

98001798
21
2480

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Morgan City Harbor and
Terminal District
Morgan City, Louisiana

November 18, 1998



Investigative Audit

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

LEGISLATIVE AUDIT ADVISORY COUNCIL

MEMBERS

Senator Ronald C. Bass, Chairman
Representative Francis C. Thompson, Vice Chairman

Senator Robert J. Barham
Senator Wilson E. Fields
Senator Thomas A. Green
Senator Craig F. Romero
Representative F. Charles McMains, Jr.
Representative Edwin H. Murray
Representative Warren J. Triche, Jr.
Representative David Vitter

LEGISLATIVE AUDITOR

Ronald G. Kyle, Ph.D., CPA, CFE

DIRECTOR OF INVESTIGATIVE AUDIT

Alisa F. Brown, CPA, 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, PO44 Office 316 8457, Baton Rouge, Louisiana 70804-8587 in accordance with Louisiana Revised Statute 24:813. Fifty copies of this public document were produced at an approximate cost of \$600.00. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:27. An executive summary of this document is available on the Legislative Auditor's Web site at www.la.state.la.us.

In compliance with the Americans With Disabilities Act, if you need special assistance related to this document, or any documents of the Legislative Auditor, please contact Playton "Skip" Irwin, Director of Administration, at 225/316-5800.

Morgan City Harbor and Terminal District

November 18, 1958



Investigative Audit
Office of the Legislative Auditor
State of Louisiana

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

Table of Contents

Legislative Auditor's Transmittal Letter	v
Executive Summary	vii
Background and Methodology	ix
Page	
Finding and Recommendation:	
Improper Meal Expenditures	1
Attachment I	Management's Response



OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BAYOU BOULEVARD, LOUISIANA 70002-1087

DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

1400 BAYOU BOULEVARD, SUITE 1000
PORT OFCELT, BOCA RATON
TELEPHONE: (305) 361-8800
FACSIMILE: (305) 361-8870

November 18, 1998

**MR. ALFRED S. LIPPMAN, PRESIDENT,
AND MEMBERS OF THE BOARD OF COMMISSIONERS
MORGAN CITY HARBOR AND TERMINAL DISTRICT**
Morgan City, Louisiana

Transmitted herewith is our investigative report on the Morgan City Harbor and Terminal District. Our examination was conducted in accordance with Title 24 of the Louisiana Revised Statutes and was performed to determine the propriety of certain allegations received by this office.

This report presents our finding and recommendation. Copies of this report have been delivered to the Honorable M. J. "Mike" Foster, Jr., Governor of the State of Louisiana, and others as required by law.

Respectfully submitted,

Daniel G. Kyle, CPA, CFE
Legislative Auditor

MIL:DCP:ATF:es

000000

Executive Summary

Investigative Audit Report Morgan City Harbor and Terminal District

The following summarizes the finding and recommendation as well as management's response that resulted from this investigation. Detailed information relating to the finding and recommendation may be found at the page number indicated. Management's response may be found at Attachment 1.

Improper Meal Expenditures

(Page 3)

Finding:	From September 1993 through February 1998, the Morgan City Harbor and Terminal District (Port) incurred meal expenditures on 699 occasions totaling \$25,538. The Port did not have an established policy regarding the purchase of meals, many of the meals were not supported by adequate documentation, the public purpose for several meals was questionable, and many meals included alcoholic beverages.
Recommendation:	We recommend that the Port take measures to ensure that public funds are not used to purchase meals for nonpublic purposes. We further recommend that the Port establish policies and procedures to control expenditures for meals. Such policies and procedures should specify the authority for commissioners and employees to purchase meals, require itemized receipts for all meal purchases, require documentation of the reasons for these meals, and prohibit the purchase of alcoholic beverages.
Management's Response:	The Port recognizes that public funds must be utilized for public purposes and has established written policies and procedures in this regard. In addition, all expenditures must be properly documented and must adhere to IRS guidelines. These expenditures were incurred to fund promotional activity while the facility was evolving to a fully operational port. Mr. Hillhouse has reimbursed the Port for the \$150 cost of four meals questioned, and the Port has also received reimbursement for the purchases of alcoholic beverages. Instances noting the presence of Port commissioners were hushions to discuss business of the Port.

Background and Methodology

The Morgan City Harbor and Terminal District (Port) was established as a political subdivision of the State of Louisiana in 1952 and derives its authority from Louisiana Revised Statute (R.S.) 34:321. The governing authority of the Port is composed of a nine-member board of commissioners appointed by the governor. The board has the power to regulate commerce and traffic of the Port for the public interest. It enjoys all rights, privileges, and immunities granted to corporations in Louisiana. Currently, the Port has four employees.

The Legislative Auditor received information regarding possible improper transactions involving the Port. Our investigation was conducted to determine the propriety of this information and other matters that came to our attention.

Our procedures consisted of (1) interviewing employees and officials of the Port; (2) interviewing other persons as we deemed appropriate; (3) examining selected documents and records of the Port; (4) making inquiries and performing tests to the extent we considered necessary to achieve our purpose; and (5) reviewing applicable Louisiana laws.

The results of our investigation is the finding and recommendation presented herein.

Finding and Recommendation

IMPROPER MEAL EXPENDITURES

From September 1995 through February 1998, the Morgan City Harbor and Terminal District (Port) incurred meal expenditures on 693 occasions totaling \$25,539. The Port did not have an established policy regarding the purchase of meals, many of the meals were not supported by adequate documentation, the public purpose for several meals was questionable, and many meals included alcoholic beverages.

From September 1995 through February 1998, the Port incurred meal expenditures on 693 occasions totaling \$25,539. The Port did not have a written policy regarding the purchase of meals with Port funds. As a result, no guidance was provided to employees and commissioners as to when, and under what circumstances, the purchase of meals with Port funds is appropriate. Meals were purchased through the use of Port credit cards, accounts at local establishments, and reimbursements to employees.

Many of the meals were not supported by adequate documentation. Of the 693 meals, Port records included itemized receipts for only 117 purchases. Other meals were supported only by credit card charges, charge receipts, and non-itemized receipts. The line-item charge on the Port credit card statements was the only support for 46 of the meal purchases. In addition, 642 of the receipts contained no explanation of those attending or the business purpose of the meal.

The public purpose of several of the meals was questionable. Mr. Jerry Hoffpauir, port director, was present for 480 (or 70%) of the 693 meals. Several of the meals purchased by Mr. Hoffpauir appear to have no business relationship and title or no benefit to the Port. These include the following:

- A \$39.37 charge at Holiday Inn was incurred on December 6, 1996; however, the person listed on the receipt did not attend the meal and the charge appears to have been paid by an unclaimed individual. Mr. Hoffpauir confirmed that he wrote the name Earl Bailey on the back of the Holiday Inn receipt as a person attending the meal. Mr. Bailey is a manager at Darnell, Eiken, & Frederick, the Port's central credit firm. Mr. Bailey informed us that he has never had a meal with Mr. Hoffpauir. Mr. Hoffpauir stated that he did not remember having any meals with Mr. Bailey and that the receipt might have been for a meal with some other person named Bailey. Mr. Hoffpauir offered to reimburse the port for the receipt. The receipt also contains an imprint of a credit card belonging to Mr. Wilton Miller indicating that the charge was actually paid for by Mr. Miller, not Mr. Hoffpauir. According to Mr. Hoffpauir, Mr. Miller works for a local contractor and the two men would have no reason to have lunch.

- Mr. Hoffpauir made a \$21.82 charge at Golden China Restaurant on March 31, 1997; however, the individuals listed on the receipt as attending have no business relationship with the Port. On the back of this credit card receipt, Mr. Hoffpauir listed the names C. Castillo and J. Corbett. According to Mr. Hoffpauir, Mr. Castillo was with the Lafayette Parish Sheriff's office, and Mr. Corbett is with Whitney Bank. During our first interview, Mr. Hoffpauir stated that although Mr. Castillo cannot directly benefit the Port, he (Castillo) could help the Port politically if the need arises. According to Mr. Hoffpauir, Mr. Corbett just joined him and Mr. Castillo, and he (Hoffpauir) did not know why Mr. Corbett was at this meal. Mr. Hoffpauir later provided a written statement indicating that Mr. Castillo helped to bring some pipe coating business to the Port in addition to providing advice relating to Port security. On three additional occasions, Mr. Hoffpauir listed Mr. Castillo's name: \$28.81 at Golden China on April 8, 1997; \$51.41 at Shacks on April 8, 1997; and \$138.68 at Don's Seafood on April 13, 1997.
- A \$55.36 charge at Copeland's was incurred on August 27, 1997, including \$4.80 for one margarita and \$1.25 for a white coffee. Mr. Hoffpauir listed the name of the Port's consultant, Mr. Ed Kyle, on this ticket and the handwritten note indicated it was for a SLEEC (South Louisiana Economic Council) meeting in Thibodaux. Although SLEEC meetings are held during the morning hours, the time indicated on this receipt is 7:48 p.m. In addition, our review of the records at SLEEC and interviews with SLEEC personnel indicated that neither Mr. Hoffpauir nor Mr. Kyle attended this meeting. During our initial interview, Mr. Hoffpauir told us that he occasionally just visits SLEEC and does not attend the meetings. He further stated that he was unsure whether he made the meeting. Mr. Hoffpauir volunteered to pay for this meal as well. At the subsequent interview, Mr. Hoffpauir stated that he and Mr. Kyle do not remember the meal being an late in the evening. He further stated that Mr. Kyle volunteered to reimburse the Port for this meal.
- A \$45.71 charge was incurred at Harbor Seafood on February 10, 1998, however, the individuals listed on the receipt did not attend the meal. Mr. Hoffpauir listed the names Jim Vernon and L. Romero on the ticket; both of these men work for the Baker Hughes company. Mr. Hoffpauir's note indicated the meal involved discussions of bids for a bulkhead. Mr. Vernon and Mr. Romero each informed us that they did not eat with Mr. Hoffpauir on February 10, 1998. Mr. Hoffpauir stated that he had not eaten at Harbor Seafood with representatives of Baker Hughes. Mr. Hoffpauir further stated that he put the wrong names down on this receipt and he would like to reimburse the Port for this meal.

The Port's records also detail 48 meals amounting to \$996 at local establishments where the individuals present consisted entirely of the Port's commissioners and employees. Members of the Port's Commission were in attendance on 16 of these occasions.

Port funds were also used to purchase alcoholic beverages, which, according to the Attorney General, is an unreasonable expense (A.G. 96-458, 93-777, and 93-631). Though only 17% of the meals were documented by itemized receipts, these 317 receipts indicate that on 31 occasions alcoholic beverages were purchased with Port funds totaling \$1,139.

The use of public funds for meals that have no business relationship to the Port or for alcoholic beverages may indicate a violation of one or more of the following state laws:

- Article 7, Section 14 of the Louisiana Constitution provides 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.
- R.S. 42:3463(A) provides 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.

As stated previously, meal expenditures totaled \$25,333 between September 1995 and February 1998, an average of \$850 per month. During the six months subsequent to the initiation of our examination, the Port's meal expenditures totaled \$2,483, or \$415 per month (a 53% decrease).

We recommend that the Port take measures to ensure that public funds are not used to purchase meals for nonpublic purposes. We further recommend that the Port establish policies and procedures to control expenditures for meals. Such policies and procedures should specify the authority for commissions and employees to purchase meals, require itemized receipts for all meal purchases, require documentation of the reasons for these meals, and prohibit the purchase of alcoholic beverages.

Attachment I

Management's Response



October 20, 1988

001 07730 488 38

10/20/88 10:50 AM

Via Federal Express

Honorable David G. Kyle, CPA, CFE
Legislative Auditor, State of Louisiana
1600 North Third Street
Baton Rouge, Louisiana 70804

Re: Management's Response
Morgan City Harbor & Terminal District ("Port")

Dear Dr. Kyle:

Please find enclosed management's response of the Morgan City Harbor & Terminal District to the Investigative Audit Report submitted by your office. Attached to the response are the exhibits described therein.

Sincerely,

MORGAN CITY HARBOR AND TERMINAL DISTRICT


Alfred E. Lippman, President

ASL:jhs
Enclosure
cc: Commissioners

Failure to the current disclosure, is no instance where any of these alcohol, meals or other expenditures questioned, criticized or remedial suggestions made. To the contrary, the CPAs affirmatively stated they had no suggestions; had any been made, the Port would have immediately instituted corrective measures as it did in the present instance. The Port maintained that the CPAs performed the systematic inspection of its accounting records in accordance with generally accepted accounting principles and state-required procedures and hence the Port relied upon these "clean" audits.

In 1996, the Port, on its own initiative, inquired of its then attorney regarding the legality of its purchase of alcohol. It received from the attorney the attached memorandum of date January 31, 1996. The memorandum indicates that alcohol purchases were legal, upon which the Port further acted.

Although the alcohol purchases were in relatively small amounts averaging only \$38.00 per month, the Port now recognizes that the serious issue of the validity of alcohol purchases in any quantity has been raised. Accordingly, it is suggested that this matter has been resolved by the Port (1) having been fully reimbursed \$1,183.81 representing the total amount of these purchases, and (2) instructing its staff that no alcohol purchases whatsoever shall be made by the Port at any time.

5. The report taken note that the Port's commissioners were present at certain of the meals; these however accounted for less than 2% of such meals. All of these instances were hardships to discuss business of the Port since this was the only time the commissioner(s) was available to meet. The commissioners have incurred no substantial Port expenditures such as travel, conventions, or any other forms of expenses and they serve without compensation of any nature from the Port for the services they render.

B. J. RAWLS
ATTORNEY AT LAW

Telephone
424-1000

Post Office Box 1115
Chicago, Ill., 60601-1115

MEMORANDUM
1/21/76

TO: ALFRED E. LITZMAN

FROM: B. J. RAWLS

This memorandum confirms my conversation with Mr. Ken Bolens, Chief Assistant Attorney General, State of Indiana concerning the legality of paying for alcoholic beverages by the Morgan City Harbor and Terminal District ("District").

Mr. Bolens stated that the "District" could pay for alcoholic beverages for Commission member's guest, customers and/or potential customers and/or users of the Pier 1 Facility owned and operated by the District. Mr. Bolens further stated that to his knowledge the Attorney General had never prepared a written opinion covering this subject and did not know of any Dept. Article, Statute or Constitutional provision prohibiting same.

Respectfully Submitted,



B. J. RAWLS - ATTORNEY

TRAVEL REGULATIONS

POLICY

The nature of Port activities produces a requirement for considerable travel by Port employees, both locally and away from the port area. This, of course, presents the need for a system of controls to ensure that expenditures for travel will be consistent with the results expected from the travel.

The Port expects its employees to travel only when necessary and only when such travel will produce benefits to the Port. It believes that its employees should travel in comfort, but certainly not extravagantly.

These procedures establish the guidelines which will enable the traveler to know how to plan trips, the limitations of expenses, and the method of effecting settlement.

PROCEDURES

I. Authorization

All travel outside the Port limits must be approved by the Executive Director. Requests for travel advances and/or trip approvals must be made to the Executive Director, in writing, prior to the scheduled trip.

II. Transportation

A. Air

1. Air travel within the continental United States will be by tourist class only, unless first class is the only type of travel accommodations available or offered by the airlines.
2. International travel of relatively short duration will be by tourist class only.
3. International travel of long duration may be by first class when specifically authorized by the Executive Director for the Port staff and the President for the Commissioners.
4. When traveling by airplane, bus or rail fare to and from airports and hotels will be authorized.
5. The passenger coupon copies of airline tickets must be submitted with Travel Expense Account when traveler is seeking reimbursement of travel expenses.

B. Train

1. First class accommodations will be authorized when traveling by train.
2. When traveling by train, bus or cab fare to and from railroad stations and hotels will be authorized.
3. The passenger's coupon copies of the rail tickets must be submitted with Travel Expense Account when traveler is seeking reimbursement of travel expenses.

C. Post Vehicle

1. Prior authorization of the Executive Director must be obtained before a Post vehicle may be used for travel outside the District unless previous arrangements have been made.
2. Post vehicle expenses such as gasoline, oil, tire repairs, storage and parking fees, ferry fares and road and bridge tolls, for which reimbursement is sought, must be included and itemized on the Travel Expense Account. Receipts for such expenditures, whenever obtainable, must be attached to the Travel Expense Account. Gas/toll receipts must be marked with the vehicle's license number and odometer reading at the time of service.
3. When Post vehicles are used for commuting purposes, a quarterly report must be filed with the accounting officer setting such travel. The IRS considers this compensation and the applicable amount of income must be added to the employee's W-2 to reflect this use.

D. Personally Owned Vehicles

1. Prior authorization of the Executive Director must be obtained before a personally owned vehicle may be used for traveling on official Post business.
2. When official travel in such personally owned vehicles has been approved, the traveler shall be reimbursed for transportation on a mileage basis at the rate of \$2.5 cents a mile.
 - a. Reimbursement shall be on the basis of the most direct and usually traveled route.

- a. All mileage shall be compensated on the basis of odometer readings, or from point of origin, point of destination and return, on the basis of current maps.
 - b. When such mileage allowance is permitted, the employee shall be required to pay all operating expenses of the automobile such as fuel, repairs, part replacement, insurance, etc.
 - c. Whenever an employee travels by an indirect route for his/her own convenience, any extra cost shall be borne by the traveler and reimbursement for expenses shall be based only on such charges as would have been incurred had the employee traveled the most direct route.
3. When official travel in such personally owned vehicles has been approved, the traveler shall not be reimbursed for any additional cost for meals and/or lodging which may be incurred by the traveler because of the extended period of traveling time occasioned by the use of automobile transportation instead of air. When additional traveling time is required by the employee in order that he may avail himself of the convenience of using his personally-owned vehicle, all such additional time shall be charged against the traveler's annual leave.
 4. When privately owned vehicles are used in traveling on business for the Post, all applicable provisions of any other policies or procedures concerned with motor vehicles, including insurance requirements, will also be complied with.
 5. If personnel who have authority to use their personal automobiles on official Post business become involved in an automobile accident, they should handle and report such accidents to the Executive Director and submit a written report to the Executive Director.
 6. In no case shall a Post employee be allowed either mileage or transportation expense when being transported by another person or another person's vehicle in which he is riding. When two employees travel in the same automobile, only one will be allowed to be reimbursed for mileage.

III. Lodging, Meals, Taxis and other Expenses

A. Lodging

1. Reservations for lodging shall be made in advance whenever possible. The reservations will be made by the Executive Assistant.
2. The amount authorized for lodging will be the generally recognized commercial rate for a single room in a hotel or motel within reasonable proximity to the affairs which he is attending or the business which he is conducting. Every effort should be made to obtain lodging in a motel/hotel which has reasonable rates.
3. Upon checking out from the hotel or motel, the traveler must obtain a corrected copy of the invoice to be submitted with the travel expense account.
4. The cost of lodging must be itemized, by day, on the travel expense account. When meals, telephone calls, etc. are included on the hotel or motel bill, they must be separated and listed in the proper place on the travel expense account.

B. Meals

1. The amount authorized for meals will be an amount generally recognized as an average standard rate for breakfast and/or lunch and/or dinner in a first-class commercial hotel or motel restaurant. Luxury dining in an exclusive club or other establishment is not authorized unless such dining is necessary because of the function attended by the traveler or is in connection with necessary entertainment.
2. The traveler must acquire a receipt for a meal and such receipts shall be attached to the travelers' expense account.
3. The cost of meals and tips must be shown on the travel expense account and itemized for each day.

C. Telephones and Telegrams

1. The cost of telephone calls and/or telegrams may be reimbursed only made in connection with and while traveling on official Post business.
2. If the cost of telephone calls and/or telegrams is included on the hotel or motel invoice, the charges must be separated and listed in the proper place on the travel expense account.

3. Necessary calls home will be permitted, 1 per day of travel duration.

D. City Buses, Street Cars, Taxis and Rental Cars

1. Reimbursement of bus fares and streetcar fares will be authorized when travel is necessary in connection with the meeting, conference or convention attended by the traveler.
2. Taxi fares will require a receipt and such receipts shall be attached to the traveler's expense account.
3. When it is necessary to call on part-timers or other contacts located some distance from an airport and it is more economical and desirable to rent an auto rather than use taxis or other modes of transportation, car rental is permitted. Mid-sized cars should be rented unless more than two people are traveling together and a larger vehicle is required.
4. The cost of such fares, for which the traveler seeks reimbursement, must be itemized by day on the traveler's expense account.

E. Tips

1. Tips in an amount recognized as customary for certain services will be authorized.
2. The cost of tips, for which the traveler seeks reimbursement, must be itemized on the traveler's expense account. Tips for meals will be included in the cost of the meals.
3. Tips for baggage and taxi drivers are permitted.

F. Laundry and Pressing

1. Laundry and valet services will be authorized if such service is necessary due to extended travel or accidental soiling of clothing.
2. If the costs of laundry and/or valet services are not included on the traveler's hotel or motel bill and such services are paid for by the traveler out of his funds, he must obtain receipts and list the charges on the travel expense account.

G. Miscellaneous Expenses

1. Routine miscellaneous charges in minor amounts for routine incidents will be authorized when such expenditures are necessary. Personal expenses for personal items and non-business connected activities are not authorized.
2. The cost of such routine miscellaneous expenses which are paid for by the traveler, and for which he seeks reimbursement, must be listed by day on the traveler's expense account.

III. Entertainment

1. Entertainment is authorized only for occasions when the traveler is required to entertain customers or others in connection with the Port's business or on connection with the Port's affiliation with a conference or meeting group.
2. Receipts will be required for entertainment expenses.
3. The cost of entertainment must be explained and listed day-by-day on the traveler's expense account. Receipts must be attached to the form and the names and affiliations of all persons entertained must be listed on the reverse side of the travel expense account. The business discussed must also be noted on the receipt.

IV. Travel Statement

- A. It is the responsibility of the traveler to complete and submit a travel expense account form with supporting documents by the end of the month in which the expenses occurred.
- B. Travel statement forms must be approved by the Executive Director.
- C. The Port Commission will reimburse employees for membership fees for a major credit card used in travel, provided that card is used exclusively for Port Commission business expenses. The State Purchasing Office offers qualified state employees a Corporate American Express card for travel expense payment. The card may be obtained by submitting an application form to the travel account section of the State Purchasing Office.