	3.00%	11/9/06	500,000	497,610
FHLM Note	300,000	2.50%	12/4/06	301,335	295,031
FHLM Note	540,000	2.87%	12/15/06	543,913	535,105
FHLM Note	500,000	2.05%	4/5/07	500,000	488,783
Total Securities	9,872,867			10,423,859	10,177,685
Money Market Funds - Government				396,281	396,281
Total Investments				\$ 10,820,140	\$ 10,573,966

(Continued)

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

Notes to Financial Statements

June 30, 2004 and 2003

(Continued)

During the year ended June 30, 2004, the Fund's investments held during the year depreciated in value by \$201,326. During the year ended June 30, 2003, the Fund's investments depreciated in value by \$127,106.

During the year ended June 30, 2004, the Fund sold \$ 5,374,969 of investments and realized net losses of \$149,000. During the year ended June 30, 2003, the Fund sold \$ 496,875 of investments and realized gains of \$ 5,390.

E. CONCENTRATIONS OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Fund maintains cash balances at several banking institutions and brokerage institutions. The Federal Deposit Insurance Corporation insures account up to \$100,000 at each banking institution. The accounts at the brokerage institutions are insured by the Securities Investment Protection Corporation up to \$100,000 (cash) and \$500,000 (securities) with the remaining balance being fully insured by the brokerage institution through private insurance. At June 30, 2004, the Fund's uninsured cash balances totaled approximately \$2,504,387; during the fiscal year ended June 30, 2004 the Fund's bank pledged investment securities to cover the fund balances in excess of the FDIC limit.

F. NET ASSETS, END OF YEAR

The United Teachers of New Orleans Health and Welfare Fund's Board of Trustees has designated the use of net assets available for benefits of the Fund. The net assets available for benefits as of June 30, 2004 and 2003 are designated as follows:

	2004	2003
Claims Fluctuation Reserve	\$ 840,000	\$ 700,000
Contingency Reserve	2,850,000	2,440,000
Property Reserve	1,165,119	1,200,890
Total Board Designed Reserves	\$ 4,855,119	\$ 4,340,890

(Continued)

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

Notes to Financial Statements
June 30, 2004 and 2003

(Continued)

G. CONTRIBUTIONS

Contributions from the Orleans Parish School Board and the United Teachers of New Orleans Bargaining Unit for the years ended June 30, 2004 and 2003 consist of the following:

	2004	2003
Orleans Parish School Board:		
Contribution based on number of employees covered by the Collective Bargaining Agreement	\$ 5,071,381	\$ 5,104,624
United Teachers of New Orleans Bargaining Unit	18,034	11,999
Total Contributions	\$ 5,089,415	\$ 5,116,623

H. TAX STATUS

The Fund is qualified pursuant to Section 501(c)(9) of the Internal Revenue Code, and accordingly is exempt from income taxes as a voluntary employee benefit association. The Fund has obtained a favorable tax determination letter from the Internal Revenue Service. The Fund's management believes that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Fund's financial statements.

I. RETIREMENT BENEFITS

The majority of the Fund's employees are covered under the State of Louisiana Teachers Retirement System. The covered employees are required to contribute 8% of their covered salary and the Fund (employer) is required to contribute an employer contribution. The Fund's employer contribution to the system was \$ 50,765 and \$ 37,111 for the years ended June 30, 2004 and 2003, respectively. The Fund provides for retirement benefits for its non-qualifying employees under a separate defined contribution plan effective July 1, 1997. The Fund's contribution for this plan was \$ 11,566 and \$ 11,249 for the years ended June 30, 2004 and 2003, respectively. All of the Fund's employees are covered under the Federal Social Security System.

ADDITIONAL INFORMATION:

**UNITED TEACHERS OF NEW ORLEANS
HEALTH AND WELFARE FUND**

Schedules of Expenses
June 30, 2004 and 2003

June 30,	2004	2003
Dental and Vision Program Benefits:		
Claims	\$ 2,444,300	\$ 2,046,809
Servicing fees	221,881	158,712
Total Dental and Vision Program Benefit	2,666,181	2,205,521
Medical Dollar Account:		
Claims	764,967	689,335
Servicing fees	67,000	60,000
Total Medical Dollar Account	831,967	749,335
Other Program Benefits:		
Hospital income protection benefits	122,385	46,128
Insurance premiums for life benefits	367,969	184,187
Insurance premiums for health benefits	320,473	526,023
Insurance administration fees	87,393	84,485
Health education	-	56,638
Teachers' centers	636,769	452,812
Total Other Program Benefits	1,534,989	1,350,273
Administrative Expenses:		
Salaries	157,239	154,450
Accounting and auditing	25,788	16,625
Automobile	456	159
Bank charges	159	1,274
Benefits, consulting and actuarial	45,411	51,879
Board meeting expenses	7,379	6,140
Books and publications	3,015	1,561
Depreciation	35,770	37,009
Fringe benefits	89,048	54,886
Insurance and bonds	11,804	13,886
Legal	27,446	51,706
Maintenance	86,189	48,344
Miscellaneous	3,420	1,255
Payroll taxes	43,069	35,926
Postage	20,088	1,400
Printing	25,429	9,836
Professional education conferences	35,959	39,451
Supplies	13,937	10,463
Telephone	11,138	6,198
Utilities	21,356	25,215
Total Administrative Expenses	664,100	567,663
Total Expenses	\$ 5,697,237	\$ 4,872,792

**OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws, regulations, and contracts, and internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



Bain, Freibaum, Sagona & Co., L.L.P.
Certified Public Accountants and Consultants

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(Associates in Principal Cities)

October 25, 2004

To the Board of Trustees of
United Teachers of New Orleans
Health and Welfare Fund
New Orleans, Louisiana

We have audited the financial statements of the United Teachers of New Orleans Health and Welfare Fund (the Fund) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 25, 2004, which was qualified as to third-party benefit payments. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the United Teachers of New Orleans Health and Welfare Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instances that are required to be reported under *Government Auditing Standards*.

04-01 Laws Affecting Louisiana Government

As in the prior year, the Fund did not comply with Louisiana Government's public records regulations concerning the following areas:

- Public bid law
- Budgeting – submission and public participation
- Open meetings, notice of meeting and official journals

Prior to the enactment of LA. R. S. 17:1224.E, which expressly made trusts such as the Fund subject to legislative oversight and the legislative auditor's review, the Attorney General of the State of Louisiana had expressed the opinion, "Qualifying school boards can make contributions of

To the Board of Trustees of United Teachers
of New Orleans Health and Welfare Fund
October 25, 2004
Page 2

public funds to a trust authorized by LA R.S. 17:1224. The funds so contributed are not subject to audit pursuant to R. R. 24:513 and the Louisiana Governmental Audit Guide because they are not held in a fiduciary capacity by the school boards." The Fund takes the position that although it is subject to legislative oversight and the legislative auditor's review, it is not subject to the Public Bid Law, the Open Meetings Law and the budgeting provisions, which are applicable to public bodies:

We recommend that the Fund apply for a Federal ruling on their status to resolve this issue; The regional office of the U. S. Department of Labor has verbally confirmed that the Fund does not qualify as public funds, but can not provide written confirmation without an official request from the Fund.

During the fiscal year ended June 30, 2003 the Fund did enter into a banking cash sweep arrangement and the financial institution has pledged government securities to protect the Fund's demand deposits. The majority of the demand deposits are interest bearing.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the United Teachers of New Orleans Health and Welfare Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Fund's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

04-02 Enrollment Census:

As reported in the prior year audit, the Fund relies on enrollment information provided by the Orleans Parish School Board.

The Orleans Parish School Board has not been able to provide current and correct census information due to a computer conversion. This matter is currently under review and a major effort is in process to correct the problem. During the current year the Orleans Parish School Board funded the program based on 6,492 eligible members.

04-03 Organizational Structure:

As reported in the prior year, the size of the Fund's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Trustees remains involved in the financial affairs of the Fund to provide oversight and independent review functions.

04-04 Fiduciary Insurance Coverage

The Fund's fiduciary insurance coverage expired on April 30, 2004. The Fund is required to maintain fiduciary insurance coverage under the Department of Labor regulations. The Fund needs to monitor and continue its coverage at all times.

The Fund has requested coverage from the same insurance company.

Prior Findings:

03-01 Laws Affecting Louisiana Government – Repeated as 04-01

03-02 Enrollment Census – Repeated as 04-02

03-03 Third-Party Benefit Administrator - Resolved - As reported in the prior year, the Fund should request that their benefit administrators provide the Fund with audit reports on their controls and benefit payment systems. One of the administrators has no such audit report.

The Fund's current contract does not require the firm to provide the Fund with audit reports on its controls and benefit payment systems. The Fund should consider evaluating the costs and benefits of making this a requirement when these contracts are renegotiated for renewal.

The Fund engaged an accounting firm to perform a controls and benefits payment review for the fiscal year ended June 30, 2003. The Fund should continue this practice on a bi-annual practice.

03-04 Un-invested Funds – Resolved - During the fiscal year ended June 30, 2003 the Fund did enter into a banking cash sweep arrangement and the financial institution has pledged government securities to protect the Fund's demand deposits.

03-05 Plan Benefits – Resolved - As reported in the prior year, the Fund should evaluate its present benefit structure and consider its mission to provide maximum benefits to the plan participants. The Fund has accumulated substantial reserves to provide for any unexpected unfavorable claims it may experience. The Fund should evaluate its present benefit structure for possible improvements.

During the current year, the Fund did increase some of the benefit plans. The Fund's benefit obligations are scheduled to increase again for next year.

03-06 Organizational Structure - Repeated as 4-03

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned

To the Board of Trustees of United Teachers
of New Orleans Health and Welfare Fund
October 25, 2004
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functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This letter does not affect our report dated October 25, 2004 on the financial statements of United Teachers of New Orleans Health and Welfare Fund.

We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees and management of the Fund and the State of Louisiana's Legislative Auditor and is not intended to be and should not be used by anyone other than the specified parties. This restriction is not intended to limit the distribution of this report by the Legislative Auditor.

Bain, Freibaum, Sagona & Co., LLP

Bain, Freibaum, Sagona & Co., LLP

APPENDIX A

**MANAGEMENT'S CORRECTIVE ACTION
PLANS AND RESPONSES TO THE
FINDINGS AND RECOMMENDATIONS**

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December 27, 2004

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Bain, Freibaum, Sagona & Co. LLP
400 Poydras Street
Suite 1800
New Orleans, LA 70130

Re: Management Response to Audit Report

Gentlemen:

We acknowledge receipt of the audited financial statements of the United Teachers of New Orleans Health and Welfare Fund (the Fund) as of and for the year ended June 30, 2004 and your audit opinion letter dated October 25, 2004. The Fund has asked me to respond to your letter.

Compliance with Laws Affecting Louisiana Government.

You noted in your audit opinion letter that the Fund does not comply with certain laws affecting Louisiana government in the areas of (i) Public Bid Law, (ii) budgeting - submission and public participation, (iii) Cash management - (security for deposits) and (iv) Open meetings, notice of meeting and official journals. As noted in your audit opinion letter prior to the enactment of LA. R.S. 17:1224.E, which expressly made trusts such as the Fund subject to legislative oversight and the legislative auditor's review, the Attorney General of the State of Louisiana had expressed the opinion, "Qualifying school boards can make contributions of public funds to a trust authorized by LA R.S. 17:1224 the funds so contributed are not subject to audit pursuant to R.S. 24:513 and the Louisiana Governmental Audit Guide, because they are not held in a fiduciary capacity by the school boards."

The Fund is not a "public body" as defined in LA. R.S. 42:4.2A.(2). The majority of the Fund's funding comes from the Orleans Parish School Board (the "Board"), though a substantial amount comes from participant contributions. The funding by the Board is pursuant to a labor agreement entered into as between the Board and the United Teachers of New Orleans (AFT; AFL-CIO/LFT). The Fund is a Taft Hartley Fund and no Fund assets can ever revert back to the Board. The funds are not Board funds, but are held by the trustees in a fiduciary capacity for the exclusive benefit of participants.

The above referenced statutes are applicable to public bodies. As such they are inapplicable to the Fund and there is no requirement for the Fund to comply with these statutes. In conversations with your auditor, Mr. William F. Matthew, CPA, he indicated that the format of the audit requires a comment as to compliance with these statutes. The comment is so noted and the Fund thinks no further response on this matter is required.

The Fund has entered into a banking arrangement with Liberty Bank and Trust Company whereby all balances in the various Fund checking accounts are nightly swept into one central checking account and interest is earned on such deposit beyond a minimum balance required to obtain free checking. Additionally, all balances are collateralized with government securities owned by Liberty Bank and Trust Company and held by a third party.

Enrollment Census.

The Fund is dependent on enrollment data it receives from the Board. The Fund receives contributions from the Board based on the Board's census of the number of bargaining unit members employed as of thirty days after the beginning of the school year. The labor agreement calls for a specified dollar contribution for each eligible bargaining unit member employed as of this date. The Fund has no independent control over the enrollment data.

The Board has been experiencing difficulties with its computer system for some time and has, unfortunately, not been able to provide correct and current enrollment data. The Board has not been able to generate a report showing timely additions and deletions of employees on a monthly basis. This is due to the continuing problems experienced with the Board's computer system. The Fund has repeatedly brought this to the attention of the Board and is closely monitoring the situation. It is aware of the problem and making every effort to make sure that its information on current additions and deletions is as accurate as possible.

Organizational Structure.

The Fund has only three full time employees. The small size of the staff limits the amount of independent control that can be provided by the staff. Staff has no authority to sign any check. However, the Fund's trust document requires the signature of one union trustee and one management trustee on all checks. Established procedures require that the trustees be provided with documentation substantiating all expenditures when checks are submitted for their signature. This expenditure control, required by the trust document, ensures satisfactory control of expenditures from the Fund.

Fiduciary Coverage.

The Fund's fiduciary insurance coverage, including the coverage for the Fund Trustees, did

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expire on April 30, 2004. The Fund is not subject to ERISA, since it is a public fund and, therefore, is not required to maintain fiduciary insurance coverage. Though the Fund is not required to maintain fiduciary insurance coverage, it has made every effort to have such and, effective December 7, 2004, the Fund's fiduciary insurance coverage was reinstated in full force and effect. Every effort is being made that the fiduciary coverage be retroactively reinstated to May 1, 2004, the date of the expiration of the former policy.

PRIOR FINDINGS:

Law Affecting Louisiana Government:

Addressed earlier in this letter.

Enrollment Census:

Addressed earlier in this letter.

Third-Party Benefit Administrator:

The Fund has engaged a third-party auditing firm to perform a control and benefit payment review for the fiscal year ending June 30, 2003 of Total Benefit Services, one of its third-party benefit administrators. It is expected that the results of such engagement will be shortly forthcoming.

Un-invested Funds:

Addressed earlier in this letter.

Plan Benefits:

During the current fiscal year, the Fund has substantially increased the Plan benefits payable to its participants. First, it opened an additional teachers' center on the west bank of Orleans Parish. Second, it increased the medical dollars benefit by some \$100 per Fund participant. Third, it increased the vision and dental benefits that are provided to Fund participants. Fourth, it is constantly engaged in a process of reevaluating its various benefit structures within the confines of available financial resources and, if able to do so, provide improvement. Fifth, the Fund is encouraging increased utilization through participation awareness communications.

Organizational Structure:

Previously addressed in this letter.

Bain, Freibaum, Sagona & Co. LLP

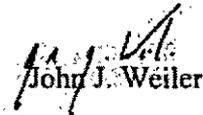
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Conclusion:

This response is submitted in behalf of the Trustees of the Fund to your letter, under date of October 25, 2004.

Sincerely yours,



John J. Weiler

JJW/ehk

cc: Board of Trustees
Mrs. Gail Saizan
Ms. Robin J. Dusang
Mr. A. Michael Lawrence
Mr. David Hanley