

LOUISIANA CITIZENS PROPERTY INSURANCE



COMPLIANCE AUDIT
ISSUED NOVEMBER 5, 2008

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

LEGISLATIVE AUDIT ADVISORY COUNCIL
REPRESENTATIVE NOBLE E. ELLINGTON, CHAIRMAN

SENATOR NICHOLAS "NICK" GAUTREUX
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
SENATOR JOHN R. SMITH
REPRESENTATIVE NEIL C. ABRAMSON
REPRESENTATIVE CHARLES E. "CHUCK" KLECKLEY
REPRESENTATIVE ANTHONY V. LIGI, JR.
REPRESENTATIVE CEDRIC RICHMOND

LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

DIRECTOR OF COMPLIANCE AUDIT
DAN DAIGLE, CPA, CIA, CFE

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Nine copies of this public document were produced at an approximate cost of \$31.05. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 7453 or Report ID No. 50080002 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

November 5, 2008

**THE HONORABLE JAMES J. DONELON,
COMMISSIONER OF INSURANCE
DEPARTMENT OF INSURANCE**

Baton Rouge Louisiana

**J. JOHN WORTMAN, CHIEF EXECUTIVE OFFICER,
AND BOARD OF GOVERNORS OF THE
LOUISIANA CITIZENS PROPERTY INSURANCE CORPORATION
BOB MOORMAN, CHIEF EXECUTIVE OFFICER,
AND BOARD OF GOVERNORS OF THE
PROPERTY INSURANCE ASSOCIATION OF LOUISIANA
S. DENISE BRIGNAC, CHAIRWOMAN,
AND BOARD OF GOVERNORS OF THE
LOUISIANA AUTOMOBILE INSURANCE PLAN**

Metairie, Louisiana

We have audited certain transactions of the Louisiana Citizens Property Insurance Corporation, Property Insurance Association of Louisiana, and Louisiana Automobile Insurance Plan. 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 agencies' 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, Property Insurance Association of Louisiana, and Louisiana Automobile Insurance Plan. Copies of this report have been delivered to the District Attorney for the Twenty-fourth Judicial District of Louisiana, the Louisiana Attorney General, the United States Attorney for the Eastern District of Louisiana, the Louisiana Board of Ethics, and others as required by law.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

BC:GD:DD:dl

CITIZENS08

	Page
Findings and Recommendations:	
Background.....	3
Summary of Finding.....	3
Reimbursement for Expenses That May Not Have Been Incurred	4
Other Questionable Expenses.....	5
Questionable Travel Expenses	6
Undocumented Expenses.....	6
Improper Entertainment Expenses	7
Conflicts of Interest	8
Recommendations	9
Methodology	11
Management’s Responses.....	Appendix A

Background

On September 26, 2007, this office issued an audit report of the Louisiana Citizens Property Insurance Corporation (Citizens), Property Insurance Association of Louisiana (PIAL), and Louisiana Automobile Insurance Plan (LAIP). As discussed during our previous report, the three agencies, Citizens, PIAL, and LAIP, operated as one entity. PIAL was the third-party administrator for both Citizens and LAIP. In the report, we reviewed a sample of the expenses incurred by Mr. Terry Lisotta, the former chief executive officer (CEO) of the three agencies. Based on our sample, it appeared that Mr. Lisotta spent \$25,702 for expenses that he did not incur, were personal in nature, or did not have a legitimate public purpose. The questioned expenses were ultimately paid by each agency based on allocations made by PIAL.

Mr. Lisotta, in his capacity as CEO for all three agencies, did not submit separate expense reports to each agency. Rather, he would submit one expense report that would include all of his expenses for that particular pay period. The accounting staff at PIAL reviewed the expense reports, reimbursed the expenses claimed, and allocated the expense costs among the three agencies according to Mr. Lisotta's directions.

Mr. Lisotta was issued two office credit cards--one in the name of PIAL and one in the name of LAIP. He also had authority to use PIAL and LAIP "house accounts" at area restaurants and hotels. As with the expense reports, PIAL accounting staff reviewed the credit card and house account billings, authorized payments, and allocated the expenses among the three agencies according to the instructions of Mr. Lisotta.

Based on the September 26, 2007, audit, the Louisiana Legislative Audit Advisory Council requested that this office conduct an additional review of the remainder of Mr. Lisotta's expenses. According to the Council's request, we reviewed all of the expenses incurred by Mr. Lisotta from December 2003 through December 2006. The expenses claimed by Mr. Lisotta during this period were approximately \$285,249. During our review, we discovered that the problems noted in our previous audit, i.e., expenses that were not incurred; personal expenses; and expenses with no documented business purposes, were more prevalent and systematic than we originally thought. In addition, we noted additional problems such as expenses that were duplicated and receipts that appear to have been created by Mr. Lisotta to support expenses that may not have been incurred. The nature and extent of these problems is described more fully below.

Summary of Finding

We question approximately \$106,579 of the \$285,249 in expenses incurred by Mr. Lisotta. These are expenses that may not have been incurred, appear personal in nature, or appear to have no legitimate business purpose. This \$106,579 includes the \$25,702 of questioned expenses identified in our previous report. In addition, approximately \$52,247 of Mr. Lisotta's expenses was for entertainment expenses that appear both unnecessary and extravagant. Some of these entertainment expenses give the appearance of a conflict of interest. Also, approximately \$174,992 of the \$285,249 in expenses incurred by Mr. Lisotta was not

properly documented. Finally, Mr. Lisotta and other Citizens officials accepted approximately \$35,143 in gifts and entertainment from a vendor doing business with Citizens.

Reimbursements for Expenses That May Not Have Been Incurred

Mr. Lisotta was reimbursed approximately \$19,162 for expenses he did not appear to have incurred. Mr. Lisotta provided vendor receipts with his expense reports to document the expenses. However, some receipts were not receipts used by the vendors as stated on the expense reports. Other receipts supported expenses that were already paid using his agency credit cards.

Guest Receipts

During our audit, we noted that approximately \$13,509 of meal purchases was supported not with detailed receipts but with “guest receipts.” Mr. Lisotta’s guest receipts were typically a tear-off generic tag that included the tag number, number of guests, and total amount for the meal. We organized these guest receipts by restaurant and then asked management of the restaurants to validate the receipts. Most of the restaurants for which we had guest receipts informed us that they did not use such guest receipts. Guest receipts totaling \$7,632 supported meal purchases at restaurants that claimed not to have used them. One restaurant was not open at the time the meals were supposedly purchased. Based on the responses from the restaurants, it appears that Mr. Lisotta was reimbursed \$7,632 for expenses he did not appear to have incurred in possible violation of state law.¹

Duplicate Expenses

We identified approximately \$8,209 of duplicate expense reimbursements. As discussed above, Mr. Lisotta used agency-issued credit cards for some expenses and submitted expense reports for other expenses, for which he was later reimbursed. During our audit, we noted a significant number of instances where items purchased through company-issued credit cards were recorded by Mr. Lisotta on his expense reports and reimbursed separately. Consequently, Mr. Lisotta appears to have been reimbursed for expenses he did not incur in possible violation of state law.²

For example, on June 10, 2004, Mr. Lisotta charged \$966.45 to his LAIP credit card for a Las Vegas, Nevada, hotel stay. The charge includes a lounge expense of \$253.50. Upon his return from Las Vegas, Mr. Lisotta claimed the \$253.50 was an out-of-pocket expense and was reimbursed by submitting an expense report.

¹ R.S. 14:67 provides, in part, that theft is the misappropriation or taking of anything of value which belongs to another, either without the consent of the other to the misappropriation or taking, or by means of fraudulent conduct, practices, or representations.

² See footnote 1.

In another instance, Mr. Lisotta charged \$1,272.60 to his LAIP credit card for a hotel stay at the Lenox Hotel in Boston, Massachusetts. The hotel invoice supporting this charge shows a \$129 charge for valet laundry service. Upon his return from Boston, Mr. Lisotta claimed the \$129 was an out-of-pocket expense and was reimbursed by submitting an expense report.

Miscellaneous Expenses Not Incurred

Mr. Lisotta was reimbursed approximately \$3,321 for additional expenses he did not appear to have incurred. For example, on Mr. Lisotta's November 19, 2006, expense report, he includes a \$1,495 conference fee expense for the Eighteenth Annual Executive Conference for the Property-Casualty Industry in New York City. According to a conference representative, Mr. Lisotta was a guest speaker at the conference and, therefore, he was not charged the conference fee. Based upon documentation supplied by Mr. Lisotta to support his expense reimbursement, it appears that he was reimbursed for expenses he did not incur in possible violation of state law.

Other Questionable Expenses

We identified approximately \$47,769 of additional questionable costs. These expenses range from hotel movie charges to office parties. Many of the expenses appear personal in nature. Examples of these expenses are given below.

On Friday March 19, 2004, Mr. Lisotta purchased items totaling \$1,290.62 from a Sam's Club in New Orleans. The receipt indicates that the purchase was for grocery items such as soft drinks, beer, chips, meats, condiments, paper plates, and towels. Mr. Lisotta was reimbursed \$1,102.75 of this amount. There is no documented public purpose for this expense. Mr. Lisotta's calendar indicates a dance party for his daughter's prom on this night. Based on the nature of the items purchased, the lack of any documented public purpose, and the correlation with a private event, it appears that this purchase may have been personal in nature.

On May 25, 2005, Mr. Lisotta purchased four Louisiana State University season football tickets and a parking pass. The cost of this purchase was \$1,723 and included a \$400 donation to LSU. There is no documented business purpose for this purchase nor was there any documentation indicating who attended these games or the business purpose for their attendance. Moreover, the donation of public funds to LSU may violate Article VII, Section 14 of the Louisiana Constitution which 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."

Questionable Travel Expenses

We identified approximately \$39,648 of questionable travel expenses. The questionable expenses include expenses associated with trips for which either we cannot validate the business purpose or expenses that appear excessive given the stated business purpose of the trip. Two of these trips are described below.

Mr. Lisotta traveled to Destin, Florida, and stayed at the Hilton Sandestin Hotel three nights--from May 25, 2006, through May 27, 2006. The business purpose given on the expense report is "convention in Destin (RAA)." RAA appears to refer to the Reinsurance Association of America. We confirmed with a representative of the RAA that its organization did not hold a convention in Destin, Florida, at this time. In addition, a copy of Mr. Lisotta's hotel reservation provided by a hotel representative shows the following comment, ". . . Does Not Anyone To Know He's Here." Mr. Lisotta incurred approximately \$1,695 of expenses for a trip with no apparent business purpose in possible violation of state law.¹

In March 2006, Mr. Lisotta and Caryl Mathes, chief financial officer of Citizens, traveled to Europe for meetings with reinsurance companies. Mr. Lisotta purchased two airline tickets for this trip--each ticket was from Baton Rouge to Atlanta, Georgia, to London on the way out and from Paris to London to Atlanta to Baton Rouge on the return. The cost of each ticket was \$6,036.10. Records indicate that all but one of the legs on these trips was first class or business class. The comparable state rate at the time for a round trip air ticket from Baton Rouge to either London or Paris was \$1,036. Therefore, \$5,000.10 for each ticket was an excessive cost (\$6,036.10 - \$1,036). It should be noted that PIAL's travel policy only allows reimbursement for standard coach fare tickets.

Undocumented Expenses

During the time frame of our audit, Mr. Lisotta incurred approximately \$285,249 in expenses. This amount was made up of expenses recorded on expense reports submitted by Mr. Lisotta, expenses incurred on Mr. Lisotta's PIAL and LAIP credit cards, and expenses incurred by Mr. Lisotta at area restaurants and hotels where PIAL and LAIP had house accounts. We identified approximately \$174,992 of these expenses that were not documented properly with detailed supporting receipts and invoices.

The lack of detailed receipts and invoices contributed significantly to Mr. Lisotta's ability to be reimbursed for expenses he did not incur. For example, although there are detailed receipts for hotel stays, many items charged to the hotel room were reimbursed separately on the expense report without supporting documentation. Had these expenses been documented properly, the overlap with the hotel invoice could have been identified before payment.

Similarly, fees for items such as conference registrations were sometimes supported with only conference literature instead of detailed receipts. During our review, we noted that, in some instances, no conference registration fee had been incurred by Mr. Lisotta, but he was

reimbursed this fee anyway. Had detailed receipts been required for reimbursement, these improper reimbursements could have been avoided.

Improper Entertainment Expenses

Mr. Lisotta incurred a significant number of entertainment expenses. These expenses were mostly meals but also included cigar purchases, football game tickets, golf outings, hunting trips, and other goods and activities. We identified approximately \$52,247 of these entertainment expenses. The individuals that Mr. Lisotta entertained included board members of Citizens, PIAL, and LAIP, vendors, Louisiana Insurance Rating Commission (LIRC) members, Louisiana Department of Insurance (LDOI) officials, and others.

As mentioned during our previous audit, Citizens and LAIP are the state's insurers of last resort. Their purpose is not to be competitive with commercial markets. Given this legislative mandate, the amount of entertainment expenses described above appears unreasonable. It should also be noted that PIAL's "Statement of Ethics and Conflict of Interest Procedure", while allowing entertainment expenses, states that "You may offer...entertainment if the entertainment is reasonable, occurs infrequently, does not involve lavish expenditures and has a legitimate business purpose.

During our review, we noted that the business purpose for Mr. Lisotta's entertainment expenses was typically not documented adequately. The given purpose may simply be a one word explanation such as "reinsurance." Some expenses have no documented business purpose. Moreover, Mr. Lisotta did not explain why the business conducted necessarily had to occur during meal times or, for example, during golf games. The attendees' first names are often not given. Few expenses are supported with detailed receipts. The meals were often at high-end restaurants.

The Louisiana Attorney General has historically opined that meals for business-related meetings can be allowed if they are "reasonable." Attorney General Opinion 03-0157 states, in part, that "Serving meals at brief meetings, particularly meetings that could be scheduled at times other than meal times would appear to be unreasonable." This opinion also states that "perhaps a moderately priced lunch or snacks, to fireman attending an all day workshop would appear to be reasonable." The meal expenses incurred by Mr. Lisotta do not appear either necessary or moderate in many instances. These meals occurred routinely, were often extravagant, typically included alcohol, and often took place late in the evening or on weekends. Attorney General Opinion No. 07-0134 outlines a three-pronged test to determine whether a payment is constitutional. It requires:

- (1) a public purpose for the expenditure or transfer;
- (2) the expenditure or transfer; taken as a whole, does not appear to be gratuitous; and
- (3) evidence demonstrating that the public entity has a reasonable expectation of receiving a benefit or value at least equivalent to the amount expended or transferred.

Because of (1) the extravagant nature of many of these expenses; (2) the lack of documented business purposes for many of these expenses; and (3) the events surrounding the expenses such as late evening meals and during golf games, these expenditures may be a violation of the Louisiana Constitution.

Conflicts of Interest

LDOI and LIRC

We identified approximately \$8,324 of expenses in which Mr. Lisotta identified either LDOI or LIRC officials as having participated. These expenses included meals, golf games, tailgating parties, et cetera. Both of these agencies have regulatory responsibilities over Citizens and LAIP. For example, during the time of the expenses, the LIRC reviewed rate increases submitted by Citizens. The LDOI is responsible, in part, for collecting survey data from insurance companies that Citizens then uses as a basis to calculate its insurance rates. These entertainment expenses give the appearance of a conflict of interest because of the regulatory responsibilities identified above. In addition, LDOI and LIRC officials that were the benefactor of these expenditures may have violated the Louisiana Code of Governmental Ethics.³

For example, on September 29, 2004, the LIRC held its regularly scheduled meeting to review proposed rate increases. The agenda for this meeting indicates that one of the proposed rate increases was for Citizens. The day before, on September 28, 2004, Mr. Lisotta's calendar indicates "Cocktail Party for New LIRC Members." His expense report for this day indicates a \$986 bill from a Baton Rouge area steak house with the business purpose as "LIRC Hearing." The receipt supporting this expense report indicates that the bill was for meals including alcohol. The acceptance by members of the LIRC of expensive meals from the representative of an insurance company with proposed rate increases before the commission gives the appearance of a conflict of interest.

In a second example, Mr. Lisotta's credit card statement shows that he paid \$735 for an LDOI official's hotel stay in Sandestin, Florida. The LDOI official subsequently requested and received reimbursement from the LDOI for the hotel stay. We questioned the LDOI official about the charge, and according to the LDOI official, he was unaware that Mr. Lisotta paid for his hotel stay then promptly reimbursed the \$735 to LAIP. This transaction appears to be a conflict of interest given the regulatory and support functions of the LDOI.

During our audit, we attempted to review LDOI e-mails⁴ for communications regarding rate setting and associated electronic spreadsheets. However, LDOI would not give the Legislative Auditor unfettered access to copies of its e-mails, and therefore our review of the rate-setting process as well as other relationships between the LDOI and Citizens was not

³ R.S. 42:1115 states, 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 A cursory review of some e-mails suggested that electronic files containing insurance rating information were attached and therefore could help our understanding of the insurance rate-setting process.

completed. Because the LDOI did not provide us with unfettered access to copies of its e-mails, the LDOI is in noncompliance with the state's audit law, Louisiana Revised Statute 24:513.

Guy Carpenter & Company, LLC

According to Mr. Lisotta's expense reports, he was reimbursed for approximately \$1,502 in meals and other entertainment which were attended by representatives of Guy Carpenter & Company, LLC (Guy Carpenter). Guy Carpenter is the reinsurance broker for Citizens and, therefore, a vendor for Citizens. Since Guy Carpenter is paid a percentage of the reinsurance premium for its services, it is unclear what business necessity requires Mr. Lisotta to purchase meals and other entertainment for representatives of Guy Carpenter.

Guy Carpenter records show that Mr. Lisotta and other Citizens officials accepted approximately \$35,143 of meals, hotel stays, and rounds of golf from Guy Carpenter. Included in the \$35,143 of expense were World Series tickets worth \$5,036. The acceptance of these tickets, golf games, and other items may be a violation of the Louisiana Code of Governmental Ethics.⁵ Moreover, as stated in the legislative audit report dated September 26, 2007, Mr. Lisotta signed a "Statement of Ethics and Conflicts of Interest Procedure" document which specifically states that "You may not encourage or solicit entertainment from any individual or company with whom the Company does business." Mr. Lisotta and other Citizens officials may have violated this agreement.

In addition, Guy Carpenter records indicate that one of Mr. Lisotta's daughters had an internship with Guy Carpenter during the period that Guy Carpenter was under contract as Citizens' reinsurance broker. This relationship could be a violation of the Louisiana Code of Governmental Ethics.⁶

We made several requests to Mr. Lisotta's attorney to discuss the issues raised in this report with his client, Mr. Lisotta. Mr. Lisotta has not met with us to discuss the audit nor has he provided a written response to the audit.

Recommendations

During our previous audit, we made several recommendations related to the expense reimbursements. These included requiring itemized receipts, recording the business purpose for all expenses, and requiring board approval for all senior management expenses. Based on the abusive nature of the expenses noted in this report, we believe that the following additional recommendations should be made:

⁵ **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.

⁶ **R.S. 42:1113** provides, in part, that no public servant, excluding any legislator and any appointed member of any board or commission and any member of a governing authority of a parish with a population of ten thousand or less, or member of such a public servant's immediate family, or legal entity in which he has a controlling interest shall bid on or enter into any contract, subcontract, or other transaction that is under the supervision or jurisdiction of the agency of such public servant.

1. Eliminate the use of company-issued credit cards for reimbursement of upper management or limit the use to emergency purchases only. During our review, we noted many instances where credit card expenses were duplicated through expense reimbursements.
2. Require a documented purpose for all business travel. During our review, we noted several out-of-state trips with no documented business purpose.
3. Discontinue the practice of entertaining LDOI officials and other public officials through gifts such as golf games and hunting trips.
4. Conduct training that instructs employees on the prohibition of accepting gifts from business with or business attempting to enter into contractual relationships with the three agencies.
5. Eliminate the use of house accounts at area restaurants and hotels. As discussed in the report, the business necessity for such expenses is limited.
6. Adopt a written policy that prohibits the use of public funds for the purchase of alcohol and office parties. During our review, we noted substantial purchases of alcohol and expenses related to office parties.

The procedures performed during this examination consisted of:

- (1) interviewing employees and management of the entities;
- (2) interviewing other persons as appropriate;
- (3) examining selected documents and records;
- (4) obtaining documents from various vendors; and
- (5) reviewing applicable state laws and regulations.

This page is intentionally blank.

Management's Responses

Louisiana Citizens



Property Insurance Corporation

P.O. BOX 80730
NEW ORLEANS, LA 70160
PHONE (504) 831-6830
www.lacitizens.com

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

August 1, 2008

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

Dear Mr. Theriot:

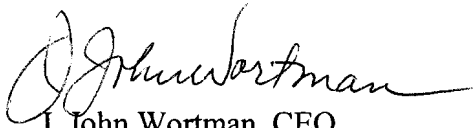
As discussed at our July 30 meeting with members of your staff, please find our response relating to the findings of your compliance audit of the 2004, 2005, and 2006 expenses of Mr. Terry Lisotta, the former Chief Executive Officer of Property Insurance Association of Louisiana, Louisiana Citizens Property Insurance Corporation and Louisiana Auto Insurance Plan.

1. As stated in your audit, Mr. Lisotta is no longer employed by Louisiana Citizens Insurance. In fact, we have an entirely new management team that did not work for, or with, Mr. Lisotta.
2. As part of the change of company management, the following policies and procedures and internal controls were instituted:
 - a. All Company issued credit cards were eliminated.
 - b. All house accounts at area restaurants and hotels were closed.
 - c. Strict policies were instituted prohibiting the purchase of alcohol with company funds
 - d. Expenditures for office parties were discontinued.
 - e. Strict policies were instituted governing employee expenses:
 - i. Receipts are required for all expenditures greater than \$25.00
 - ii. Explanation/description is required for all business expense reimbursements
 - iii. CEO or CFO approval is required for all senior management expense reimbursements
 - iv. CEO expenses are approved by the Board Chairman and disclosed at each Board meeting.
3. Entertainment expenses for any public officials were eliminated.
4. We placed our reinsurance business out to bid, which in turn eliminated our relationship with Guy Carpenter & Company LLC.

Mr. Theriot, CPA
Page 2.

For your information, I have attached a copy of our current employee expense and entertainment reimbursement forms to this letter. In addition, we are reviewing our records and Louisiana Citizens will ask PIAL for reimbursement of any of the expenses that were paid by Louisiana Citizens Property Insurance Corporation.

Sincerely,



J. John Wortman, CEO
Louisiana Citizens Property Insurance Corporation

Cc: Gary Duty, CIA, CFE
Sr. Auditor
Compliance Audit Division

LCPIC Policies & Procedures

Expense Control

(The guidelines below do not apply to indemnity payments to insureds or to defense and cost containment expenses incurred in adjusting such losses.)

Pre-approval of expenditures: Unless otherwise covered under an existing contract for goods or services, any expenditure in excess of \$1,000 requires the written pre-approval of a department manager. All invoices in excess of \$5,000 must be signed by a department manager and the CEO or CFO.

Payments to vendors: Payments to vendors require appropriate documentation and evidence of review and approval prior to issuance. Typically, documentation is in the form of a vendor invoice providing sufficient detail regarding the nature of the goods or services provided. Vendor invoices should bear evidence of two LCPIC signatures indicating review and approval, one of which should be a department manager. All invoices in excess of \$5,000 must be signed by a department manager and the CEO or CFO.

Employee reimbursements: Payments to employees for reimbursement of expenses may be made only upon receipt of a properly approved expense reimbursement request form. LCPIC has an expense reimbursement request form available on its network that, in general, must be filled out electronically. All documentation necessary to support the reimbursement request must be submitted along with the form.

Corporate credit cards: LCPIC does not utilize corporate credit cards. Any authorized expense incurred by an employee on his or her personal credit card may be reimbursed through use of the expense reimbursement request form discussed above.

Travel guidelines: LCPIC follows the state of Louisiana's guidelines for allowable travel expenses. Those guidelines are available on the LCPIC network.

Entertainment expenses: As the residual market for property insurance in the state of Louisiana, LCPIC should rarely incur expenses for entertainment. There is a separate reimbursement form for entertainment expenses available in the same file as the standard expense reimbursement request form.

(Last updated 11/7/07)

LA Citizens Property Insurance Corporation Expense Reimbursement Request (Travel and Miscellaneous)

Name

Department

Period

Receipts are required for all amounts over \$25

Date	Description of Expense	Airfare	Lodging	Local Transport (Rental Car, Taxi, Limo)	Miles (Personal Car Only) Effective July 01, 2008.	Miles (Personal Car Only) January 1 - June 30, 2008.	Mileage Reimbursement Effective July 01, 2008 (@ 58.5 cents / mile)	Mileage Reimbursement Jan.01 - June 30,2008. (@ 50.5 cents / mile)	Meal & Tip (Breakfast)	Meal & Tip (Lunch)	Meal & Tip (Dinner)	Misc	Total

Please attach all required supporting documentation.
This form is not to be used for entertainment expenses.

Receipts are required for all amounts over \$25

Form last updated on 07/15/2008

Submitted by:

Signature

Date

Authorized by:

Signature

Date

Total Expenditures _____

Less: Cash Advances _____

Amount Due Employee /
(Company) _____

LA Citizens Property Insurance Corporation

Expense Reimbursement Request (Entertainment)

Name

Department

Period

Receipts are required for all amounts over \$25

Date	Description of Entertainment	Business Purpose	Individuals Attending	Name of Restaurant or Other	Amount

Please attach all required supporting documentation.

Receipts are required for all amounts over \$25

Form last updated on 7/15/08

Submitted by:

Signature

Date

Authorized by:

Signature

Date

Total Expenditures _____

Less: Cash Advances _____
 Amount Due Employee / _____
 (Company) =====

Middleberg Riddle & Gianna

A.J. Herbert III

Attorneys and Counselors

Suite 1101
450 Laurel Street
Baton Rouge, Louisiana 70801
(225) 381-7700
(225) 381-7730 (Telecopier)
aherbert@midrid.com (e-mail)

31st Floor
201 St. Charles Avenue
New Orleans, Louisiana 70170-3100
(504) 525-7200
(504) 581-5983 (Telecopier)
aherbert@midrid.com (e-mail)

August 18, 2008

VIA FACSIMILE: (225)339-3987

Steve Theriot, CPA
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
1600 N. Third Street
Baton Rouge, LA 70802

RE: Property Insurance Association of Louisiana
Our File No.: 5298-0008

Dear Mr. Theriot:

The following comments are submitted on behalf of the Property Insurance Association of Louisiana ("PIAL") to the draft audit on certain expenses of Mr. Terry L. Lisotta, formerly the Executive Director of PIAL.

The draft report, which we understand involved a comprehensive review of all of Mr. Lisotta's expenses rather than the 10% sample of the initial audit report, makes six recommendations. PIAL is pleased to note that all six of these recommendations were already implemented more than a year in advance of the receipt of this second report. Each recommendation is addressed below:

1. Company-issued credit cards for many PIAL employees have been cancelled. Use of these cards is now primarily restricted to field inspectors whose jobs require extensive travel. Oversight of the expense reimbursement process has also been improved.

Theriot, Steve
August 18, 2008
Page 2 of 3

2. PIAL's revised expense reimbursement procedures do require documentation of business purposes.
3. PIAL's revised expense reimbursement policies do prohibit entertainment of public officials through gifts such as golf games and hunting trips.
4. PIAL's employees have been advised of the change in its policies and procedures relating to expenses and many other facets of its operations. All aspects of PIAL disbursements policies have been strengthened.
5. Following the release of the first audit report on expenses, all house accounts at area restaurants and hotels were cancelled.
6. PIAL does not use public funds for the purchase of alcohol. PIAL does not receive and has never received any public funding or appropriations from the state treasury. PIAL's operations are funded by assessments on its member insurance companies. Nevertheless, PIAL policy specifically prohibits reimbursement for purchases of alcohol. Company policy does allow for reasonable amounts to be spent for employee birthday cakes, retirements, etc., but no public funds are used for this purpose.

In addition to noting that PIAL has already implemented changes to its policies and procedures which include the recommendations of the draft report, PIAL makes the following comments to the draft report:

First, in the "Background" section, PIAL continues to disagree with the assertion of your office that PIAL, Citizens and LAIP "operated as one entity." This is legally and factually incorrect. Each of these entities had its own board of directors at all times, and its own separate bank accounts. Each board of directors had its own fiduciary duty to exercise oversight. The fact that PIAL provided administrative services to each separate entity does not transform three companies into a single entity.

As of April 1, 2008, PIAL is once again formally and physically separated from Citizens and from LAIP. PIAL has twenty-five employees and continues to function in a manner wholly supported by its members and not in any way dependent upon public funding. PIAL has performed its fire related activities since 1888. It has performed these services well, and, as the last legislative session demonstrated, with the support of many of the fire chiefs throughout the state. In returning to a focus on its core mission instead of providing administrative services to Citizens and LAIP, PIAL is confident that the difficulties noted in the report will not be issues in the future.

Theriot, Steve
August 18, 2008
Page 3 of 3

Second, we find the "Summary of Finding" section confusing, with questioned expenses overlapping more than one category or being double counted. In order to avoid confusion, we would respectfully request that consideration be given to clarifying the various categories of expenses and the summary of the findings.

Third, Mr. Lisotta's employment with PIAL ended on June 29, 2007. PIAL is unable to discuss the specifics of the challenged expenses in the draft report directly with Mr. Lisotta. We therefore assume that your office will solicit comments on the draft report and the specific expenses questioned therein from Mr. Lisotta and/or his personal attorney. For its part, PIAL believes that the changes made to PIAL's policies, procedures and operations over the course of the last year and a half not only meet but exceed the recommendations of your office contained in this newest draft report.

Fourth, we note that there are legal proceedings pending pertaining to PIAL's status, the outcome of which could influence many of the statements contained in the draft audit report. Notwithstanding these proceedings, however, PIAL remains committed to implementing "best practices" management and accounting procedures to ensure that its operations are conducted appropriately.

Thank you for the opportunity provided to PIAL to comment upon the draft report. We also wish to recognize the courtesy and professionalism of your staff members who conducted the audit. If you have any comments or questions, please feel free to call.

Sincerely,



A.J. Herbert III

cc: Robert Moorman
Joe O'Conner

LOUISIANA AUTOMOBILE INSURANCE PLAN

BEN MOSS, Manager
PO Box 94214 (70804-9214)
1702 N. Third Street
Baton Rouge, LA 70802
(225) 342-5423
FAX (225) 342-1993

SUZY SHERIFF, Operations Manager
302 Central Avenue
Johnston, RI 02919
(866) 989-9902
FAX (401) 528-1361
www.aipso.com/la

August 13, 2008

Mr. Steve J. Theriot, CPA
Legislative Auditor
1600 N. 3rd Street
Baton Rouge, LA 70802

Dear Mr. Theriot:

The Louisiana Automobile Insurance Plan ("LAIP") appreciates the opportunity to respond to the Legislative Auditor's combined draft compliance audit findings dated July 31, 2008 for Louisiana Citizens Property Insurance Corporation, Louisiana Automobile Insurance Plan and Property Insurance Association of Louisiana

The LAIP further appreciates the efforts of the Legislative Auditor's Office in bringing to its attention the business practices of Mr. Terry Lisotta which have been referred to the proper Federal and State authorities. The LAIP does not dispute any findings relative to the LAIP summarized in the auditing findings. We acknowledge your recommendations and for the most part have already implemented procedures that have addressed these recommendations. The audit findings and recommendations will be discussed in detail at the next regularly scheduled meeting of the Governing Committee to ensure that all corrective measures have been instituted.

As stated on numerous occasions, the members of the Governing Committee are dedicated to the ethical management of the LAIP.

Should you have any questions, please contact me at 225-342-7276.

Sincerely,



S. Derise Brignac
Chairwoman

cc: Ben Moss



LOUISIANA DEPARTMENT OF INSURANCE

JAMES J. DONELON
COMMISSIONER

August 14, 2008

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

HAND DELIVERED

RE: Response to compliance audit findings on the Louisiana Citizens
Property Insurance Corporation

Dear Mr. Theriot:

The Louisiana Department of Insurance (LDOI) appreciates the opportunity to respond to the Louisiana Legislative Auditor's (LLA) reportable finding of July 31, 2008, regarding the Louisiana Citizens Property Insurance Corporation (LCPIC). While the LDOI appreciates the thoroughness of the LLA's audit, there are some inaccuracies I am compelled to address in the finding's three specific areas referencing, directly or indirectly, the LDOI.

First, the LDOI acknowledged an aura of a conflict of interest in the statutory construction of how LCPIC's rates are to be established once the LDOI replaced the Louisiana Insurance Rating Commission as the state's rate approving authority. Since Jan. 1, 2008 when the LDOI began having approval authority of LCPIC's rates, the LDOI sought a statutory remedy that removed LDOI from participation in the survey of insurance companies and the calculation of Citizens' rates. This remedy was made in Act 211 of the 2008 Regular Session of the Louisiana Legislature.

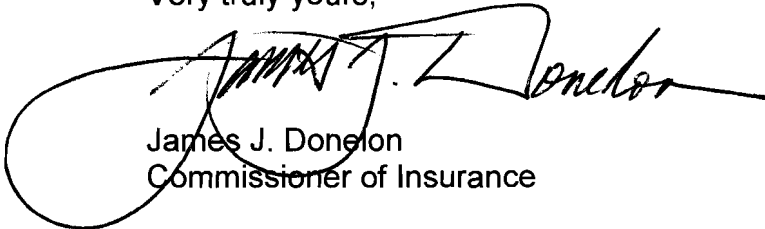
Second, as you are well aware and as the LDOI has steadfastly maintained, no emails, or attachments thereto, were ever withheld from examination by the LLA. Copies of emails were produced in conformity with the Confidentiality Agreement of March 12, 2008, the terms of which were jointly crafted by the LDOI and the LLA and subsequently accepted by the 19th Judicial District Court and the Louisiana Legislative Audit Advisory Council. The LLA has been permitted access to all documents, whether electronic or paper, regarding LCPIC in the possession of the LDOI. Unredacted copies of all requested LCPIC-related documents have been provided to the LLA, including archived emails retrieved through a word search of terms related to LCPIC. It is my understanding that the LDOI has provided all LCPIC related information in the 55 disks of documents already delivered to the LLA.

Finally, while the transaction whereby Mr. Lisotta and/or the LAIP paid \$735 for the hotel stay of an LDOI employee (which was subsequently reimbursed) may "appear(s) to be a conflict of interest given the regulatory and support functions of the LDOI," the LDOI seeks to clarify that any alleged conflict of interest was not on the part of the LDOI or its employee(s). Until the LLA uncovered the transaction in his audit of the LAIP, the LDOI employee was completely unaware that the credit card billed for his hotel stay was any card other than his own credit card which he had presented to the desk clerk at check-in. The LDOI employee reimbursed LAIP as soon as the actual source of the payment for the hotel stay was confirmed.

The LDOI has not performed an independent audit of any other LCPIC matters covered in the LLA's letter of July 31, 2008, and will not comment on those at this time.

With best wishes and kindest personal regards, I remain

Very truly yours,



James J. Donegan
Commissioner of Insurance

SDB/JJD:dtd

JJDAUG2008.2498

September 23, 2008

Legislative Auditor
Attn: Gary Duty
PO Box 94397
Baton Rouge, LA 70804-9397

Dear Sir:

In response to your draft audit report on Louisiana Citizens Property Insurance Corporation, please note that my position was Chief Operating Officer.

I would like an explanation of the reason the Legislative Auditor's Office handled the issuance of this report so differently from the one issued September 26, 2007. Prior to the issuance of this report I was contacted via telephone and informed that I would be named in the report. I was offered an opportunity to receive a draft copy of the report which I accepted. Mr. Gary Duty was diligent in assuring that I received the draft.

Prior to the issuance of the report dated September 26, 2007, I was contacted via telephone by Mr. Greg Lavergne. At that time he informed me that a report would be forthcoming, but he specifically stated that I was not being named in the report. Mr. Lavergne asked if I would comment on other issues in the report. I explained that since I had been fired by PIAL/Citizens I did not feel I had the authority to respond on their behalf without explicit authorization from their Board of Directors or legal counsel. Mr. Lavergne stated that he would not request such authorization.

At no time did Mr. Lavergne inform me that I would be named in the report or offer to provide me a draft copy. To the contrary, he specifically stated I would not be named, yet when the report was issued I was named several times.

Please explain the disparity in the handling of the two reports by your office.

Caryl Mathes

Caryl Mathes