

LOUISIANA CITIZENS PROPERTY  
INSURANCE CORPORATION -  
PROFESSIONAL SERVICES CONTRACTS



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COMPLIANCE AUDIT

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ISSUED MAY 23, 2007

**LEGISLATIVE AUDITOR  
1600 NORTH THIRD STREET  
POST OFFICE BOX 94397  
BATON ROUGE, LOUISIANA 70804-9397**

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STEVE J. THERIOT, CPA  
LEGISLATIVE AUDITOR

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May 23, 2007

**J. JOHN WORTMAN, CHIEF EXECUTIVE OFFICER,  
AND THE BOARD OF GOVERNORS  
OF THE LOUISIANA CITIZENS PROPERTY  
INSURANCE CORPORATION**  
Metairie, Louisiana

We have audited certain transactions of the Louisiana Citizens Property Insurance Corporation. Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the propriety of certain financial transactions.

Our audit consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required by *Government Auditing Standards*; therefore, we are not offering an opinion on the Louisiana Citizens Property Insurance Corporation financial statements or system of internal control nor assurance as to compliance with laws and regulations.

The accompanying report presents our findings and recommendations as well as management's responses. This correspondence is intended primarily for the information and use of management of the Louisiana Citizens Property Insurance Corporation. Copies of this report have been delivered to the District Attorney for the Nineteenth Judicial District of Louisiana and others as required by law.

Respectfully submitted,

Steve J. Theriot, CPA  
Legislative Auditor

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During our review of the Louisiana Citizens Property Insurance Corporation (Citizens) records, we reviewed the available contract, invoices, and expense reports for three professional services vendors contracted with the Property Insurance Association of Louisiana (PIAL). PIAL provided only one written contract for our review; however, the vendors were all paid by PIAL for their services. During the period 2004 through 2006, Citizens reimbursed part of the contract fees to PIAL. The three service vendors were P&C Insurance Consulting, Adams and Reese LLC., and the Bienvenu, Foster, Ryan & O'Bannon law firm.

We found the following:

1. Two of the three professional services vendors whose charges were allocated to Citizens did not have written contracts with PIAL signed by both parties.
2. Citizens reimbursed PIAL \$296,094 for professional services fees; however, PIAL cannot document the services provided for the \$187,344 paid to two vendors.
3. PIAL invoiced Citizens for some expenses that were either not Citizens' expenses or do not appear to be necessary and reasonable expenses necessary to conduct Citizens' business, such as hunting and fishing trips and contract fees.
4. One consultant and five public officials may have violated the Code of Governmental Ethics by (1) public officials accepting gifts from the consultant and (2) the consultant, a former public employee entering into a public contract.

### **Background**

Citizens was created as a nonprofit corporation by Act 1133 of the 2003 Regular Legislative Session. The corporation was formed to operate two residual market insurance programs previously established by the legislature and known as the Louisiana Insurance Underwriting Plan and the Louisiana Joint Reinsurance Plan. The legislation renamed the old plans the Coastal Plan and the FAIR Plan, respectively, and designated the newly named plans as successors to the old plans.

According to the enabling legislation, Citizens was created to provide fire, extended coverage, vandalism, malicious mischief, and homeowners insurance in the coastal and other areas of Louisiana to applicants who are unable to procure coverage through the voluntary (i.e., private) market. Citizens was designed to be an insurer of last resort. Any person with an insurable interest in insurable property is entitled to apply to Citizens either directly or through a representative for coverage through the Coastal or FAIR Plan. Rates charged by Citizens on residential and commercial policies must be at least 10% higher than the rates charged in that particular parish. When the Citizens board determines that it is unable to pay its liabilities (property damage claims or operating costs), it has the legal authority to assess all insurers<sup>1</sup> an amount sufficient to cover its liabilities. In practice, those assessments are passed on to policyholders in the state.

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<sup>1</sup> Insurers are defined as all insurers authorized to write property insurance in Louisiana, on a direct basis.

PIAL was originally established in Louisiana in 1888, but came into its modern form in 1960. The purpose of the association is to establish and regulate fire insurance rates in Louisiana. Every property insurer in Louisiana must be a member of PIAL.

PIAL is governed by a seventeen (17) member board. The public members on that board are the Insurance Commissioner plus two (2) of his designees. In addition, the Senate Insurance Committee Chairman and the House Insurance Committee Chairman sit as *ex officio* members. All the other members of the PIAL board are industry representatives. PIAL has a rate regulation/reporting function with the Louisiana Insurance Rating Commission.

Beginning in 1970, after the establishment of the Coastal Plan, PIAL ran that plan. The FAIR Plan was established in 1992 and PIAL ran that plan also. These two plans were established by the legislature to ensure that citizens of Louisiana, who were rejected for ordinary property insurance, would acquire that insurance through what is tantamount to an assigned risk pool.

On December 29, 2003, PIAL passed a resolution to enter into a contractual agreement with Citizens to be the third party administrator (TPA) of the new Coastal and Fair insurance plans beginning January 1, 2004, and ending December 31, 2004. This contract states, "PIAL shall perform for Citizens, on a cost and expense reimbursement basis, without profit, commission or fees to PIAL, such services as may be required to operate and administer the Citizens Fair and Coastal Plan programs pursuant to Citizens' Plan of Operation, as it may be amended." PIAL has continued to work in the capacity as the TPA even though Citizens has not renewed or signed another contract with PIAL since the contract ended on December 31, 2004. The total amounts invoiced to Citizens for administering its insurance programs during the period January 1, 2004, through December 31, 2006, are as follows:

1. December 31, 2004 - \$1,532,972
2. December 31, 2005 - \$7,631,554
3. December 31, 2006 - \$11,607,305

During our audit period, January 2004 through December 2006, we noted that five PIAL board members were also serving on the Citizens board. These members include Jeff Albright, Chad Brown, Mike Ely (PIAL Chairman), Joelle Lapeze, and Hal Stiel. Also during this period, Terry Lisotta was the chief executive officer for both PIAL and Citizens and Caryl Mathes, CPA, was the chief operating officer and acting chief financial officer for Citizens while also performing functions for PIAL, such as preparing the budget and data for the financial audit. In addition, John Waters, with Bienvenu, Foster, Ryan & O'Bannon, was serving as the general counsel for both the PIAL and Citizens boards.

## **P&C Insurance Consulting**

PIAL contracted with P&C Insurance Consulting (P&C) beginning April 1, 2004, to March 31, 2005, to provide for Mr. Christian Faser III, P&C's sole owner, to perform the following:

1. Attend meetings of the Louisiana Insurance Rating Commission (LIRC) and other Louisiana insurance regulatory bodies
2. Advise and consult with PIAL concerning regulatory matters affecting the operations of PIAL, Louisiana Insurance Underwriting Plan (LIUP), Louisiana Joint Reinsurance Plan (LJRP), and Citizens
3. Consult, assist, and advise PIAL with respect to the development of Citizens' rate structures
4. Provide written reports of relevant regulatory activity and developments affecting or of interest to PIAL, LIUP, LJRP, and Citizens
5. Be available for consultation with PIAL concerning regulatory matters and developments affecting or of interest to PIAL, LIUP, LJRP, and Citizens

The contract required P&C to submit, no later than the tenth day of the following month in writing to PIAL, a log of activities during the preceding month and a schedule of expenses with supporting documentation. In exchange for these services, P&C was to receive \$5,000 per month plus reasonable expenses for travel, food, and lodging incurred in furtherance of the contract. Although P&C's contract expired in March 2005, PIAL has continued its relationship with P&C but has not extended or renewed the contract in writing.

P&C was paid \$192,336 for fees and expenses by PIAL during the period April 2004 to December 2006. PIAL does not have supporting documentation, such as a report from P&C for the retainer payments that is required by the contract with P&C. Of the \$192,336 PIAL paid to P&C, \$102,062 was subsequently invoiced to Citizens as part of the administrative contract PIAL had with Citizens. Because P&C did not submit written reports or a log of its activities as required by the contract or monthly invoices and PIAL's management did not require these written reports before payment to P&C, PIAL was unable to demonstrate if Citizens was allocated the appropriate amount of P&C's contract fees and expenses.

In addition to allocating part of Mr. Faser's retainer to Citizens, PIAL also allocated \$5,901 of retainer fees to the Louisiana Auto Insurance Plan (LAIP). LAIP was created by Louisiana Revised Statute (R.S.) 22:1417 for the purpose of creating a mechanism to equitably distribute automotive insurance to applicants who are unable to procure insurance through ordinary methods. The rates set by LAIP must be submitted and approved by the LIRC. On February 22, 2001, LAIP and PIAL entered into a managerial services agreement. Although PIAL manages LAIP, PIAL's contract with Mr. Faser does not include services to be performed for LAIP.



Mr. Faser is the former deputy commissioner of the Louisiana Department of Insurance's Property and Casualty Division. Mr. Faser retired from this position in July 2002. By entering into this contract in April 1, 2004, to assist PIAL with the development of Citizens' rate structures, Mr. Faser may have violated Louisiana law.<sup>2</sup> Before entering into this contractual relationship, Mr. Faser's attorneys, the law firm of Kearney, Smith & Chustz, received Advisory Opinion 2003-487 from the Louisiana Board of Ethics on behalf of Mr. Faser, which stated that he was prohibited from writing rate applications or assisting his clients in connection with matters that involve, or will involve, the Property and Casualty Division of the Department of Insurance for a period of two years following the termination of his employment.

On March 18, 2004, Mr. Faser submitted a letter of resignation to the Citizens board and also announced his resignation before the beginning of the PIAL board meeting. During the same PIAL board meeting, the board unanimously approved a contract with P&C Consulting to provide services needed to support the PIAL, FAIR, and Coastal plans and Citizens effective April 1, 2004, for \$60,000 per year. Mr. Faser may have also violated Louisiana law<sup>3</sup> by entering into a contract with PIAL to perform services for both PIAL and Citizens after resigning his position from the two boards.

We discussed these matters with Mr. Faser and his current attorney. Mr. Faser stated he does not remember the ethics advisory opinion and that his resignations from the Citizens and PIAL boards the month before the start of his contract were not related. According to Mr. Faser, he was not aware of the language in the contract regarding Citizens and stated that at least 90% of the work he performed was on behalf of PIAL and was not related to Citizens.

PIAL invoiced Citizens \$84,594 (or 51%) of P&C's monthly contract fee plus \$17,468 (or 64%) of P&C's expenses to Citizens. Mr. Faser further stated that all his reports were oral and were presented to the PIAL board and that he did not keep any personal records to document the work he performed in fulfillment of this contract. Given Mr. Faser's statements and lack of records, it is unlikely Citizens received a proportionate value for the payments it made to PIAL for P&C's services.

As an agent of Citizens, PIAL has a fiduciary obligation to only invoice to Citizens those costs it incurred that are necessary and reasonable costs of conducting business on Citizens' behalf. Citizens' management and board members have a fiduciary obligation to only pay for expenses that are necessary and reasonable to conduct the business of providing property insurance as defined in Louisiana law.<sup>4</sup> When Citizens pays for expenses such as P&C's contract fees that are clearly not attributable to Citizens, this cost causes a reduction to the fund balance of Citizens and may cause an increase to the involuntary assessment to the insurance companies of the state, which is eventually paid by all residents of the state with homeowners

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<sup>2</sup> R.S. 42:1121 provides, in part, that no former agency head or elected official shall, for a period of two years following the termination of his public service as the head of such agency or as an elected public official serving in such agency, assist another person, for compensation, in a transaction, or in an appearance in connection with a transaction, involving that agency or render any service on a contractual basis to or for such agency.

<sup>3</sup> R.S. 42:1121 provides, in part, that no former member of a board or commission shall, for a period of two years following the termination of his public service on such board or commission, contract with, be employed in any capacity by, or be appointed to any position by that board or commission.

<sup>4</sup> R.S. 22 1430.2.A provides, in part, there is created a nonprofit corporation to be known as the "Louisiana Citizens Property Insurance Corporation," which shall operate residual market insurance programs.

and/or commercial property insurance policies. Citizens' management and board may have violated the Louisiana Constitution,<sup>5</sup> Louisiana law,<sup>6</sup> and federal law<sup>7</sup> by allowing payment to PIAL for expenses not related to the business purpose of Citizens.

We recommend Citizens' management:

- (1) require PIAL to submit detailed records to support amounts invoiced to Citizens;
- (2) in the absence of detailed records supporting invoices to Citizens, recover those expenditures;
- (3) require an independent employee, not related to PIAL, to review and certify the charges on the PIAL invoice before payment; and
- (4) require PIAL to maintain current written contracts with professional services vendors.

### P&C Expense Reports

From the beginning of its contract with PIAL on April 1, 2004, P&C Consulting submitted and received \$27,336 of expense reimbursements through December 31, 2006, for items such as mileage, lodging, meals, tips, parking, and hunting and fishing trips.

P&C submitted and received \$7,043 in reimbursement for eight hunting trips Mr. Faser arranged and attended at the Bon Amis Hunting Club in Ville Platte, Louisiana. PIAL invoiced Citizens for \$3,522 of these expenses. Mr. Faser stated that his usual guests were:

1. Mr. Chad Brown, deputy commissioner at the Louisiana Department of Insurance (LDOI), former Citizens board chairman, and PIAL board member;
2. Mr. Robert Wooley (the LDOI commissioner at the time of the trips);
3. Mr. Steven Ruiz, PIAL board member and Louisiana Insurance Rating Commission (LIRC) member;
4. Mr. Kip Wall, former LDOI employee and CEO of the Office of Group Benefits; and

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<sup>5</sup> **Article 7, Section 14 of the Louisiana Constitution** provides, in part, that except as otherwise provided by this constitution, the funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private.

<sup>6</sup> **R.S. 14:134** provides, in part, that malfeasance in office is committed when any public officer or public employee shall (1) intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; (2) intentionally perform any such duty in an unlawful manner; or (3) knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him or to perform any such duty in an unlawful manner.

**R.S. 42:1461(A)** provides, in part, that officials, whether elected or appointed, by the act of accepting such office assume a personal obligation not to misappropriate, misapply, convert, misuse, or otherwise wrongfully take any funds, property or other thing of value belonging to the public entity in which they hold office.

<sup>7</sup> **U.S.C.A. 18:1033** whoever . . . willfully embezzles, abstracts, purloins, or misappropriates any of the moneys, funds, premiums, credits, or other property of such person so engaged shall be punished . . . as provided under this title or imprisonment for not more than 10 years.

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5. Mr. Steve Cavanaugh, former director of Louisiana Workers' Compensation Corporation (now deceased).

Mr. Faser stated that none of his guests paid for their portion of the hunting trip and that he incurred all of the expenses. He also stated that he was never questioned about any of P&C's expense reports, including hunting trips by anyone at PIAL. Four of the expense reports submitted for reimbursement for hunting trip expenses did not include the names of the participants. Neither Mr. Faser nor the Bon Amis Hunting Club could provide us with records of the hunters for these four trips.

P&C also submitted and received \$1,020 for an October 2004 fishing trip where Mr. Faser took Mr. Steven Ruiz, Mr. Joe Godchaux, and Mr. Jabari Ragas, all LIRC members, to Venice, Louisiana. The reimbursement to P&C included \$170 of food and alcohol purchased at Winn-Dixie and \$140 for Mr. Faser's mileage. PIAL invoiced Citizens for 100% of these expenses.

We discussed the hunting and fishing trips with Mr. Brown and he stated he did attend several hunting trips with Mr. Faser and that they were purely social and not business related. He further stated that he paid Mr. Faser directly for his cost of the trip and provided us with a copy of his personal banking records where he paid Mr. Faser \$370 on May 3, 2005. Mr. Brown stated that he may have paid Mr. Faser in cash for one or more of the hunting trips. According to Mr. Brown, he was not aware that Mr. Faser had submitted this expense for reimbursement by PIAL and stated that in his opinion, the hunting trips should not have been reimbursed to Mr. Faser.

If Mr. Faser was reimbursed for the hunting trips by Mr. Brown, as Mr. Brown stated, Mr. Faser may have been over compensated for expenses he incurred. However, Mr. Faser stated that he was not aware of receiving a check from Mr. Brown for reimbursement of the hunting trips. According to an owner of the Bon Amis Hunting Club, Ms. Rochelle Theriot, they charge at least \$260 per hunter per trip. We contacted five of the people that Mr. Faser claimed attended the hunting and fishing trips. The following are their responses:

1. Mr. Wooley stated he does not think he paid Mr. Faser for any of the hunting trips he attended.
2. Mr. Ruiz stated he attended one hunting trip and one fishing trip with Mr. Faser, and he did not pay for his portion of the trips.
3. Mr. Wall stated he attended multiple hunting trips with Mr. Faser, and he did not pay for his portion of the trips.
4. Mr. Godchaux stated he attended the fishing trip, and he did not pay for his portion of the trip.
5. Mr. Ragas also stated he attended the fishing trip, and he did not pay for his portion of the trip.

Mr. Wooley, Mr. Ruiz, Mr. Godchaux, Mr. Ragas, and Mr. Brown all held positions at a regulatory agency (LDOI or LIRC) at the time they attended these hunting and fishing trips with Mr. Faser, a professional services vendor to PIAL and Citizens. Both PIAL and Citizens submit rate filings to the LDOI and LIRC. Mr. Wooley, Mr. Ruiz, Mr. Godchaux, Mr. Ragas and Mr. Brown may have violated Louisiana law<sup>8</sup> by accepting gifts from Mr. Faser.

In addition to the hunting and fishing trip reimbursements, P&C received reimbursement of \$19,273 for mileage, parking, lodging, tips and meal expenses from PIAL. PIAL subsequently invoiced Citizens for \$12,927 (or 67%) of P&C's travel expenses. We reviewed these expense reports and found P&C received reimbursement for \$357 of expenses that appear to be a duplicate reimbursement. The following are four examples where PIAL appears to have paid P&C twice for the same expense and subsequently invoiced Citizens \$255 for the expenses.

1. Mr. Faser received reimbursement for three expense reports dated September 28, 2004, and September 29, 2004. The first expense report claims expenses for Mr. Faser to attend the installation of new members to the LIRC. The report includes two nights of lodging and round trip mileage from his home in Batchelor to Baton Rouge. The second expense report we reviewed from Mr. Faser for September 28, 2004, claimed mileage expense for a round trip from Mr. Faser's home in Batchelor to Baton Rouge. The third expense report we reviewed from Mr. Faser for September 29, 2004, claimed mileage expense for a round trip from Mr. Faser's home in Batchelor to Baton Rouge. The \$49 mileage expense claimed on the second and third expense reports appears to be a duplicate reimbursement to Mr. Faser. PIAL invoiced Citizens \$49 of this expense.
2. Mr. Faser received reimbursement for two expense reports dated October 19, 2004. The first expense report claims expenses for Mr. Faser to attend a meeting of the LIRC. The report includes one night of lodging and round trip mileage from his home in Batchelor to Baton Rouge. The second expense report we reviewed from Mr. Faser for October 19, 2004, claimed mileage expense for a round trip from Mr. Faser's home in Batchelor to Baton Rouge. The \$49 mileage expense claimed on the second expense report appears to be a duplicate reimbursement to Mr. Faser. PIAL invoiced Citizens \$24 of this expense.
3. Mr. Faser received reimbursement for two expense reports dated December 14, 2004. The first expense report claims expenses for Mr. Faser to attend a meeting of the LIRC. The report includes one night of lodging and round trip mileage from his home in Batchelor to Baton Rouge. The second expense report we reviewed from Mr. Faser for December 14, 2004, claimed one night of lodging and mileage expense for a round trip from Mr. Faser's home in Batchelor to Baton Rouge. The \$153 of lodging and mileage expense claimed on the second expense report appears to be a duplicate reimbursement to Mr. Faser. PIAL invoiced Citizens \$153 of this expense.

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<sup>8</sup> **R.S. 42:1115** provides, in part, that no public servant shall solicit or accept, directly or indirectly, anything of economic value as a gift or gratuity from any person or employee of any person who has or is seeking to obtain contractual or other business or financial relationships with the public servant's agency.

4. Mr. Faser received reimbursement for two expense reports for the period May 15-16, 2006. The first expense report claims expenses for Mr. Faser to attend a meeting of the LIRC. The report includes one night of lodging and round trip mileage from his home in Batchelor to Baton Rouge. The second expense report we reviewed from Mr. Faser for May 16, 2006, claimed mileage expense for a round trip from Mr. Faser's home in Batchelor to Baton Rouge. The \$58 of mileage expense claimed on the second expense report appears to be a duplicate reimbursement to Mr. Faser. PIAL invoiced Citizens \$29 of this expense.

We discussed the expense reports P&C submitted to PIAL for expenses P&C claims to have incurred on May 15, 2006 and May 16, 2006, with Mr. Faser. He stated that Ms. Kathy Brown, Mr. Lisotta's assistant, completes his expense reports. He provided Ms. Brown with signed blank expense reports for her to complete as he incurred expenses. He further stated that he mails the receipts to Ms. Brown so she can prepare the expense report on his behalf. Mr. Faser stated he does not know if these reports were for duplicate expenses. On May 2, 2007, Mr. Faser provided a letter to PIAL concerning the duplicate reimbursements along with a personal check to PIAL for \$375.65.

As part of the above expense reports, P&C submitted and received reimbursement for 79 meals totaling \$9,528, which is an average of \$121 per meal. PIAL did not require P&C to submit an itemized receipt for a majority of these meals before payment. In comparison, the state's travel policy<sup>9</sup> sets meal rates in low cost areas at \$31 per day and increases to as high as \$51 per day for international travel.

We recommend Citizens' management:

- (1) implement a policy outlining additional guidelines and limitations for travel similar to the state's policies;
- (2) adopt a per diem only policy, to include lodging and meals at the state rates;
- (3) discontinue reimbursing entertainment expenses such as hunting or fishing trips; and
- (4) consider the public purpose and public benefit for amounts expended to determine if a trip or meal is in the best interest of the public.

### **Legal Service Contracts**

On March 18, 2004, the Citizens board of directors adopted resolutions authorizing the chairman of the Board of Citizens to execute professional service contracts with Bienvenu, Foster, Ryan & O'Bannon as general counsel and E.L. Henry and the law firm of Adams and Reese as the governmental relations counsel. During the review of Citizens' and PIAL's records, it was noted that neither firm had a signed contractual agreement, and PIAL did not issue either

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<sup>9</sup>PPM 49, Louisiana Travel Guide 2006-2007.

firm an Internal Revenue Service 1099 Miscellaneous Income Form for services provided as required by federal law.<sup>10</sup>

### Adams and Reese

According to Mr. Lisotta, Mr. Henry does not have a written contract but was the legislative counsel to PIAL for at least 20 years. Mr. Lisotta also stated that Mr. Henry has no written contract with PIAL or Citizens. Mr. Henry provided a signed Citizens resolution, dated March 18, 2004, authorizing Mr. Henry and Adams and Reese as the governmental relations counsel and for the Citizens chairman to negotiate and execute a professional service contract with Mr. Henry and the firm of Adams and Reese. However, the resolution did not provide the contractual requirements between Citizens and himself, including the length of the contract, contractual obligations, contractual procedures, expense reimbursements, and a pay schedule. A PIAL memo, dated February 2, 2004, and initialed by Mr. Lisotta, indicated that Mr. Henry would perform duties of the legislative counsel for \$36,000 per year without any qualifiers. Mr. Lisotta stated that Mr. Henry was responsible for updating both the Citizens and PIAL boards on legislative bills that could be of interest.

During the period January 2004 through December 2006, Citizens paid \$102,750 to PIAL for retainer fees from Adams and Reese without requiring supporting documentation. According to Mr. Lisotta's memo to the file and e-mail correspondence, the maximum amount due Adams and Reese from Citizens during this period was \$96,000. It appears Citizens may have overpaid PIAL by \$6,750 for these services. Mr. Henry stated that he provided weekly lists of legislative bills that he thought PIAL or Citizens would be interested in. Mr. Henry could not provide supporting documentation including the lists of legislative bills provided to PIAL and time sheets. Mr. Henry stated that he does not have records indicating the amount of work done on behalf of Citizens or PIAL, but he orally advised both boards on legislative bills and on meetings held by the legislature.

Without sufficient documentation, both Citizens and PIAL cannot demonstrate that Mr. Henry provided services to Citizens equal to his retainer amount of \$102,750. In addition, since there is no contract between Citizens, PIAL, and Adams and Reese, it cannot be determined if Citizens should have reimbursed PIAL \$2,585 of Mr. Henry expenses.

### Bienvenu, Foster, Ryan, & O'Bannon

John Waters, an attorney with Bienvenu, Foster, Ryan & O'Bannon (BFRO) and the current general counsel to Citizens, stated that there is neither a written contract for retained general counsel or legislative counsel services provided by Adams and Reese. Mr. Waters provided an unsigned copy of a general counsel retention agreement dated March 25, 2004. Mr. Lisotta provided us a copy of a memo to the file that stated BFRO would receive \$36,000 per year with the contingency that time sheets must be completed to bill for any adjustments above the retainer agreement. The unsigned agreement from Mr. Waters states that the retainer price is \$36,000 per year, beginning January 1, 2004, and that any work completed that does not

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<sup>10</sup> I.R.C. 6045(f) provides, in part, return required in the case of payments to attorneys.

fall within the scope of the retainer will be billed at the rate set by the Attorney General's office. It also states that the monthly retainer amount is due on the first of each month.

During the period January 2004 through December 2006, Citizens paid \$108,750 to PIAL for retainer fees from BFRO without requiring supporting documentation. According to Mr. Lisotta's memo to the file, the maximum amount due BFRO from Citizens during this period was \$108,000. It appears Citizens may have overpaid PIAL by \$750 for these services.

We recommend that Citizens:

- (1) require written contracts including, but not limited to, the length of the contract, contractual obligations, contractual procedures, expense reimbursements, and payment terms;
- (2) ensure adequate services and supporting documentation are provided that support the allocation of expenses to Citizens before payments are made;
- (3) comply with the federal tax code by reporting all payments to attorneys as 1099 Miscellaneous Income; and
- (4) resolve the apparent overpayment to PIAL or recover the funds.



Citizens was created as a nonprofit corporation by Act 1133 of the 2003 Regular Legislative Session. The corporation was formed to operate two residual market insurance programs previously established by the legislature and known as the Louisiana Insurance Underwriting Plan and the Louisiana Joint Reinsurance Plan. The legislation renamed the old plans the Coastal Plan and the FAIR Plan, respectively, and designated the newly named plans as successors to the old plans.

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These procedures performed during this examination consisted of the following:

- (1) interviewing employees and management of the entities;
- (2) interviewing other persons as appropriate;
- (3) examining selected documents and records;
- (4) performing observations; and
- (5) reviewing applicable stated laws and regulations.

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<sup>11</sup> Insurers are defined as all insurers authorized to write property insurance in Louisiana, on a direct basis.



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## Management's Responses

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# Louisiana Citizens

Property Insurance  
Corporation

P.O. BOX 60730  
NEW ORLEANS, LA 70160  
PHONE (504) 831-6930  
www.lacitizens.com

433 METAIRIE ROAD  
SUITE 400  
METAIRIE, LA 70005-4385  
FAX (504) 831-6676

Monday, May 21, 2007

Steve J. Theriot, CPA  
Legislative Auditor  
State of Louisiana  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, LA 70804-9397

Re: Audit of Louisiana Citizens Property Insurance  
Corporation – Compliance

Dear Mr. Theriot:

While I was not hired by Citizens until the captioned audit was completed, the employees from your department associated with this audit have worked with me to help me understand the issues and the basis of their recommendations.

While our formal response to your findings is attached, I thought I would summarize our comments for you in this cover letter. The critical issues in this audit report are adequate financial controls, proper documentation of expenses, appropriateness of some expenses, and monitoring of the allocation of expenses between Property Insurance Association of Louisiana and Louisiana Citizens Property Insurance Corporation. LA Citizen's is committed to be an organization with sound operational and financial controls. In this regard, as outlined in the attached document, we will comply with your recommendations. We believe a strong first step is that we have hired an experienced CFO to help in complying with your recommendations and bringing discipline to expense control, with proper documentation of expenses and contracts.

Again, as outlined above, we are committed to implement policies and procedures to comply with your recommendations.

Sincerely,



J. John Wortman, CEO  
Louisiana Citizens Property Insurance Corporation

C: Bill Newton, Chairman, Louisiana Citizens Property Insurance Corporation  
Joe Deutsch, Acting Executive Director, Property Insurance Association of Louisiana

# **Louisiana Citizens Property Insurance Corp. Response to Legislative Audit on Compliance**

## **Summary of Recommendations and Response**

### **Recommendation I.**

- A) Require PIAL to submit detailed records to support amounts invoiced to Citizens.

Response: We agree and effective immediately PIAL will be required to maintain and submit detailed records on any expense invoiced to Citizens. The Citizens CFO will monitor this on a regular basis.

- B) In the absence of detailed records supporting invoices to Citizens, Citizens should recover those expenditures

Response: All undocumented expenses will be reviewed by Citizens personnel and PIAL will be billed.

- C) Citizens should require an independent employee, not related to PIAL to review and certify the charges on the PIAL invoice prior to payment.

Response: Citizens will develop procedures within the next thirty (30) days to establish a review process on PIAL/Citizens invoices prior to payment. In the meantime, the CEO or CFO will review all invoices.

- D) Require PIAL to maintain current written contracts with professional services vendors.

Response: All contracts for professional services with PIAL on Citizens issues or contracts directly with Citizens will be documented and a copy of the contract will be maintained by Citizens.

### **Recommendation II.**

- A) Implement a policy outlining additional guidelines and limitations for travel similar to the state's policies.

Response: We have reviewed this recommendation with PIAL managers and both Citizens and PIAL will begin compliance with State travel policies.

- B) Adopt a per diem only policy, to include lodging and meals at the state rates.

Response: Both PIAL and Citizens will adopt the state policy for lodging and meals at actual expenses up to a maximum of the state rates.

- C) Discontinue reimbursing entertainment expenses not associated with the business of Citizens.

Response: All entertainment expenses will be monitored by Citizens management and entertainment not associated with the business of Citizens will not be allowed.

- D) Consider the public purpose and public benefit for amounts expended to determine if a trip or meal in the best interest of the public.

Response: All Citizens travel and entertainment will be monitored by Citizens management. Since Citizens is currently a “market of last resort” we do not believe there will be many entertainment expenses.

### Recommendation III.

- A) Require written contracts including, but not limited to, the length of the contract, contractual obligations, contractual procedures, expense reimbursements and payment terms.

Response: All agreements will be documented and a copy retained by Citizens.

- B) Ensure adequate services and supporting documentation are provided that support the allocation of expenses to Citizens before payments are made.

Response: Procedures will be developed within the next thirty (30) days to ensure a proper review of allocation documentation between PIAL and Citizens takes place prior to payments being made. A copy of this procedure will be forwarded to the Legislative Auditor.

- C) Comply with the federal tax code by reporting all payments to outside contractors as 1099 Miscellaneous Income.

Response: Citizens management will audit the 1099 procedures to make sure all required 1099's are properly issued.

- D) Resolve the apparent overpayment to PIAL or recover the funds.

Response: Citizens management will meet with PIAL to resolve any overpayment issues.

*Middleberg Riddle & Gianna*

A.J. Herbert III

**Attorneys and Counselors**

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May 22, 2007

**VIA HAND DELIVERY**

Steve J. Theriot, CPA  
Legislative Auditor  
Office of the Legislative Auditor  
1600 North Third Street  
P.O. Box 94397  
Baton Rouge, LA 94397

Re: Response of PIAL to Draft Compliance Audit  
Our File No. 5298-0008

Dear Mr. Theriot:

The undersigned represents the Property Insurance Association of Louisiana ("PIAL"). The following is submitted on behalf of PIAL to the draft compliance audit relating to Louisiana Citizens Property Insurance Corporation ("LCPIC") issued by your office on May 8, 2007. The Board of Directors of PIAL appreciates the opportunity to review the draft report and to provide this response to the draft.

Although it is noted in your draft report that PIAL has provided administrative services to LCPIC since the inception of LCPIC in 2003, it is also worth noting that PIAL has a long and well-established history in Louisiana. PIAL traces its inception and operations in Louisiana to 1888. Although PIAL was not created by the Louisiana Legislature, it received recognition by the Louisiana Legislature as a fire prevention bureau in 1904 and again as a fire rating and fire prevention bureau in 1926. In addition to its traditional fire bureau functions, PIAL has administered the FAIR and Coastal Plans since their inception. In addition, PIAL assumed administration of the Louisiana Automobile Insurance Plan ("LAIP") in 2001. Thus, PIAL has a long and distinguished

history in providing insurance-related administrative services. Indeed, it is certainly worth noting that when the Louisiana Legislature created LCPIC in 2003, it did not provide funding for LCPIC's operations. PIAL expended over \$1 million in start-up costs for LCPIC during 2003 in order to organize LCPIC, develop its plan of operation, prepare various contracts, and to provide educational seminars to the producer community. PIAL was not reimbursed these expenditures until 2004; PIAL did not request or receive any interest on the amounts advanced. Rather, PIAL undertook these efforts for the benefit of LCPIC and its Louisiana policyholders.

Your report also correctly notes that the administrative services agreement between PIAL and LCPIC is a cost reimbursement contract. PIAL does not make any profit or commission on its contract with LCPIC. It is, of course, highly unlikely that LCPIC could obtain administrative services from the private marketplace on a non-profit basis. Indeed, although the written administrative services agreement between PIAL and LCPIC expired on May 31, 2004, the Board of Directors of LCPIC has never taken any steps to seek a third party to provide these services to LCPIC, thus indicating an awareness on the part of the members of the Board of Directors of LCPIC that it is not likely that a third party would provide the services which PIAL provides to LCPIC without expecting to receive a profit, or would have advanced the \$1 million in start-up costs which PIAL advanced for the benefit of LCPIC without receiving interest on the advance.

Your audit report also notes that historically, there was considerable overlap in the composition of the Board of Directors of LCPIC and PIAL, and in the officers of LCPIC and PIAL. PIAL and LCPIC also shared the same outside legal counsel. While this organizational model is not atypical for residual insurers and industry trade groups in other states, the Boards of Directors of both PIAL and LCPIC took action in March 2007 to remove even the possible appearance of a conflict of interest resulting from these shared positions. Thus, the Board of Directors of PIAL has been reconstituted to eliminate any overlap with the Board of Directors of LCPIC, and no officer of PIAL is any longer also an officer of LCPIC. LCPIC has hired its own Chief Executive Officer and Chief Financial Officer. Finally, the Board of Directors of PIAL engaged Middleberg Riddle & Gianna as legal counsel and no longer shares the same legal counsel with LCPIC.

With respect to the specific issues raised in your draft report, PIAL responds as follows. These responses are listed in the order in which they appear in the draft report.

#### P&C Insurance Consulting

With respect to the contract between PIAL and P&C Insurance Consulting ("P&C"), Mr. Faser did make regular verbal reports on his activities and efforts in furtherance of his contractual responsibilities. Although these reports were verbal and not written, PIAL has no reason to believe that P&C did not provide the services required by the contract. It is also noted that PIAL is not a public entity and that Mr. Faser was not a "public employee" or a "public servant" with respect to PIAL.



The newly reconstituted Board of Directors of PIAL voted on April 20, 2007 to terminate its consulting agreement with P&C. The notice of termination to P&C has been issued. In addition, the Board of Directors resolved at its meeting on May 15, 2007 to direct the Acting Executive Director of PIAL to present to the Board an updated policy on the reimbursement of travel and entertainment expenses which follows the applicable state guidelines, and which does not permit the reimbursement of expenses such as hunting and fishing trips, as recommended in the draft report. With respect to duplicate expenses, PIAL acknowledges receipt of a check from Mr. Faser reimbursing the overpayments of \$357.00.

#### Legal Services Contracts

PIAL has obtained a written engagement letter with Adams & Reese ("A&R"). PIAL is confident that LCPIC received fair value for the services which it provided for the benefit of LCPIC. PIAL is in the process of verifying whether there were any over-allocations of A&R's fees to LCPIC and, if so, any adjustments will be promptly made.

PIAL is in the process of verifying whether LCPIC overpaid PIAL \$750 for legal services by Bienvenu, Foster, Ryan & O'Bannon ("BFR&O). If this amount is verified, PIAL will correct the overpayment. Because BFR&O no longer represents PIAL, no legal services agreement between PIAL and BFR&O will be obtained. PIAL does have a legal retainer agreement in place with Middleberg Riddle & Gianna.

PIAL is also in the process of issuing the 1099's for legal services which were not previously issued. The applicable 1099 forms have been prepared by PIAL's outside accounting firm and will be filed with the IRS upon receipt of the appropriate submittal forms from the IRS.

Thank you for your consideration of the foregoing. If you have any comments or questions, or require any further information, please feel free to call.

Sincerely,



A.J. Herbert III

cc: Dr. Christine Berry/PIAL Chairman  
Joseph Deutsch/Acting Executive Director  
Board of Directors/PIAL



**Attorneys at Law**  
**Baton Rouge**  
Birmingham  
Houston  
Jackson  
Mobile  
Nashville  
New Orleans  
Washington, DC

May 21, 2007

**E. L. Henry**  
e.l.henry@arlaw.com

Mr. Gregory Lavergne  
Senior Legislative Auditor  
Office of Legislative Auditor  
State of Louisiana  
P. O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Mr. Lavergne:

In response to the comments in your draft, my relationship with PIAL and the Fair and Coastal Plans began in the mid-eighties. Each year at the annual meeting of PIAL, the Board of Directors would determine whether or not to retain me for the upcoming year. Some of the duties which I have performed each year include:

1. Review of all bills and resolutions filed to determine which might affect PIAL or the Fair or Coastal Plans;
2. Attend Sessions of both the House and Senate and appropriate Committee meetings of either to monitor the progress of legislation;
3. The retainer was not increased for Special Session. And, during both the 2005 and 2006, there were two Special Sessions in each year. 2005 and 2006 were extremely time consuming with regard to the representation of PIAL and the Citizens because of so many Committee hearings and public hearings necessary to be covered;
4. I reported to Mr. Lisotta and prior to his tenure, his predecessors, on legislation I thought would be of concern or interest to the Boards;
5. I frequently consulted with General Counsel on the need to support, oppose or amend legislation to get his substantive and technical expertise;
6. I attended all monthly Board Meetings (always in Metairie, prior to the storms); as frequently as possible, unless we were in Session.

Mr. Gregory Lavergne

May 21, 2007

Page - 2 -

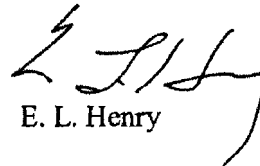
7. Attend numerous legislative functions, receptions and fundraisers, for individual Representatives, Senators and other Public Officials. If contributions were required and made, which was often the case, none were billed to PIAL and/or Citizens.
8. My agreement with PIAL and Citizens is of the same nature I have with all the clients I lobby for, i.e., I do not attempt to keep up with my time and bill that to clients for whom I lobby. Until the last year, I always kept personal time or tried to apportion the time I was working for the various clients that I represent and my firm may or may not have those records, however, I was not required by this client, nor am I required by any of my lobbying clients to bill them based on an actual amount of time I spend performing some governmental relations' function.
9. I have billed expenses as they accrue and stated on the statements what they are for and have never been questioned by either PIAL or Citizens with regard to the amount I bill based on the retainer or any expenses.

I trust this explanation of my work will be of assistance to you.

Thanking you for this opportunity to respond and with best wishes, I am

Very truly yours,

**Adams and Reese LLP**



E. L. Henry

ELH:dll

BIENVENU, FOSTER, RYAN & O'BANNON

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Writer's direct dial number  
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E-MAIL: JWaters@bfrob.com

JOHN W. WATERS, JR.

May 22, 2007

**By E-mail and US Mail**

Mr. Stephen J. Theriot, CPA  
Louisiana Legislative Auditor  
1600 North Third Street  
Baton Rouge, Louisiana 70802

RE: LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
Draft Compliance Audit and Bienvenu, Foster, Ryan & O'Bannon  
Our File No. 22110

Dear Mr. Theriot:

Thank you for your May 8<sup>th</sup> letter. We have reviewed those portions of the draft compliance audit report pertaining to BIENVENU, FOSTER, RYAN & O'BANNON. Because he carried out the duties of general counsel for much of the audit period, I asked my partner, Ernest O'Bannon, to comment on those portions of the draft report of which he had knowledge. His *Memorandum* to me is attached, along with documents he felt might be helpful to your office. We have the following response:

The draft report comments that Citizens did not have a written contract with our firm signed by both parties. As Mr. O'Bannon points out, on March 18, 2004, Citizens' board passed a resolution appointing Mr. O'Bannon and our firm as general counsel. On March 25, 2004, Mr. O'Bannon drafted, signed and mailed to Mr. Lisotta the original of a general counsel retention agreement in letter form. Mr. O'Bannon assumed Mr. Lisotta had signed the agreement, but in any case it was under that agreement that we continued to represent Citizens, and we never had a subsequent discussion with Mr. Lisotta or anyone concerning our fees.

The draft report mentions that Citizens did not obtain documentation from us for the work performed under the March 25, 2004 contract. No documentation was ever requested. Fees paid for services as general counsel were *never* calculated on an hourly basis. They were always understood to be on a fee for services basis. We were expected to be available to these entities at all times, and we have been.

In the years our firm has represented first PIAL, old Fair and Coastal Plans, and later Citizens, the work we did for those organizations was, as Mr. O'Bannon notes, transparent to management, staff, and the boards, and the fee arrangement was never questioned. As Mr. Lisotta, Ms. Mathes, Mr. Reeson, others on the staff, and many on the board know, not only did Mr. O'Bannon prepare for and attend Citizens' regular and special board meetings, he attended some committee meetings when requested to do so, met with staff on many, many occasions relative to varieties of issues ranging from service provider contracts, personnel issues, procedural matters related to underwriting, reinsurance, legislation, including drafting of legislation to amend the enabling act to rectify serious defects and flaws, interim finance arrangements including negotiations with Hibernia Bank relative to a letter of credit, appearing before the legislature with respect to proposed legislation, meetings with members of the House and Senate insurance committees, and in addition was on call and did respond virtually daily, if not in person, by telephone, to inquiries, questions and concerns of Mr. Lisotta, Ms. Mathes, Mr. Reeson, Mary Ilg and others. He also had a number of conferences with Mr. Henry during this period relative to legislative and procurement matters involving Citizens.

Litigation services were to be handled on an hourly basis, of course, and that concept was carried forward and reflected in the written contract of March 25, 2004.

There have been only two exceptional circumstance. During the months August-December, 2003, PIAL and the Citizens transition team engaged our Mr. O'Bannon to assist with the start up of Citizens. This work was over and above and quite different from his PIAL general counsel responsibilities. We billed PIAL for this work on a time basis and for the account of Citizens in January, 2004. PIAL paid our bill in January, 2004. Then, after Hurricanes Katrina and Rita in the fall of 2005, the undersigned was required to spend a considerable amount of time and effort on the many issues that arose as a result of those catastrophes. A copy of our bill for that work has previously been provided to your office.

The draft report mentions that Citizens apparently did not report all payments to attorneys as 1099 Miscellaneous Income. As your staff confirmed, this was something PIAL, not our office, was suppose to do. We can tell you, however, that all fees collected by the firm, including those from Citizens, were reported on the firm's tax returns for 2004 and 2005, and have been included in the information furnished to the firm's accountant, David Bourg, of Sagona, Bourg, Lee, & Matthews, LLC for 2006. The return for 2006 is on extension, and not yet in hand.

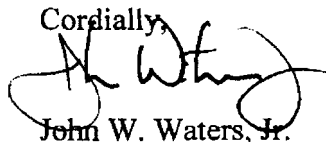
The draft report questions whether Citizens overpaid PIAL by \$7,500 for our services from January, 2004 through December, 2006. During our May 8<sup>th</sup> meeting your staff assured us this was a matter between PIAL and Citizens, not our firm. Still, we checked our records in the hope of assisting your inquiry. They show Citizens paid the monthly pro-ration of the annual fee for the months of January through May, 2004, that is, \$15,000.00, in a lump sum on May 21,

May 22, 2007  
Page 3

**BIENVENU, FOSTER, RYAN & O'BANNON**  
**New Orleans, Louisiana**

2004. Thereafter, through December of 2006, our annual fee was paid in monthly installments of \$3,000.00. For the period January, 2004 through December, 2006, BIENVENU, FOSTER, RYAN & O'BANNON was paid fees totaling \$108,000.00, not \$115,500.00 as the draft report may imply. See the *Detailed Payment Transaction File List* attached to Mr. O'Bannon's *Memorandum*.

If you have any questions or need further information, please feel free to contact us.

Cordially,  
  
John W. Waters, Jr.

JWWJr  
Attachment

cc: Bill Newton  
Ernest O'Bannon

BIENVENU, FOSTER, RYAN & O'BANNON, LLC

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E-MAIL: EObannon@bfrob.com

ERNEST L. O'BANNON

*Memorandum*

TO: John Waters  
FROM: Ernest O'Bannon  
DATE: May 21, 2007  
RE: Comments on draft of Legislative Auditors' Report

---

John:

You asked me to comment on those portions of the Legislative Auditor's Report pertaining to Bienvenu, Foster, Ryan & O'Bannon of which I have knowledge.

On March 25, 2004, following Citizens' board action of March 18, 2004, in which the board formalized the agreements I had made in December of 2003 with the management of Citizens, I drafted, signed and mailed to Mr. Lisotta via U. S. Mail the original of a general counsel retention agreement in letter form. I do not know whether Mr. Lisotta signed the written agreement or not. I assumed that he had. It does not appear from the file that he ever returned a conformed copy. I never had a subsequent discussion with him or anyone concerning our fees. However, it was pursuant to that agreement that I continued representation of Citizens under the

fee arrangement described in the letter agreement, which was effective January 1, 2004.

Citizens paid the monthly pro-ration of the annual fee for the months of January through May, 2004, that is, \$15,000.00, in a lump sum on May 21, 2004. Thereafter, through December of 2006, our annual fee was paid in monthly installments of \$3,000.00. For the period January, 2004 through December, 2006, Bienvenu, Foster, Ryan & O'Bannon was paid fees totalling \$108,000.00, not \$115,500.00 as the draft report may imply. See attached Detailed Payment Transaction File List.

The draft report mentions that Citizens apparently did not report all payments to attorneys as 1099 Miscellaneous Income. I cannot speak to that, but I can tell you that all fees collected by the firm, including particularly fees from Citizens, were reported on the firm's tax returns for 2004 and 2005, and have been included in the information furnished to the firm's accountant, David Bourg, of Sagona, Bourg, Lee, & Matthews, LLC for 2006. The return for 2006 is on extension, and Ms. Lindsey reports that it is not yet in hand.

The report mentions that Citizens did not obtain documentation from us for the work performed under the March 25, 2004 contract. No documentation was ever requested. However, as Mr. Lisotta, Ms. Mathes, Mr. Reeson, others on the staff, and many on the board know, not only did I prepare for and attend Citizens' regular and special board meetings, I attended some committee meetings when requested to do so, met with staff on many, many occasions relative to varieties of issues ranging from service provider contracts, personnel issues, procedural



matters related to underwriting, reinsurance, legislation, including drafting of legislation to amend the enabling act to rectify serious defects and flaws, interim finance arrangements including negotiations with Hibernia Bank relative to a letter of credit, appearing before the legislature with respect to proposed legislation, meetings with members of the House and Senate insurance committees, and in addition was on call and did respond virtually daily, if not in person, by telephone, to inquiries, questions and concerns of Mr. Lisotta, Ms. Mathes, Mr. Reeson, Mary Ilg and others. I also had a number of conferences with Mr. Henry during this period relative to legislative and procurement matters involving Citizens.

In the 20 years or so I represented first PIAL, old Fair and Coastal Plans, and later Citizens, what I did for these organizations was transparent to management, staff, and the boards, so much so that the work and the fee arrangements I had with these entities was never questioned. I never requested increases in fees or adjustments in our assignments, although from time to time the boards did on their own initiatives increase the fees. Fees paid for services as general counsel were never calculated on an hourly basis. They were always understood to be on a fee for services basis. I was expected to be available to these entities at all times, and I was.

Litigation services were to be handled on an hourly basis, of course, and that concept was carried forward and reflected in the written contract of March 25, 2004.

There was one and only one exceptional circumstance. During the months August-

May 21, 2007  
Page 4

**BIENVENU, FOSTER, RYAN & O'BANNON, LLC**  
**New Orleans, Louisiana**

December, 2003, PIAL and the Citizens transition team engaged me to assist with the start up of Citizens. This work was, of course, over and above and quite different from my PIAL general counsel responsibilities. I billed PIAL for this work on a time basis and for the account of Citizens in January, 2004. PIAL paid our bill in January, 2004. If you think it desirable or necessary you may obtain a copy of the bill from Sherry Lindsey and attach it to your response. If you believe that further explication of the Citizens start up problem should be included in your response, I suggest you attach a copy of my letter to the state procurement folks in which PIAL and Citizens sought emergency and sole provider status in connection with the the PIAL management contract and Audubon/AIG services contract.

You have my permission to transmit this memorandum with anything else you believe appropriate to the Legislative Auditor in response to his draft audit. I learned yesterday at the board meeting that responses are due on Tuesday, May 22, 2007, and assume you will do the necessary.

Ernest L. O'Bannon

***Resolution Authorizing The Appointment of General Counsel***

At the meeting of the Board of Directors of Louisiana Citizens Property Insurance Corporation held on the 18th day of March, 2004, in Metairie, Louisiana, notice having been duly given and/or waived in writing, a quorum present and voting, and on motion duly made and seconded, the following resolution was unanimously adopted:

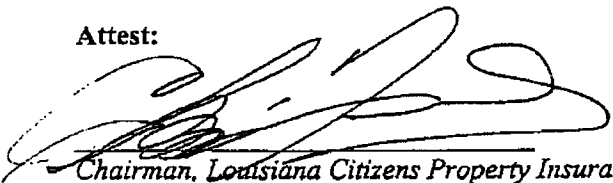
***WHEREAS***, the Board of Directors of Louisiana Citizens Property Insurance Corporation believes that it is in the interest of the corporation to engage General Counsel to counsel, advise, and to represent the corporation with respect to its legal affairs;

***IT IS RESOLVED***, that Ernest O'Bannon and the firm of Bienvenu, Foster, Ryan & O'Bannon, be and the same are hereby retained and appointed General Counsel, and the Chairman of Louisiana Citizens Property Insurance Corporation is hereby authorized to negotiate and execute on behalf of the corporation a Professional Services Contract with Ernest O'Bannon and the firm of Bienvenu, Foster, Ryan & O'Bannon, on such terms and for such duration as in the exercise of reasonable discretion by the Chairman he deems needful and desirable.

Metairie, Louisiana, this 18th day of March, 2004.

  
\_\_\_\_\_  
Terry M. Lisotta  
Secretary, Louisiana Citizens Property Insurance Corporation

Attest:

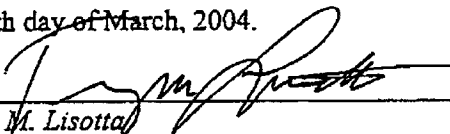
  
\_\_\_\_\_  
Chairman, Louisiana Citizens Property Insurance Corporation

---

***Certificate***

I, Terry Lisotta, the Secretary of Louisiana Citizens Property Insurance Corporation, do certify that the foregoing is a complete and true copy of a Resolution adopted by the Board of Directors of Louisiana Citizens Property Insurance Corporation at its meeting on the 18th day of March, 2004, at Metairie, Louisiana, a quorum being present and voting.

Metairie, Louisiana, this 18th day of March, 2004.

  
\_\_\_\_\_  
Terry M. Lisotta  
Secretary, Louisiana Citizens Property Insurance Corporation

**From:** Ernest O'Bannon  
**To:** Henry, E.L.  
**Date:** 3/24/04 9:58AM  
**Subject:** Re: Citizens

The resolutions were approved last week. Terry said to me, "I guess that the time will start on April 1." I said to him, "No, that our understanding was that we had been retained on Jan. 1, and that the delay in having the resolutions formally adopted should not affect that, that monthly installments of the 36G retainers should commence on Jan. 1, not later." He said in reply, "That's cool." I have never billed PIAL. They have simply sent the retainer in installments monthly as a matter of course. I will ask Caryl or Terry whether invoices should be sent to Citizens monthly, or whether payments will be scheduled automatically, without the necessity of invoicing, and advise.

Ernest

ELO'B

Ernest L. O'Bannon  
BIENVENU, FOSTER, RYAN & O'BANNON  
1010 Common Street, Suite 2200  
New Orleans, LA 70112-2401  
Direct: (504) 310-1522  
Main: (504) 581-2146 or (504) 310-1500  
Fax: (504) 522-7859 or (504) 310-1501  
eobannon@bfrob.com

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>>> "E.L. Henry" <E.L.Henry@arlaw.com> 03/23/04 02:56PM >>>

Since you have successfully gotten us retained, when can I send them a bill and for what period of time?

thanx

E.L. Henry  
Adams and Reese, LLP  
450 Laurel Street  
Suite 1900  
Baton Rouge, LA 70801

Phone: (225) 336-5200  
Fax: (225) 336-5220  
E-mail: [E.L.Henry@arlaw.com](mailto:E.L.Henry@arlaw.com)

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ERNEST L. O'BANNON

Writer's direct dial number  
(504) 310-1522  
E-MAIL: EObannon@bfrob.com

January 30, 2004

Mr. Pat Santos  
PROPERTY INSURANCE ASSOCIATION OF LOUISIANA  
433 Metairie Road  
Suite 400  
New Orleans, LA 70160

[psantos@pial.org](mailto:psantos@pial.org)

RE: Resolutions  
Our File: 16,410

Dear Pat:

Draft resolutions attached. It may be that the board itself will wish to set the fees or fee payment arrangements themselves and not delegate them to the Chairman, in which case we will have to modify.

Cordially,

Ernest L. O'Bannon

ELO'B/ksb  
enclosure

BIENVENU, FOSTER, RYAN & O'BANNON

ATTORNEYS AND COUNSELORS AT LAW  
1010 COMMON STREET  
SUITE 2200  
NEW ORLEANS, LOUISIANA 70112-2401  
(504) 310-1500  
FAX (504) 310-1501

ERNEST L. O'BANNON

Writer's direct dial number  
(504) 310-1522  
E-MAIL: EObannon@bfrob.com

January 26, 2004

Mr. Terry Lisotta  
PROPERTY INSURANCE ASSOCIATION OF LOUISIANA  
P O Box 60730  
New Orleans, LA 70160  
*Via U.S. Mail*

Re: Property Insurance Association of Louisiana  
Our File No. 16,410

Dear Terry:

I have enclosed my service bill for services to or for the benefit of Citizens commencing July, 2003 and ending December 31, 2003. This bill does not include any time for strictly PIAL or old Fair and Coastal Plan work. In addition to recorded time, I am sure that I had many more than 15 hours of unrecorded telephone and other conferences with folks over that time period, but I have simply estimated a block 15 hours for that time.

I have addressed the bill to Property Insurance Association for the account of Louisiana Citizens Property Insurance Corporation.

Please put the bill in line for payment, and if you have any questions, please call.

Cordially,

  
Ernest L. O'Bannon

ELO'B/ksb  
enclosure

BIENVENU, FOSTER, RYAN & O'BANNON  
 1010 Common Street, Suite 2200  
 New Orleans, LA 70112-2401  
 Telephone: (504) 310-1500  
 Telecopier: (504) 522-7859  
 Federal I.D. Number 72-0435194

Page: 1

01/27/2004

ACCOUNT NO: 247-016410

STATEMENT NO: 2

Property Insurance Association for the Account of  
 La. Citizens Property Ins. Corp.  
 433 Metairie Road  
 Post Office Box 60730  
 New Orleans LA 70160

ATTN: Mr. Terry Lisotta

In Re: Louisiana Citizens Property Ins. Corp.

	Rate	Hours	
07/02/03 ELO Research and opinion letter to Terry Lisotta at PIAL re: house bill 1788	200.00	4.00	800.00
07/25/03 ELO PIAL re: various matters including personnel and matter related to Citizens Property Insurance Company of Louisiana	200.00	2.30	460.00
ELO Various matters including preparation of resolution for the Commissioner to seek a private letter ruling or other ruling concerning tax status of new company	200.00	1.00	200.00
07/29/03 ELO Telephone conference with Jerry Reso, tax counsel re: Citizens Property Insurance Company of Louisiana, meeting with Caryl Mathes on July 30, related matters	200.00	0.30	60.00
ELO Telephone conference with Caryl Mathes re: meeting with Jerry Reso on July 30 at 9:00 in office of PIAL	200.00	0.10	20.00
ELO Letter via e-mail to Jerry Reso regarding meeting of July 30	200.00	0.20	40.00
ELO Letter via e-mail to Caryl Mathes of PIAL re: meeting of July 30	200.00	0.10	20.00
07/30/03 ELO Conference with re: Jerry Reso and Caryl Mathes re: Act 1133, Louisiana Citizens Property Insurance Company, tax status of Fair and Coastal Plans, related matters	200.00	3.00	600.00
07/31/03 ELO Work on Plan and supplemental opinion for PIAL, Citizens and Fair and Coastal Plans re: Act 1133 (H.B. 1178)	200.00	5.50	1,100.00

Property Insurance Association for the Account of

Page: 2

01/27/2004

ACCOUNT NO: 247-016410  
STATEMENT NO: 2

In Re: Louisiana Citizens Property Ins. Corp.

	Rate	Hours	
08/01/03 ELO Review of resolutions concerning IRS and comments thereon	200.00	0.50	100.00
08/04/03 ELO E-mails to Jeff Albright and Terry Lisotta; telephone conference with Terry Lisotta and others regarding transition;	200.00	2.00	400.00
ELO Review of Jerome Reso's correspondence regarding tax implications	200.00	0.40	80.00
08/05/03 ELO Meetings with Jerry Reso, transition committee and Fair and Coastal Plan boards	200.00	6.00	1,200.00
08/19/03 ELO Review of Citizens' statute, PIAL constitution, by-laws, Plans, Florida Plan of Operation in part, in preparation of 9:30 meeting on Wednesday, August 20th.	200.00	3.00	600.00
08/21/03 KSB Review and study of law re: downloading statutes R.S. 33:1321 through 33:1350 for use at PIAL Board Meeting and Fair and Coastal Plan meetings	60.00	1.80	108.00
ELO Attend meetings with transition committee and staff concerning Citizens Insurance Company, transitions issues	200.00	7.00	1,400.00
08/22/03 ELO Meeting with Citizens transition team and staff	200.00	3.80	760.00
08/27/03 ELO Telephone conferences with Terry Lisotta re: transition team telephone conference call concerning organizational and other Citizens issues	200.00	0.80	160.00
09/03/03 KSB Download several attorney general opinions from Westlaw	60.00	1.00	60.00
ELO Work on various aspects of Citizens' including opinion concerning public bid law, several resolutions, review of minutes and notations as well as RFP's, conferences with Terry Lisotta and others including Caryl Mathes	200.00	7.00	1,400.00
09/04/03 ELO Attend and participate in first meeting of Louisiana Citizens Property Insurance Corporation	200.00	3.00	600.00
09/17/03 CMG Review and study of law re: license fees paid as part of public funds	95.00	1.00	95.00
ELO Telephone conference with Terry Lisotta and Pat Santos re: conflict of interest statement, proposed resolution of PIAL board agreeing to execute service agreement with Citizens	200.00	0.30	60.00
ELO Work on opinion	200.00	3.50	700.00



Property Insurance Association for the Account of

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01/27/2004

ACCOUNT NO: 247-016410

STATEMENT NO: 2

In Re: Louisiana Citizens Property Ins. Corp.

	Rate	Hours	
09/18/03 ELO Attend meetings for Citizens Insurance Company	200.00	3.50	700.00
09/22/03 ELO Work on opinion letter for Chris Faser and Terry Lisotta regarding Professional Services Contracts	200.00	3.00	600.00
09/23/03 ELO Work on opinion letter for Chris Faser and Terry Lisotta regarding Professional Services Contracts	200.00	4.50	900.00
09/24/03 ELO Telephone conference with Caryl Mathes of PIAL re: appointment of tax counsel; responsibilities of various counsel; miscellaneous other Citizens' matters	200.00	0.70	140.00
ELO Telephone conference with John Rouschelle re; private letter ruling, requirements, necessity for his and Jerry Reso's assistance	200.00	0.10	20.00
ELO Letter to Caryl Mathes and John Rouschelle with cover messages	200.00	0.10	20.00
ELO Review and revisions to opinion letter regarding professional services contracts and reading Chris Faser's e-mail	200.00	0.30	60.00
ELO Conference with staff concerning various aspects of proposed Plan of Operation for Citizens	200.00	0.20	40.00
09/29/03 ELO Telephone conference with Caryl Mathes re: various matters pertaining to Citizens Insurance Company, its tax status, etc.	200.00	0.30	60.00
ELO Study of Mr. Lisotta's request for opinion concerning "renewals" of existing fair and coastal plan policies under Citizens, procedures and operations and preliminary opinion by e-mail	200.00	0.50	100.00
10/01/03 ELO Conference with staff and consideration of various Plan of Operation issues	200.00	1.30	260.00
10/07/03 ELO Conference with staff concerning cancellation/intention not to renew and related matters of coverage termination under old Fair and Coastal policies; inception of Citizens policies	200.00	0.40	80.00
ELO Review of Notice of Intent to Renew/Cancellation statutes and work on appropriate notice language	200.00	1.20	240.00
10/08/03 ELO Work on draft Notice of Intent Not to Renew old Fair and Coastal Policies through Audubon and availability through Citizens	200.00	0.50	100.00
10/09/03 ELO Attend meeting of Citizens transition committee and conferences with staff concerning Citizens, its operations and its plan of operations	200.00	4.50	900.00

Property Insurance Association for the Account of

Page: 4

01/27/2004

ACCOUNT NO: 247-016410

STATEMENT NO: 2

In Re: Louisiana Citizens Property Ins. Corp.

	Rate	Hours	
10/23/03 ELO Attend and participate in organizational meeting of Citizens Insurance Company	200.00	4.00	800.00
10/28/03 ELO Consult with staff regarding various aspects of Citizens Plan of Operations	200.00	0.40	80.00
11/10/03 ELO Review of draft of Citizens Plan of Operations and consultation with staff concerning various aspects of same	200.00	2.30	460.00
11/13/03 ELO Attend and participate in meeting of Citizens Board of Governors	200.00	4.00	800.00
11/18/03 ELO Travel to Baton Rouge for appearance before Joint House and Senate Insurance Committees re: approval of Citizens' Plan of Operations, consultation with staff following hearing, return to New Orleans	200.00	9.00	1,800.00
12/01/03 ELO Travel to Baton Rouge, meeting with representative Shirley Bowler, Mr. Lisotta, Caryl Mathes, Bubba Henry and Jeff Albright, return to New Orleans	200.00	6.50	1,300.00
12/02/03 ELO Travel to Baton Rouge, attend hearing before Joint Senate and House Insurance Committees re: Louisiana Citizens Property Insurance Corporation Plan of Operations, return to New Orleans, conferences with Mr. Colodny, Mr. Lisotta, Caryl Mathes, Bubba Henry, Jeff Albright and others	200.00	8.00	1,600.00
12/15/03 ELO Research of law and study of proposed contracts re: Citizens and PIAL	200.00	2.30	460.00
12/16/03 ELO Travel to and from, and participation in conference with Caryl Mathes, Pat Santos, Kurt Reeson and Terry Lisotta re: various PIAL, Citizens, Audubon, Fair and Coastal Plan contracts	200.00	4.00	800.00
ELO Work on PIAL/Citizens contract	200.00	5.00	1,000.00
12/17/03 ELO Work on amendments and changes to LIUP contract with PIAL and Citizens	200.00	1.00	200.00
12/18/03 KSB Review and study of law re: State Procurement Code LSA-R.S. 39:1551-1775	60.00	5.00	300.00
KSB Work on Insurance Services Agreement between Audubon, Citizens, LJRP and LIUP	60.00	2.50	150.00
ELO Prepare for meeting with Curt Reeson, Terry Lisotta, et al re: various contracts	200.00	1.50	300.00
ELO Meeting with Curt Reeson, Terry Lisotta and telephone conferences regarding preparation of contract documents	200.00	8.50	1,700.00

In Re: Louisiana Citizens Property Ins. Corp.

	Rate	Hours	
12/19/03 ELO Attend conferences at PIAL with Terry Lisotta and Curt Reeson and work on servicing insurer agreement and PIAL/Citizens agreement	200.00	6.00	1,200.00
KSB Work on Insurance Services Agreement between Audubon, Citizens, LIUP and LJRP	60.00	1.30	78.00
ELO Work on draft of Citizens, PIAL and LJRP and Citizens, PIAL and LIUP contracts and telephone conferences with Curt Reeson in respect thereof	200.00	4.50	900.00
ELO Meeting with Curt Reeson re: working on contract documents	200.00	5.50	1,100.00
ELO Work on PIAL/Citizens contract	200.00	2.50	500.00
12/20/03 ELO Work on revisions to PIAL/Citizens draft agreement	200.00	4.00	800.00
12/21/03 ELO Work on revisions to PIAL/Citizens Agreement	200.00	4.50	900.00
ELO Prepare for telephone conference with Bubba Henry, Edgar Jordan, assistant director of administration for procurement, Terry Lisotta, Curt Reeson and Caryl Mathes participating	200.00	2.50	500.00
KSB Work on Agreement for Services between PIAL and LCPIC	60.00	3.00	180.00
12/22/03 ELO Travel to Property Insurance Association, conferences with staff, telephone conference with Jordan, Henry, etc.	200.00	3.00	600.00
ELO Prepare Request for Emergency and Sole Provider Procurement determinations directed to Ms. Lea, chief of procurement; telephone conferences with Bubba Henry regarding same, telephone conference with Terry Lisotta re: meetings with Commissioner Wooley and others; review of changes to AIG proposed agreement; review of Caryl Mathes' proposed changes to the AIG agreement and telephone conference with Robert Hubbard, Adam of AIG, Caryl Mathes, Curt Reeson re: changes	200.00	4.00	800.00
12/23/03 ELO Numerous telephone conferences with Bubba Henry, Curt Reeson, Caryl Mathes, Robert Hubbard, Adam, and or others at various times related to contracts between Citizens, PIAL, and Citizens, Audubon, LIUP and LJRP, including, among other things, status of emergency and sole source procurement determinations, revisions of and revisions to proposed LCPIC/PIAL contract and cover transmittal to parties; notices to directors of LIUP and LJRP re: meeting on 12/29/03; review and revisions of Citizens/AIG contract;	200.00	7.30	1,460.00
12/24/03 ELO Work on PIAL/Citizens/LIUP issues, including determination letter from procurement officer, AIG			

01/27/2004

Property Insurance Association for the Account of

ACCOUNT NO: 247-016410

STATEMENT NO: 2

In Re: Louisiana Citizens Property Ins. Corp.

	Rate	Hours	
contract negotiations and related matters; telephone conferences with Bubba Henry, Terry Lisotta, Curt Reeson, Caryl Mathes, Adam Reed, Robert Hubbard; drafting resolutions; etc	200.00	4.50	900.00
KSB Work on PIAL/Citizens contract and resolutions	60.00	1.80	108.00
12/26/03 ELO Work on PIAL/Citizens contract, referencing and providing for inclusion of determination letter and attachments; telephone conferences with Adam Reed of AIG re: termination language, reimbursement language, various matters; e-mails to Adam Reed and e-mails to PIAL personnel re: status; telephone report to Terry Lisotta; telephone report to Caryl Mathes	200.00	3.50	700.00
ELO Telephone conferences and e-mails to and from Caryl Mathes and Adam Reed of AIG re: negotiations, wording and terms of transfer and reimbursement clauses	200.00	3.00	600.00
12/27/03 ELO Final proofreading of Audubon contract, e-mail to Caryl Mathes with instructions	200.00	1.30	260.00
12/28/03 ELO Prepare for meetings at PIAL re: Citizens, contracts with PIAL and AIG	200.00	1.50	300.00
12/29/03 KSB Work on various matters for PIAL/Citizens re: resolutions; e-mails, contract with Audubon	60.00	1.50	90.00
ELO Attend meetings at PIAL re: Citizens, Citizens contracts with PIAL and AIG, conferences with Terry Lisotta and others concerning same	200.00	5.00	1,000.00
01/08/04 ELO Telephone conference with Mike Colodny re: IRS, question concerning bond commission; telephone conference with Jim Napper re: Colodny's questions, IRS concerns about role of bond commission; three way telephone conference with Jim Napper and Mike Colodny regarding role of bond commission, function, scope of authority and impact on IRS tax status private letter ruling letter	200.00	1.80	360.00
01/26/04 ELO Review of correspondence from Erroll and Michelle Chouest re: dispute with Allstate and Kent Bouvier Insurance Agency	200.00	0.30	60.00
ELO Numerous unrecorded telephone conferences with Mr. Lisotta, members of staff, Mr. Colodny, Mr. Rochelle, Mr. Henry, and others relative to various and sundry Citizens related issues	200.00	15.00	3,000.00
TO PROFESSIONAL SERVICES RENDERED		230.00	43,389.00

Property Insurance Association for the Account of

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01/27/2004

ACCOUNT NO: 247-016410  
STATEMENT NO: 2

In Re: Louisiana Citizens Property Ins. Corp.

RECAPITULATION

<u>TIMEKEEPER</u>	<u>HOURS</u>	<u>HOURLY RATE</u>	<u>TOTAL</u>
Ernest L. O'Bannon	211.10	\$200.00	\$42,220.00
Christopher M. G'sell	1.00	95.00	95.00
Kathleen S. Butler	17.90	60.00	1,074.00

12/01/03	(OB) Travel expenses of 11/18 to Baton Rouge to attend session of LA House and Senate Ins. Committee meeting re: LA Citizens Plan of Operation (164 miles @ .36) Ck# 8684	59.04
12/01/03	(OB) Travel expenses of 12/1 to Baton Rouge to meet with Shirley Bowler of House Ins. Committee re: Plan of Operations for LA Citizens (164 miles @ .36) Ck# 8684	59.04
	TOTAL EXPENSES	118.08
	TOTAL CURRENT WORK	43,507.08
	BALANCE DUE	<u>\$43,507.08</u>
	Please Remit	<u>\$43,507.08</u>

BIENVENU, FOSTER, RYAN & O'BANNON

ATTORNEYS AND COUNSELORS AT LAW  
1010 COMMON STREET  
SUITE 2200

NEW ORLEANS, LOUISIANA 70112-2401  
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FAX (504) 522-7859 ~ FAX (504) 310-1501

Writer's direct dial number  
(504) 310-1522  
E-MAIL: EObannon@bfrob.com

ERNEST L. O'BANNON

March 25, 2004

Mr. Terry Lisotta  
PROPERTY INSURANCE ASSOCIATION OF LOUISIANA  
433 Metairie Road  
P O Box 60730  
New Orleans, LA 70160  
Via U.S. Mail

Re: General counsel retention agreement  
Our File No. 16,410

Dear Terry:

This letter will serve as a general counsel retention agreement by and between me and my firm, and Louisiana Citizens Property Insurance Corporation, pursuant to the resolution of the board of directors formally adopted on Thursday, March 18, 2004, until such time as either party may deem it appropriate to supplement or amend the agreement. That said, it is understood and agreed by and between Louisiana Citizens Property Insurance Corporation (Citizens), and Ernest L. O'Bannon of the firm Bienvenu, Foster, Ryan & O'Bannon (O'Bannon), that:

- (1) O'Bannon has been retained by Citizens as general counsel effective January 1, 2004, for an annual fee of \$36,000.00, to be paid in equal monthly installments of \$3,000.00 on the first day of each month commencing January 1, 2004, and in exchange for which O'Bannon shall attend the regular and special meetings of the board of directors and of the executive committee of Citizens; consult with staff and management on such legal matters as may effect the operations of Citizens; and generally give legal advice and counsel when called upon to do so by staff or management or the board of directors, accepting in the fields of tax and bond law, with respect to which O'Bannon shall cooperate and assist tax and bond counsel as may be required.
- (2) O'Bannon shall handle or assign to others for handling litigation or claims by or against Citizens; however, with respect to litigation, O'Bannon shall be entitled

March 25, 2004  
Page 2

to charge Citizens additional fees based upon the then current hourly rates allowed by the Attorney General, and it is understood and agreed that litigation charges shall not be included in the annual retainer.

- (3) Charges for in the scope of work not falling within paragraphs 1 and 2 above shall be negotiated as occasion arises.
- (4) In addition to these, O'Bannon shall be entitled to charge for reasonable expenses incurred while engaged in the affairs of Citizens, in accordance with the expense schedules of Property Insurance Association of Louisiana.

This contract shall continue unless and until an amended, modified or terminated by the parties in writing. Either party may terminate this contract at any time, and for any reason by giving the others thirty days written notice.

\_\_\_\_\_  
ERNEST L. O'BANNON  
Individually and for the firm of Bienvenu, Foster,  
Ryan & O'Bannon

Louisiana Citizens Property Insurance Corporation by:

\_\_\_\_\_  
Name:

Date Executed: \_\_\_\_\_

ELO'B/jbl

Client	Trans Date	Trkr	F P	Tod	Stat #	Rate	Amount	Ref #
Client ID 796.022110		Louisiana		Citizens	Property	Insurance	Corporation	
796.022110	05/21/2004		P	317			15000.00 MONTHLY RETAINER (January, February, March, April & May 2004) Property Insurance Association of Louisiana ck#40472	38
796.022110	06/03/2004		P	317			3000.00 MONTHLY RETAINER (June) Property Insurance Association of Louisiana ck#40538	39
796.022110	07/02/2004		P	317			3000.00 MONTHLY RETAINER (July) Property Insurance Association of Louisiana ck#40708	40
796.022110	08/11/2004		P	317			3000.00 MONTHLY RETAINER (August) Property Insurance Association of Louisiana ck#40984	41
796.022110	09/20/2004		P	317			3000.00 MONTHLY RETAINER (September) Property Insurance Association of Louisiana ck#41167	42
796.022110	10/15/2004		P	317			3000.00 MONTHLY RETAINER (October) Property Insurance Association of Louisiana ck#41352	43
796.022110	11/22/2004		P	317			3000.00 MONTHLY RETAINER (November) Property Insurance Association of Louisiana ck#41595	44
796.022110	12/10/2004		P	317			3000.00 MONTHLY RETAINER (December) Property Insurance Association of Louisiana ck#41689	45
796.022110	01/12/2005		P	317			3000.00 MONTHLY RETAINER (January 2005) Property Insurance Association of Louisiana ck#41923	46
796.022110	02/11/2005		P	317			3000.00 MONTHLY RETAINER (February) Property Insurance Association of Louisiana ck#42102	47
796.022110	03/24/2005		P	317			3000.00 MONTHLY RETAINER (March) Property Insurance Association of Louisiana ck#42275	48
796.022110	04/12/2005		P	317			3000.00 MONTHLY RETAINER (April) Property Insurance Association of Louisiana ck#42476	49
796.022110	05/20/2005		P	317			3000.00 MONTHLY RETAINER (May) Property Insurance Association of Louisiana ck#42715	50
796.022110	05/31/2005		P	300			25.37 REGULAR PAYMENT FedEx Express ck#4015211 (credit for service failure)	51
796.022110	06/13/2005		P	317			3000.00 MONTHLY RETAINER (June) Property Insurance Association of Louisiana ck#42812	52
796.022110	07/14/2005		P	317			3000.00 MONTHLY RETAINER (July) Property Insurance Association of Louisiana ck#43001	53
796.022110	08/09/2005		P	317			3000.00 MONTHLY RETAINER (August) Property Insurance Association of Louisiana ck#43134	54
796.022110	10/03/2005		P	317			3000.00 MONTHLY RETAINER (September) Property Insurance Association of Louisiana ck#43279	73
796.022110	11/08/2005		P	317			3000.00 MONTHLY RETAINER (November) Property Insurance Association of Louisiana ck#39362	74
796.022110	11/08/2005		P	317			3000.00 MONTHLY RETAINER (October) Property Insurance Association of Louisiana ck#39362	75
796.022110	01/04/2006		P	317			3000.00 MONTHLY RETAINER (December) Property Insurance Association of Louisiana ck#44260	76
796.022110	01/20/2006		P	317			3000.00 MONTHLY RETAINER (January) Property Insurance Association of Louisiana ck#39397	77
796.022110	02/15/2006		P	317			3000.00 MONTHLY RETAINER (February) Property Insurance Association of Louisiana ck#44552	78
796.022110	03/10/2006		P	317			3000.00 MONTHLY RETAINER (March) Property Insurance Association of Louisiana ck#44746	79
796.022110	04/14/2006		P	317			3000.00 MONTHLY RETAINER (April) Property Insurance Association of Louisiana ck#44981	80
796.022110	05/08/2006		P	317			3000.00 MONTHLY RETAINER (May 2006) Property Insurance Association of Louisiana ck#45178	81
796.022110	07/05/2006		P	317			3000.00 MONTHLY RETAINER (June) Property Insurance Association of Louisiana ck#45467	82
796.022110	07/13/2006		P	317			3000.00 MONTHLY RETAINER (July) Property Insurance Association of Louisiana ck#45543	83
796.022110	08/30/2006		P	317			3000.00 MONTHLY RETAINER (August) Property Insurance Association of Louisiana ck#45861	84
796.022110	09/22/2006		P	317			3000.00 MONTHLY RETAINER (September) Property Insurance Association of Louisiana ck#46041	85
796.022110	10/23/2006		P	317			3000.00 MONTHLY RETAINER (October) Property Insurance Association of Louisiana ck#46258	86
796.022110	11/29/2006		P	317			3000.00 MONTHLY RETAINER (November) Property Insurance Association of Louisiana ck#46539	87
796.022110	12/26/2006		P	317			3000.00 MONTHLY RETAINER (December) Property Insurance Association of Louisiana ck#46694	88

Total For Client ID 796.022110 Payments 108025.37 Louisiana Citizens Property Insurance Corporation

**GRAND TOTALS**

Payments 108025.37



# KEANMILLER

KEAN MILLER HAWTHORNE D'ARMOND McCOWAN & JARMAN LLP  
ATTORNEYS AT LAW

CHARLES L. PATIN, JR., PARTNER  
DIRECT DIAL 225.382.3430  
DIRECT FAX 225.215.4030  
CHARLIE.PATIN@KEANMILLER.COM

May 17, 2007

Kevin Kelley, Compliance Audit Manager  
Office of Legislative Auditor  
1600 North Third Street  
Baton Rouge, LA 70804

*Via Hand Delivery*

Re: Chris Faser/Legislative Auditor  
Our File No.: 19450-0

Dear Mr. Kelley:

Enclosed is the "Response of P&C Insurance Consulting, L.L.C. and Christian Faser, III, to May 16, 2007 Final Draft Compliance Audit Report on Louisiana Citizens Property Insurance Corporation by the Legislative Auditor" (the "Response"). Attached to the Response is the affidavit of Mr. Faser, a copy of his letter to the Property Insurance Association of Louisiana through which he submitted reimbursement of the duplicate expense reimbursements identified by your agency, and the affidavit by Ms. Rochelle Theriot, owner of the Bon Amis Hunting Club.

After review of the final draft of the compliance audit, I find that much of what my client took exception with remains in the text of the report. In many respects the report remains misleading due to a failure to incorporate language found in the Consulting Contract and obvious agreements reached between the parties to it during the term of the contract. These and other deficiencies are addressed in the response which my client requests be attached to the final audit report and provided to all to whom it is distributed.

Very truly yours,



Charles L. Patin, Jr.

CLPjr/sdd  
Enclosure w/attachments  
cc: Chris Faser

**RESPONSE OF P&C INSURANCE CONSULTING, L.L.C.  
AND CHRISTIAN FASER, III, TO MAY 16, 2007  
FINAL DRAFT COMPLIANCE AUDIT REPORT  
ON LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION  
BY THE LEGISLATIVE AUDITOR**

May 17, 2007

Pursuant to a telephone conversation of yesterday with Dan Daigle, we were advised to provide this response to the final draft compliance audit report on Louisiana Citizens Property Insurance Corporation. P&C Insurance Consulting, L.L.C. and Christian Faser, III, respond by providing the following material information to be reflected in the final compliance audit report:

**Description of Obligations of P&C Insurance Consulting, L.L.C.:**

In order to accurately describe the P&C Insurance Consulting, L.L.C. ("P&C") Consulting Contract obligation listed as item number 4 on page 1 of the final draft compliance report on the Louisiana Citizens Property Insurance Corporation, the item ought to include the proviso contained in the contract itself. The proviso provides that written reports as to relevant regulatory activity and developments may be excused. P&C, therefore, requests that item number 4 on page 1 be reworded as follows:

- "4. Provide written reports of relevant regulatory activity and developments affecting or of interest to PIAL, LIUP, LJRP, and Citizens, **'at meetings of the Executive Committee of PIAL, unless excused'**["<sup>1</sup>

The additional language in boldface is taken directly from the Consulting Contract. Its addition is necessary to accurately state the contractual obligation of P&C.

**The Requirement that P&C Submit a Log of Activities and a Schedule of Expenses:**

The second paragraph of the final draft compliance audit report presently provides as follows:

"The contract required P&C to submit, no later than the tenth day of the following month in writing to PIAL, a log of activities during the preceding month and a schedule of

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<sup>1</sup>Boldfaced language indicates a requested change to the text of final draft compliance report.

expenses with supporting documentation. In exchange for the above services, P&C was to receive \$5,000 per month plus reasonable expenses for travel, food, and lodging incurred in furtherance of the contract.”

P&C suggests that the following sentence follow the above quoted language:

**“Albeit the contractual language, PIAL did not require written reports prior to payment to P&C. Mr. Faser represents that an agreement dispensing with the requirement for submission of the log of activities was reached between PIAL and P&C and that submission of expense reimbursement requests by P&C was accepted by PIAL in satisfaction of the requirement for a schedule of expenses.”**

P&C submits that this addition is consistent with the Legislative Auditor’s finding as contained in the draft compliance audit report of May 9, 2007 that PIAL “did not require written reports prior to payment to P&C[.]”

**Extension of the Consulting Contract:**

The last sentence of the second paragraph on page 1 of the final draft compliance report provides as follows:

“Although P&C’s contract expired in March 2005, PIAL has continued its relationship with P&C, but has not extended or renewed the contract in writing.”

P&C suggests that the sentence be rewritten as follows to accurately conform to the language of the Consulting Contract:

**“The initial term of P&C’s contract with PIAL expired in March 2005. PIAL’s relationship with P&C continued thereafter pursuant to the non-written agreement of the parties, which is consistent with the language in the contract. The Consulting Contract provides that ‘If both parties agree, the contract may be extended for no more that two successive one year terms.’”**

P&C respectfully submits that this revision accurately presents the basis for the contract extension.

**Payments to P&C Charged by PIAL to Citizens LAIP:**

The next two paragraphs on page 1 of the final draft compliance audit report, paragraphs three and four, address the practice by PIAL of charging Citizens and LAIP a portion of the amounts paid to P&C. While these paragraphs are aimed at PIAL, P&C suggests that the following paragraph be added, following paragraph four on page 1 to read as follows:

**“P&C was not privy, or a party to the contractual relationships between PIAL, Citizens, and/or LAIP and had no control over practices by PIAL with respect to charges made for P&C’s payments as between PIAL, Citizens, and LAIP. The compensation and expense reimbursements received by P&C were drawn on the account of PIAL.”**

P&C respectfully submits that this paragraph makes it clear that P&C had nothing to do with the internal accounting and charging practices of PIAL and that P&C’s compensation and expense reimbursements were evidenced by checks drawn on PIAL’s account.

**Absence of Names of Participants on Certain Hunting Trips:**

The last two sentence of the first paragraph on page 4 of the final draft compliance audit report states as follows:

**“Four of the expense reports submitted for reimbursement for hunting trip expenses did not include the names of the participants. Neither Mr. Faser nor Bon Amis Hunting Club could provide us records of the hunters for these four trips.”**

P&C respectfully requests that the following sentence be added immediately following the above quoted language:

**“During Mr. Faser’s interview with representatives of the Office of Legislative Auditor on April 26, 2007, which was conducted under oath and transcribed by a court reporter, he testified that Kip Wall, Steve Cavanaugh, Robert Wooley, Chad Brown, and Steve Ruiz were the usual participants on hunting trips for which reimbursement was sought from**

**PIAL and that he could “only assume” that the four hunting trips were business related “otherwise I would not have submitted it to PIAL.”**

**The Alleged Payments by Chad Brown for Hunting Trips:**

The final compliance audit report states as follows with respect to alleged payments by Chad Brown for his participation on certain hunting trips:

“We discussed the hunting and fishing trips with Mr. [Chad] Brown and he stated he did attend three hunting trips with Mr. Faser, and that they were purely social and not business related. He further stated that he paid Mr. Faser directly for his cost of the trip and provided us with a copy of his personal banking records where he paid Mr. Faser \$370 on May 3, 2005. Mr. Brown stated that he may have paid Mr. Faser in cash for one or more of the hunting trips.”

P&C and Mr. Faser take exception to this finding and the legal conclusions offered in footnotes in the text of the draft compliance audit report and respond as follows:

As mentioned above, Mr. Faser’s interview with members of the staff of the Legislative Auditor was conducted under oath and the interview was transcribed by a qualified court reporter.<sup>2</sup> P&C request that the following language be added to the final compliance audit report:

**Mr. Faser testified that he had no recollection of receiving either a check or cash from Chad Brown in reimbursement of Mr. Brown’s pro-rata share of amounts paid for hunting or fishing trips for which Mr. Faser was reimbursed by checks drawn on PIAL’s account. The draft compliance audit report discloses that none of the other hunters reimbursed Mr. Faser for their pro-rata share for the hunting trips.**

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<sup>2</sup>There is no indication that Chad Brown’s statements to members of the staff of the Legislative Auditor were made under oath. At the time of the hunting trip for which Mr. Brown alleges reimbursement of his pro-rata share in the amount of \$370.00, he was, and remains to date, a state employee subject to compliance with the Code of Governmental Ethics. A failure to make reimbursement for the hunting trips paid for by Mr. Faser and Mr. Lisotta would expose Mr. Brown to possible sanctions for violations of La. R.S. 42:1115(B).

**The \$370.00 alleged reimbursement check of Mr. Brown referenced in the final draft compliance audit report is dated approximately three (3) months after the date of the hunt.<sup>3</sup> It exceeds by \$85.00 what would have been Mr. Brown's pro-rata share of \$285.00 of the \$1,144.00 total hunt cost.**

**In discussing this matter with Mr. Kelley of the Legislative Auditor's staff, he stated that the excess amount of the alleged reimbursement may have resulted because Mr. Brown's kill exceeded the limit imposed by the hunting club. Attached is the affidavit of Ms. Rochelle Theriot, owner of the Bon Amis Hunting Club, in which she attests that in the event of an overkill, the number of over killed birds is evenly assessed to each hunter in the hunting party.<sup>4</sup> Accordingly, the \$85.00 excess amount of the alleged reimbursement cannot be attributed to an overkill by Mr. Brown.**

**Mr. Kelley further sought to explain the \$85.00 excess amount as payment for an additional hunt that Mr. Brown may have attended with Mr. Faser. However, none of the other hunt reimbursement payments would have resulted in an \$85.00 pro-rata share for Mr. Brown.**

**In addition, Mr. Faser has learned that during Mr. Terry Lisotta's interview with members of the staff of the Legislative Auditor Mr. Lisotta was advised that Chad Brown had alleged that he had reimbursed Mr. Lisotta for a hunt that Mr. Lisotta paid for. When questioned by staff of the Legislative Auditor as to whether he had received a reimbursement from Mr. Brown, Mr. Lisotta advised that his response was "NO" and that he was prepared to take a "lie-detector test" to prove it.**

**Payment of Duplicate Expense Reimbursements:**

The final draft compliance audit report cites \$357 in apparent duplicate expense reimbursements paid to P&C by PIAL.

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<sup>4</sup>Ms. Theriot's affidavit is attached.

“In addition to the hunting and fishing trip reimbursements, P&C received reimbursement for \$21,431 of mileage, parking, lodging, tips and meal expenses from PIAL. PIAL subsequently invoiced Citizens for \$14,749, or 69% of P&C’s travel expenses. We reviewed these expense reports and found P&C received reimbursement for \$357 of expenses that appear to be a duplicate reimbursement.”

Attached to this response is a letter over the signature of Mr. Faser to PIAL in which was enclosed a P&C check made payable to PIAL in the amount of the duplicate reimbursements. As stated during Mr. Faser’s interview with the Legislative Auditor and restated in the attached letter, Mr. Faser was unaware of the duplicate reimbursements at the times the payments were received and only gained knowledge of the same during the interview with the Legislative Auditor. Once knowledgeable of the duplicate reimbursements, P&C promptly remitted payment in full to cover the amount of the duplicate reimbursements.

A copy of the letter transmitting remittance of the duplicate reimbursements was mailed to the Legislative Auditor. Inexplicably, the final draft compliance audit report neglects to mention P&C’s remittance to PIAL in payment of the duplicate reimbursements, even though this was discussed on Tuesday of this week with members of the staff of the Office of Legislative Auditor.

In order to make the record of events accurate, P&C respectfully requests that the following sentence be added:

**“On May 2, 2007, Mr. Faser remitted payment to PIAL in the amount of \$375.65 in reimbursement for receipt of the duplicate expense payments. A copy of the letter and check carbon copy receipt are attached to this report, together with a copy of his affidavit.”**

### **Travel, Lodging, and Food Reimbursements:**

The final draft compliance audit report mentions certain reimbursements in excess of reimbursement guidelines for meals in PPM 49:

“As part of the above expense reports, P&C submitted and received reimbursement for 84 meals totaling \$9,767, which is an average of \$116.27 per meal. P&C did not submit an itemized receipt for a majority of these meals. In comparison,

the state's travel policy sets meal rates in low cost areas at \$31 per day and increases to as high as \$51 per day for international travel." (Footnote omitted.)

P&C respectfully request that the following be added immediately following the above quoted language:

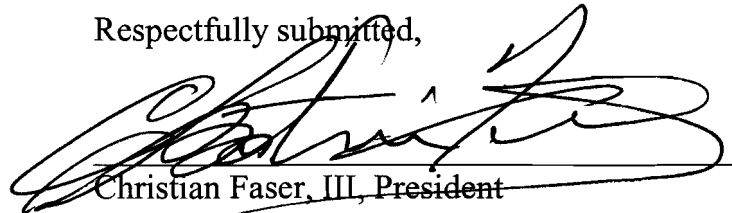
**The contract provides as follows in this regard:**

**"PIAL will pay P&C monthly the sum of \$5,000 for the duration of this contract, plus reasonable expenses for travel, food and lodging incurred in furtherance of this contract, in accordance with PIAL expense reimbursement guidelines." (Emphasis supplied.)**

**Reimbursements for the meals to P&C were either in compliance with PIAL expense reimbursement guidelines or that PIAL disregarded its expense reimbursement guidelines. None of the contractual obligations imposed upon P&C in the Consulting Contract address requirements or impose any limitations with respect to submissions of expense reimbursement requests.**

P&C and Mr. Faser sincerely appreciate the opportunity to respond and offer clarifying language and corrections to the final draft compliance audit report. Pursuant to prior telephone conversation between Mr. Kelley and P&C's attorney, Charles Patin, this response will be attached to the final compliance audit report.

Respectfully submitted,



Christian Faser, III, President  
P&C Insurance Consulting, L.L.C.



STATE OF LOUISIANA

PARISH OF EAST BATON ROUGE

**AFFIDAVIT**

BEFORE ME, the undersigned authority in and for the state and parish  
aforementioned, did personally come and appear

**CHRISTIAN FASER, III**

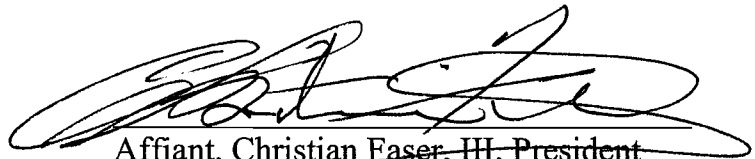
who, after first being duly sworn by Me, did depose and state as follows:

1. Affiant is a person of the age of majority, of sound mind, and gives this affidavit based upon his personal knowledge.
2. Affiant is owner and principal of P&C Insurance Consulting, L.L.C. (hereinafter referred to as "P&C").
3. P&C entered into a Consulting Contract with the Property Insurance Association of Louisiana (hereinafter referred to as "PIAL").
4. Pursuant to the Consulting Contract, P&C, through its principal, attended meetings of the Louisiana Rating Commission, other Louisiana insurance regulatory bodies, departments and agencies, and such meetings of trade organizations as deemed necessary in order to report, advise and consult with PIAL concerning regulatory matters affecting the operations of PIAL, the Louisiana Insurance Underwriting Plan, the Louisiana Joint Reinsurance Plan, and the Louisiana Citizens Property Insurance Corporation. P&C, through its principal, also consulted, assisted and advised PIAL with respect to

developments of the Louisiana Citizens Property Insurance Corporation's rate structures, and the formulation of such documentation as deemed necessary to effectuate the same.

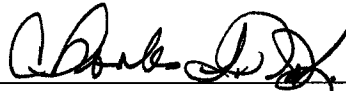
5. During the term of the Consulting Contract, Terry Lisotta served as Executive Director of PIAL.
6. By mutual agreement, Affiant and Mr. Lisotta agreed that P&C would be excused from the obligation under the Consulting Contract to file written monthly reports consisting of a log of activities and a schedule of expenses. Affiant was in constant, practically daily contact with Mr. Lisotta and regularly submitted reimbursement forms with documentation for expenses incurred in connection with P&C's activities under the Consulting Contract.
7. Affiant had a working relationship with many of the members of the Executive Committee of PIAL that extended over a period of approximately 20 to 30 years. Affiant was in contact with members of the Executive Committee of PIAL on a regular basis. Based upon Affiant's recollection, the Executive Committee did not request written reports from P&C at any time during the period in which P&C was under contract to provide PIAL with consulting services.
8. In order to nurture and enhance relationships with persons and agencies involved in insurance regulatory matters and others affecting the interests of PIAL, P&C, through its principal, sponsored activities such as meals and

hunting and fishing trips. These activities were considered as related to P&C's obligations under the Consulting Contract in that they served to strengthen relationships with persons and agencies with whom P&C interacted with in fulfillment of its obligations under the Consulting Contract with PIAL.



Affiant, Christian Faser, III, President  
P&C Insurance Consulting, L.L.C.

Sworn to and subscribed before Me, this 15<sup>th</sup> day of May, 2007  
in the city of Baton Rouge, Louisiana.



Charles L. Patin, Jr.  
NOTARY PUBLIC  
(Louisiana Bar No.: 10338)  
My commission is for life.

STATE OF LOUISIANA

PARISH OF EVANGLINE

**AFFIDAVIT**

BEFORE ME, the undersigned notary public in and for the state and parish  
aforementioned, did personally come and appear

**ROCHELLE THERIOT**

who, after first being duly sworn by Me, did depose and state as follows:

1. Affiant is a person of the full age of majority or sound mind who voluntarily gives this affidavit based upon her personal knowledge.
2. Affiant is owner of the Bon Amis Hunting Club that is located outside the city of Ville Platte, Louisiana.
3. Members of a hunting party are charged a flat rate for the privilege of hunting at the Bon Amis Hunting Club up to a maximum kill limit that is imposed by the club. If the kill limit is exceeded by a hunting party, an additional charge is imposed and the additional charge is pro-rated equally among each member of the hunting party.

*Rochelle Theriot*  
Affiant, Rochelle Theriot

Sworn to and subscribed before Me, this 12 day of May, 2007  
in the city of Ville Platte, Louisiana.

*Joseph Warren Fontenot*

(Printed Name: Joseph WARREN FONTENOT)

NOTARY PUBLIC

(Louisiana Bar No.: 034136)

My commission is for life.



P & C Insurance Consulting  
13584 LA Highway 417  
Batchelor, LA 70715

May 2, 2007

Property Insurance Association of Louisiana  
P. O. Box 60730  
New Orleans, LA 70160

Gentlemen:

During the term of my consulting activities with the Property Insurance Association of Louisiana ("PIAL"), I submitted 114 expense reports and received reimbursements checks drawn from PIAL accounts totaling \$31,731.03. It was my general practice in submitting expense reports to PIAL to sign the expense report form in blank and provide documentation and needed mileage information to Ms. Kathy Brown, who in turn filled in the expense report forms and submitted them for payment.

Late last week I learned for the first time during discussions with representatives of the Louisiana Legislative Auditor that in isolated instances, through either my inadvertence or clerical error, that I received double payments from PIAL in the amount of \$375.65. The double payments occurred in connection with (a) a mileage payment for probable travel on April 14, 2004 in the amount of \$117.00; (b) a mileage payment for travel on September 28, 2004 in the amount of \$48.75; (c) a mileage payment for travel on October 19, 2004 in the amount of \$48.75; (d) a mileage and lodging payment for travel and overnight stay on December 14, 2004 in the amount of \$152.70; and (e) a mileage payment for travel in May 2006 in the amount of \$57.20.

I enclose payment to the order of PIAL in the amount of \$375.65 in full payment of the abovementioned overpayments. This amount equals slightly over one percent of the total reimbursements that I received during the period in which I provided consulting services for PIAL through my consulting firm, P&C.

I trust this will serve to correct the overpayments and fully reimburse PIAL for them. Should you have questions in this regard, please do not hesitate to contact me. I may be reached by phone at 225-492-3493 or by mail forwarded to 13584 Highway 417, Batchelor, Louisiana 70815.

Sincerely,

ORIGINAL SIGNED

Chris Faser

Cc: Dan Daigle  
Kevin Kelly  
Auditor, Louisiana Legislative Auditor's Office

**DO NOT USE FOR REORDERING PURPOSES**

Protect Your Duplicate Checks Store your duplicate checks in your check box.

**Track your expenses...**

- Clothing
- Food
- Transportation
- Credit Card
- Utilities
- Mortgage
- Entertainment
- Insurance
- Other: \_\_\_\_\_



TAX-DEDUCTIBLE ITEM

1233

5-2-07

P. I. A. L.  
Three Hundred Seventy Five ~~100~~ <sup>65</sup>

Travel Repayment

BALANCE FORWARD	
THIS ITEM	375/65
BALANCE	
DEPOSIT	
OTHER	
BALANCE FORWARD	

For enhanced security, your name and account number do not appear on this copy.

NOT NEGOTIABLE



LOUISIANA DEPARTMENT OF INSURANCE

P.O. Box 94214  
BATON ROUGE, LOUISIANA 70804-9214  
PHONE (225) 342-5900  
FAX (225) 342-3078  
<http://www.lidi.la.gov>

May 21, 2007

Mr. Steve J. Theriot, CPA  
Louisiana Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

I am writing in response to a letter dated May 8, 2007 from Gregory Lavergne, Senior Legislative Auditor, regarding a compliance audit report on the Louisiana Citizens Property Insurance Corporation (hereinafter referred to as "Citizens"). More specifically, in response to the section in which my name appears, I offer the following:

Again, I acknowledge having attended the referenced hunting outings on three occasions arranged by Mr. Chris Faser. I considered each outing to be social in nature (as evidenced by my having taken personal annual leave from work; copies of related timesheets and leave slips were provided to your staff). However, on each occasion, Citizens and the general state of the insurance market were always discussed extensively. In addition, a meal was usually included in the outing.

Mr. Faser and I were co-workers for the Louisiana Department of Insurance for nearly 10 years before his retirement and, as in the past, Mr. Faser was still the designee of the commissioner of insurance on the Louisiana Automobile Insurance Plan. Therefore, I continued to view Mr. Faser as a fellow public servant.

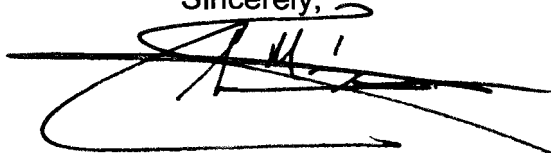
More importantly, during my service as a board member of both Citizens and the Property Insurance Association of Louisiana (PIAL) as the statutory designee of the commissioner of insurance, I was never made aware nor had the expectation or knowledge that any costs of these outings were being submitted to Citizens or PIAL for reimbursement.

Mr. Steve J. Theriot  
May 21, 2007  
Page 2

I have always taken my role as a representative of the department of insurance and the commissioner of insurance in a very serious manner. Accordingly, I am very confident that my service as a Citizens board member and as chairman of the board was conducted with integrity and in a professional manner.

Thank you for this opportunity to respond.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chad M. Brown', with a large, sweeping flourish underneath.

Chad M. Brown  
Chief of Staff/Deputy Commissioner

CMB/cb



May 21, 2007

***Via Hand Delivery***

Steve J. Theriot  
Office of Legislative Auditor  
Post Office Box 94397  
Baton Rouge, LA 70804

**J. Robert Wooley**  
Direct (225) 378-3220  
E-Fax (225) 336-5120  
robert.wooley@arlaw.com

Dear Mr. Theriot:


In response to the draft audit compliance report on the Louisiana Citizens Property Insurance Corporation, I would like to point out a few discrepancies.

First, I would point out that when I met with the auditors from your office, they indicated that they had records showing that I was present on three different hunting trips. I cannot dispute this and I have no records to indicate when I was present. However, the report indicates that I was present on seven trips, simply because Chris Faser said that I was a "usual" guest. I can tell you that I was invited many more times than the three times documented but was unable to attend.

Second, I was never shown the documents pertaining to the three trips for which there are records. Since allegations have been made that I may have violated the ethics law, I assume that the three trips that are documented are prior to my leaving the Department of Insurance in February of 2006.

Third, the allegation in the report is that I may have violated the ethics laws by attending these trips. Chris Faser was a longtime employee of the Department of Insurance. I had been invited and attended several hunting trips at the same location with him while he was an employee of the department. I had no reason to believe that these trips were any different than those when we worked together. Chris Faser never discussed with me any contractual, business, or financial relationships with the Department of Insurance.

Sincerely,



J. Robert Wooley