



OFFICE OF
STATE INSPECTOR GENERAL
LOUISIANA HOUSING FINANCE AGENCY

Report by
Inspector General Bill Lynch

Prepared for
Governor M.J. "Mike" Foster, Jr.

April 9, 2001

File No. 1-01-0055



State of Louisiana

OFFICE OF
STATE INSPECTOR GENERAL
Louisiana Housing Finance Agency

Report by

 Inspector General Bill Lynch

Prepared for

 Governor M.J. "Mike" Foster, Jr.

April 2, 2001

File No. 1-01-0055

Louisiana Housing Finance Agency

The Louisiana Housing Finance Agency improperly spent more than \$7,000 on candy, nuts, soft drinks, bottled water and coffee, most of which was for the benefit of employees and some visitors during calendar year 1999.

A review of four months cell telephone usage in 1999 by V. Jean Butler, president of the Louisiana Housing, revealed that approximately 60 percent of the calls were for personal use.

The agency also misclassified a bond issue closing meeting in New Orleans in July 1999, as a conference rather than a meeting, enabling employees to charge the state above regulations for lodging. This resulted in excess charges of \$720 for 12 employees.

A meeting in New York in September, 1999, resulted in the following problems:

- The president and two other officials arrived a day earlier than necessary, creating unnecessary expense to the state.
- Three employees charged the state for meals which were paid by bond underwriters.
- The president charged the state for personal phone calls beyond the allowable amount.
- A board member improperly purchased an airline ticket for his spouse off the state contract.

Background

Louisiana Housing Finance Agency is a self-generated, non-budgetary unit of the State of Louisiana. It is an autonomous unit within the Department of the Treasury and is governed by a sixteen-member board of commissioners. The board consists of the secretary of the Department of Social Services, the state treasurer, 12 members appointed by the governor, one member appointed by the president of the Senate, and one member appointed by the speaker of the House of Representatives. The function of the agency is to assist in the financing of homes for low to moderate income individuals.

V. Jean Butler has been president of Louisiana Housing since March, 1993.

Snacks, Soft Drinks, Water and Coffee Service

Louisiana Housing used \$7,144 of state funds to purchase candy, nuts, soft drinks, bottled water and coffee for calendar year 1999.

Louisiana Housing spent \$842 on candy, nuts and soft drinks. The agency keeps the candy, nuts, and soft drinks in a small meeting area adjacent to Ms. Butler's office. Ms. Butler said these items are offered to visitors to the agency, such as, bankers, bond underwriters, and agency board members. Agency employees, during upper level staff meetings, also consume the refreshments.

Helena Cunningham, vice president, Louisiana Housing, said the agency has discontinued the practice of paying for candy, nuts and soft drinks with agency funds.

The agency spent \$2,135 on bottled water and \$4,167 on a coffee service for calendar year 1999. The bottled water and coffee are mainly consumed by Louisiana Housing's employees.

Ms. Cunningham stated the agency provides bottled water to its employees for several reasons. Louisiana Housing occupies two floors at its present location. The agency does not have a water fountain on its main floor of operation, while the other floor has a water fountain. Ms. Cunningham said the water in their present building is not suitable for drinking because of the age of the building. However, another state agency that occupies the same building said it is satisfied with the water quality in the building.

It is not customary for a state agency to provide snacks, bottled water and coffee for its employees. This is not a prudent expenditure of public funds. Furthermore, the agency could have spent the money that it paid for the bottled water on installing a water fountain on the floor that does not have a water fountain.

Agency Cell Phones

Ms. Butler made \$93 worth of personal phone calls on her agency issued cell phone over a four-month period of September, 1999, through December, 1999. Sixty-two per cent of the calls Ms. Butler made on the cell phone for this period were personal calls.

Attorney General Opinion No. 95-174 prohibits routine use of agency cell phones for personal calls.

Ms. Butler stated she used the cell phone to make personal calls because she was seldom in her office because she attends many meetings and conferences pertaining to Louisiana Housing business. Subsequent to our review, Ms. Butler reimbursed Louisiana Housing for her personal usage of the agency cell phone for the period of January, 1999, through March, 2000. She has also returned her cell phone to the agency.

Louisiana Housing has implemented unwritten procedures for the review and reimbursement of personal phone calls made by employees on agency cell phones.

Bond Closing Meeting

Louisiana Housing improperly classified a New Orleans bond closing meeting as a “non-state sponsored conference.” This classification is found in PPM 49, the state’s travel regulations, and permits lodging expenses to be reimbursed at a higher rate than would otherwise be permitted. As a result of this classification, the agency paid in excess of the PPM 49 lodging rate by \$720 for 12 employees to attend this meeting. By law, Louisiana Housing is not bound to follow PPM 49, and may establish its own travel reimbursement guidelines. Louisiana Housing’s board has never formally adopted PPM 49 as its guideline; however, agency officials acknowledged that the agency has followed PPM 49 to govern its travel for several years.

Louisiana Housing conducted a bond closing meeting in New Orleans on July 13, 1999, and an agency board meeting on July 14, 1999. The attendees of the meeting included 12 Louisiana Housing upper level employees, Louisiana Housing board members, bond underwriters, financial advisors, and bankers.

The 12 employees stayed at the Westin Hotel, costing Louisiana Housing \$140 per night for each employee. The employees should have been limited to a maximum of \$80 per night for a stay in New Orleans.

Louisiana Housing classified the meeting as a non-state sponsored conference. However, the meeting does not meet PPM 49’s criteria for a non-state sponsored conference. The meeting was limited to Louisiana Housing and companies doing business with the agency—not a conference. PPM 49 requires documentation, such as a formal agenda, objective, or program to support the validity of the determination that the event is a

conference. PPM 49 also requires, for a meeting to qualify as a conference that a registration fee be paid to attend.

Vice president Cunningham said Louisiana Housing sometimes has bond closing meetings in New Orleans because some of its board members and its bond underwriters, financial advisors, and bankers are located there. The closing meeting was held in New Orleans for the convenience of these people. Ms. Cunningham could not give an explanation as to why the bond closing meeting was classified as a non-state sponsored conference other than Louisiana Housing is not lawfully bound by PPM 49. However, she said the agency tries to adhere to PPM 49.

Trip to New York City

Unnecessary Early Arrival

Ms. Butler, Jonathan Rovira, chief financial officer, and Phillip Miller, board member, Louisiana Housing, improperly billed the agency \$702 for hotel and meal expenses incurred two days prior to a three-day bond rating meeting. Mr. Miller did not charge the agency for meal expenses for the trip and has since reimbursed Louisiana Housing \$148 for his portion of the lodging expenses.

Ten officials of Louisiana Housing attended a bond rating meeting in New York City with Standard & Poor Bond Rating Agency and Moody's Investors Service. The purpose for the meeting was to make presentations in order to obtain a favorable bond rating for housing bonds it issues to the public. The itinerary for the trip shows that events were to begin at 7:00 p.m. Sunday, Sept. 19, 1999, and end Wednesday, Sept. 22, 1999.

The itinerary included a dinner on Sunday, September 19, which was a courtesy meal provided by A.G. Edwards for those Louisiana Housing officials wishing to attend and not a business dinner. The scheduled events for Monday, September 20, only included a one hour tour of the New York Stock exchange followed by lunch and a 6 p.m. dinner, both provided by bond underwriters. The crux of the bond meetings occurred on Tuesday, September 21, and Wednesday, September 22, which included presentation planning and the actual presentations to the bond raters.

While the official events began on Monday, Ms. Butler, Mr. Rovira and Mr. Miller arrived Saturday, September 18, charging a total of \$702 of hotel and meal expenses to

Louisiana Housing Finance Agency

Page 5

the agency for that day. The other seven Louisiana Housing officials arrived in New York at various times during Sunday, Monday and Tuesday.

Ms. Butler said that her early arrival was necessary because she was scheduled to meet with Andrew Carr, an A. G. Edwards representative, but she cancelled the meeting to work on Louisiana Housing's presentation packets for the bond rating meeting. Mr. Carr was on the bond underwriting team assisting Louisiana Housing with the bond rating process. Ms. Butler also said she wanted to arrive early to avoid travel delays and work out the logistics for the meeting.

Ms. Butler said Mr. Rovira's and Mr. Miller's early arrivals were necessary because they were an integral part of the presentation and she did not want them to arrive late because of possible flight delays. Ms. Butler added that Mr. Rovira was bringing important presentation material for the bond rating meeting, which had to arrive on time.

Mr. Rovira said he did bring additional materials for the bond rating meeting. Mr. Rovira said that after he delivered the materials to Ms. Butler, he did not do any agency work on Saturday and Sunday of the trip. He said he went sightseeing in the New York area on both days.

Mr. Miller stated he did not know why he had to be in New York on Saturday and that he was told to go on this date by Louisiana Housing's board. He said he did not do any agency work for Saturday and Sunday.

Given that official agency business did not occur until the Monday of the trip, there is no business reason for Ms. Butler, Mr. Rovira and Mr. Miller to arrive in New York two days before the agency business was to officially begin. Keith Waldrop, a financial advisor, issued a memo dated Aug. 26, 1999, to Ms. Butler that states his company had already set up the tour of the New York Stock Exchange and the meetings with Standard & Poor and Moody's. Also, in the memo Mr. Waldrop stated his company would assemble the rating application packages and presentation materials to be presented to the bond raters.

Ineligible Meal Reimbursements

Helena Cunningham, Lana Todd, manager, and Debra Washington, manager, for Louisiana Housing, improperly claimed reimbursements totaling \$155 for the cost of meals in New York for which they did not pay. Ms. Todd and Ms. Washington requested and received reimbursements from the agency for dinner on Monday, Sept. 20, 1999, that were provided by the underwriters. Ms. Cunningham, Ms. Todd and Ms. Washington requested and received reimbursements from the agency for lunch and dinner on

Tuesday, Sept. 21, 1999, and a lunch on Wednesday, Sept. 22, 1999. The underwriters also provided those meals.

PPM 49 sets out specific amounts to be reimbursed on breakfast (\$8), lunch (\$10) and dinner (\$19) for a stay in New York. PPM 49 states the following: “No claim for reimbursement shall be made for any lodging and/or meals furnished..., by any other party at no cost to the traveler.”

Reimbursement of Personal Phone Calls

Ms. Butler was reimbursed a total of \$34 for personal phone calls made while in New York above the amount allowed by PPM 49. PPM 49 provides reimbursement for personal phone calls of \$3 per day every second day of a trip. Ms. Butler requested and was reimbursed \$34 in excess of the \$6 for personal calls allowed by PPM 49.

Airfares

Board member Louis McKnight purchased airline tickets at state contracted rates for his spouse for the bond rating meeting. PPM 49 and the state airfare contract prohibit state officials from using state contracted airfares for personal/companion or spouse travel.

Conclusions:

1. Louisiana Housing inappropriately expended state funds on candy, nuts, soft drinks, bottled water and coffee services consumed by its employees.
2. V. Jean Butler, president, inappropriately used state cell phones for personal use.
3. Louisiana Housing paid excessive room rates for a bond closing meeting in New Orleans. The meeting was inappropriately classified as a non-state sponsored conference with regards to PPM 49.
4. Ms. Butler, Jonathan Rovira, and Philip Miller were improperly reimbursed for expenses for their early arrival in New York on Saturday, Sept. 18, 1999, for the bond rating meeting. Mr. Miller did not charge the agency for meal expenses for the trip and has since reimbursed Louisiana Housing for his portion of the lodging expenses.

5. Staff members inappropriately requested and received reimbursements for meals for which they did not pay.
6. Ms. Butler inappropriately charged the state for personal phone calls while in New York in excess of what PPM 49 allows.
7. Board member Louis McKnight improperly used state-contracted airfare rates to buy a ticket for his spouse to accompany him on a trip to New York.

Recommendations:

1. Louisiana Housing should discontinue expending state funds for the purchase of bottled water and the coffee service.
2. Louisiana Housing should adapt procedures prohibiting personal use of agency cell phones for personal use except for extreme emergencies.
3. Louisiana Housing should discontinue the practice of declaring its bond closing meetings as non-state sponsored conferences.
4. Ms. Butler and Mr. Rovira should reimburse Louisiana Housing for the lodging and meal expenses incurred for the one day they arrived early in New York City.
5. The agency should seek reimbursement from Ms. Cunningham, Ms. Todd and Ms. Washington for the meals they did not pay for which were reimbursed to them by the agency for the trip to New York.
6. Ms. Butler should reimburse Louisiana Housing for the excessive personal phone calls made in New York.
7. Louisiana Housing should insure that spouses of personnel within the agency do not receive state contracted airfare rates.
8. Louisiana Housing should formally adopt written rules governing travel expense reimbursement.

Management Response:

See Attached.

Management's Exhibits may be obtained from Louisiana Housing.

IG Comments:

Louisiana Housing responds to criticism of its travel reimbursement practices that it has its own "evolving standard" for travel expenses, but monitors PPM 49 as a matter of "due diligence" in setting that standard. During our review, PPM 49 was the only standard cited, and agency travel reimbursement records reflect that PPM 49 was the standard being applied, albeit incorrectly in some instances. If PPM 49 is not the agency's standard, then it has no controlling written standard. Such a position obviously is a poor management practice.

The reimbursement for meal expenses where none were incurred is a problem, regardless of PPM 49. Contrary to Louisiana Housing's response, PPM 49 meal reimbursements are not *per diems*; PPM 49 explicitly states that no reimbursement is due where expenses are not incurred.

While offering coffee to agency visitors may be justified in some circumstances, providing snacks is not a customary courtesy. There is no justification for the general provision of coffee and snacks to state employees on a routine daily basis.

As to the bottled water, the yearly expense, \$2,135 in 1999, was high. The one-time expense of installing a water fountain would have been substantially less than the recurring annual cost of bottled water.

An early arrival in New York for the bond rating meeting would have been justified had there been meaningful preparation activities. As best we could determine, there were few.



Louisiana Housing Finance Agency

M. J. "MIKE" FOSTER, JR.
GOVERNOR

V. JEAN BUTLER
PRESIDENT

200 LAFAYETTE STREET, SUITE 300
BATON ROUGE, LOUISIANA 70801
(225) 342-1320
FAX (225) 342-1310

December 15, 2000

Mr. Bill Lynch
State Inspector General
P. O. Box 94095
State Capitol Annex
Baton Rouge, LA 70804-9095

Re: File No. 1-00-0055
Draft Report Concerning Louisiana Housing Finance Agency

Dear Mr. Lynch:

The Louisiana Housing Finance Agency ("LHFA" or "Agency") is in receipt of your office's draft report concerning "a review of the Louisiana Housing Finance Agency," transmitted by your letter dated November 22, 2000. You invited a response to the items contained in the report. Please consider this letter the LHFA's response.

Agency representatives were advised of numerous allegations concerning financial practices when your office's investigation was initiated. The Agency and its Board of Commissioners are gratified that the vast majority of these allegations were found to be unsubstantiated. The LHFA felt all along that these claims were asserted by a person or persons motivated by personal reasons to harm the Agency.

Further, however, the LHFA and its Board take issue with the findings reported, as addressed below. Agency Commissioners, officers and other representatives have at all times in these matters exercised reasonable, sound discretion and judgment based on the issues and circumstances presented. Agency officials do believe that the countless hours spent by LHFA and Inspector General representatives since January 2000 have been beneficial in determining that most of the allegations, and certainly the serious ones, were false and without merit.

The Agency and its Board of Commissioners respectfully request that the Inspector General refrain from further publishing the draft report or any of the findings contained therein, as they are materially incorrect, based on inappropriate and often unclear

Mr. Bill Lynch
December 15, 2000
Page 2

"standards", and could be needlessly and wrongfully detrimental to the good standing of the LHFA. Any items which arguably required attention have been addressed either before your office's investigation, or since.

For over twenty years the Agency has enjoyed an excellent reputation among lenders, financial institutions, investment bankers, the Louisiana Legislature, the Governor's office, and numerous rating agencies. The LHFA has succeeded in its mission to provide decent, safe and sanitary housing for persons and families of low or moderate income, who couldn't before afford such homes. Since 1981 the Agency has arranged funding in amounts exceeding 1.895 billion dollars, resulting in approximately 58,000 housing units for the citizens of Louisiana. Because its reputation in the community is essential to its continued success, the Agency is compelled to address the findings of the draft report.

PRELIMINARY COMMENTS

Many of the findings mentioned relate to standards regarding travel, meal and other reimbursements set forth in the Division of Administration's Policy and Procedures Memorandum #49 ("PPM 49"). However, as acknowledged in the draft report, the LHFA is not bound by PPM 49.¹

The draft report incorrectly states that "agency officials acknowledged that Louisiana Housing has followed PPM 49 to govern its travel for several years." The Agency has, over the years, developed evolving standards to judiciously manage revenues and expenditures. The provisions of PPM 49, as they have evolved, have been monitored as an element of the Agency's due diligence in this regard, to maintain guidelines for "reasonableness" in establishing travel and meeting budgets and in reimbursing expenses. However, the Agency's Board of Commissioners determines appropriate expenditures and practices when it annually establishes the LHFA's operating budget, in accordance with La. R.S. 40:600.5.² The Board (as acknowledged in the draft report) has never adopted PPM 49. On the contrary, the Board, in establishing the Agency's annual budget, has specifically taken into account lodging rates and other matters, and has specifically *approved* the rates at issue in the draft report, based on a variety of legitimate factors.

¹ See also Attorney General Opinion #00-317, requested by the LHFA, attached as Exhibit 1.

² The Agency operates from self-generated revenues and is not considered a budget unit of the state. La. R.S. 40:600.5G.

It is in the best interests of the state to employ reasonable and responsible expenditure practices. The nature and function of the LHFA are not typical of other state agencies. In creating the Agency, the legislature declared the existence in Louisiana of "a serious shortage of decent, safe and sanitary residential housing available at prices within the financial means of persons and families of low to moderate income." It found that this shortage constituted "a threat to the health, welfare, safety and morals and prosperity of all residents of the state."³ Significantly, the legislature specifically declared that private enterprise "unaided" had not produced needed construction and rehabilitation of decent housing, which might bring about beneficial social change in the particulars addressed by the enabling act.⁴

Thus, the mission of the Agency is to bring together a diverse group of banking institutions, real estate developers, contractors, underwriters, bond companies, trustees, and others in the private business sector, to bring decent housing to the underserved citizens of Louisiana. In order to do so, the Agency must be capable of meeting these private business enterprises on an even playing field in terms of experience, competence, resources and interaction. The Agency, its Board and officers must maintain reasonable flexibility in budget and expenditures to promote the state and confidence in the Agency, and to develop business relationships to facilitate the Agency's purpose. The LHFA Board of Commissioners, appointed in accordance with La. R.S. 40:600.4, is charged with managing and budgeting the Agency's self-generated funds in accordance with its legislative functions.

Thus, to the extent the draft report relies on PPM 49 as establishing standards which must be followed by the Agency, such findings are incorrect and contradictory to the sound, established policies and practices of the Agency since its inception.

SNACKS, SOFT DRINKS, WATER AND COFFEE SERVICE

³ See La. R.S. 40:600.1(B)(1). The enacting legislation further acknowledged that the shortage of housing results in "overcrowding and congestion and exacerbates existing slum conditions which, in turn, contribute substantially and increasingly to the spread of disease and crime, impair economic values of property, necessitate excessive and disproportionate expenditures of public funds for crime prevention and punishment, public health, welfare and safety programs, fire and accident protection and other services, substantially impair or arrest the growth of urban and rural areas, aggravate traffic problems and exacerbate juvenile delinquency and other social ills." See La. R.S. 40:600.1(B)(2).

⁴ La. R.S. 40:601(B)(3).

The draft report finds it is not "customary" for a state agency to provide snacks, "bottled water"⁵ and coffee. The Agency questions this "customary" standard as subjective, unclear and undefined. Further, the prudence of the Agency's expenditures has been left to the discretion of its appointed Commissioners, by statute, through approval of the operating budget.

The Agency has suspended its purchase of the "snacks" described in the draft report, pending further specific consideration, but nonetheless disputes the draft findings. The Agency often hosts meetings of its customers and investors, which justifies maintaining a comfortable environment for conducting the Agency's business. It is not appropriate to blindly apply standards of "customary" expenditures by other agencies to the LHFA, for the reasons outlined above. Considering the relatively small dollar amounts involved, and its success in implementing its mission, the LHFA believes it has prudently managed these funds in the context of its operations and purposes.

Additionally, though dismissed by the auditors, the LHFA does believe it is important to offer certain minimal comforts such as water and coffee for employees, as well as customers. The report mentions the availability of water fountains, for example, but there is none on the floor where the majority of LHFA employees are officed. Also, the condition of the available water dispensers has, until recently, been unacceptable. Indeed, in the sound judgment of Agency officials, the time necessary for staff to move from one floor to another for water is more wasteful in human resource expense than providing these basic employee needs.

The Agency respectfully suggests that its sound discretion, considering all of the circumstances, should not be replaced by inapplicable, undefined "customary" standards established in hindsight.

AGENCY CELL PHONES

The Agency has utilized cell phones only for the President, Ms. Butler, and Vice-President, Ms. Cunningham. During the time of your office's investigation, Vice-President Helena Cunningham developed and implemented guidelines for cell phone use and personal call reimbursement, which she continues to follow. Such guidelines were not in place during the time period noted in the draft report. However, Agency officials will require such practices concerning cell phones in the future.

⁵ To the extent the draft report suggests the Agency purchases bottled water, this is incorrect. The Agency has contracted with a Kentwood service to provide water coolers, serviced regularly, which practice is much more economical than the purchase of individual bottles.

After learning the findings of the draft report concerning Ms. Butler's use of her cell phone for personal calls, she has reimbursed the Agency for such calls and discontinued her use of the Agency cell phone.

Nonetheless, the Board of Commissioners wishes to specifically acknowledge and commend Ms. Butler in her management of expenditures vis a vis the Agency. The Board has no doubt that many of the calls noted as "personal" by the auditors, even if personal, worked to the benefit of the Agency. For example, allowing President Butler to manage personal matters while on Agency business, either traveling, in meetings, or otherwise, was an efficient use of her time. Additionally, the Board notes that President Butler has for many years unselfishly utilized her own resources (automobile, fuel, home phone/answering service, and others) for Agency business, without seeking any reimbursement for these personal expenses.

On balance, the Board believes that President Butler's management of her personal resources and business in connection with Agency business has been exemplary and economical.

BOND CLOSING MEETING

The draft report makes reference to an "improper" classification of a bond closing meeting in New Orleans with regard to PPM 49. The Agency adamantly denies any improper conduct. For the reasons stated above, and in the attached AG Opinion (Exhibit 1), the LHFA is not bound by PPM 49, and has not adopted it.

On the contrary, the lodging rates for the referenced hotel stay were expressly taken into account and approved by the LHFA Board as part of the Agency's budget.

Some further clarification might be helpful. The LHFA is involved in bond closing meetings approximately three times per year. These are typically conducted in New Orleans, as the location of the Agency's bond counsel and of many of the other closing participants. Several LHFA staff members are involved in preparation of the closing materials in advance of the closing, done in the bond attorney's offices. There are usually many details to be worked out in this process.

In July of 1999, the Agency, its underwriters and bond counsel scheduled a dinner in connection with the bond closing, for all participants, to be held after the closing. In fact, it has become a regular practice to hold such a function in connection with the closing. The gathering provides an opportunity for LHFA managers and other

representatives to maintain a rapport with the underwriters and developers so crucial to the success of the LHFA and its programs. The dinners are sponsored by the bond underwriters, but present excellent business opportunities for the Agency.

It has also become efficient for the closing/dinner to be scheduled in conjunction with an Agency monthly Board meeting, held the next day while still in New Orleans. This was done in July, 1999. The Agency holds Board meetings in New Orleans approximately three or four times each year, because several Board members and other meeting participants are located in the New Orleans area. It is often convenient to arrange such meetings in conjunction with the bond closing activities, but this usually involves several LHFA representatives staying overnight in order to attend both meetings.

The lodging site is selected for convenience and efficiency in connection with the bond closing activities, Board meeting, and other related matters. The Board of Commissioners exercises its sound discretion in evaluating the surrounding considerations when including these items in the annual budget.

TRIP TO NEW YORK CITY

"Unnecessary Early Arrival"

The draft report suggests that certain individuals arrived a day in advance of a "bond rating meeting", without good cause to do so, resulting in excessive lodging and meal expenses. These findings are disputed. The auditors reviewed Agency records concerning a single event, in retrospect, and determined that LHFA representatives spent an unnecessary day in New York City. When decisions were made concerning the timetable, they were made by the Board, the President of the Agency and others responsible for assuring the success of the meeting, based on their experience, knowledge of the tasks and goals, and their responsibility for the results.

The decisions made were proper and reasonable under the circumstances.

First, the meeting had significant consequences for the LHFA and its programs. The Agency was to make a presentation required to obtain a bond-issuer rating. This rating is necessary for the LHFA to qualify to participate in different types of financing. It was also important to allow the Agency to issue bonds to build its own building at great savings to the state. Thus, it was crucial that the meeting receive all necessary attention and preparation to accomplish these goals. In fact, the Agency was successful in

obtaining a Moody's rating equal to that obtained by the state of Louisiana, considered a significant accomplishment by Moody's as well as by the Agency and its staff.⁶

Ms. Jean Butler, President of the Agency, arrived on Saturday to be certain that the Agency's presentation and materials were in order, and in an effort to avoid any unexpected problems with the meetings. It was Ms. Butler's responsibility to see to it that the Agency receive the necessary ratings to meet the goals set by the Board. The draft report suggests that a financial advisor, Keith Waldrop, had prepared all of the necessary materials, etc. for the meeting, but this is not correct. In fact, the Agency attaches a statement from Mr. Waldrop which clarifies his role.⁷ While Mr. Waldrop was most helpful in many respects, he was not in a position to prepare much of the information for the meeting, which had to come from the Agency itself.

Further, the CFO of the Agency, Jonathan Rovira, arrived on Saturday to bring and assemble pertinent documents and information for the presentation. It was important for him to be available to provide additional financial and other information for the Agency's presentation. He was also responsible for other logistics such as lodging arrangements for participants, meeting arrangements, etc. The draft report suggests Mr. Rovira did no Agency work on Saturday or Sunday of the trip, but that he went sightseeing. However, this is not correct, as can be determined by reviewing Mr. Rovira's statement, attached.⁸ The decision for the CFO to attend with the President to prepare for the meeting was based on reasonable concerns that all preparation be accomplished for a successful meeting.

Finally, Mr. Phillip Miller, LHFA Board Commissioner, also arrived on Saturday for the meeting. Mr. Miller has provided his statement concerning these circumstances.⁹ He has stated that he arrived on Saturday believing all Board participants were expected to do so. Upon learning some of the others did not,¹⁰ Mr. Miller reimbursed the Agency all expenses associated with the first day.

However, the Board feels it was inappropriate for Mr. Miller to reimburse these expenses. The Board did intend for Commissioners attending the meeting to arrive on Saturday if possible.¹¹ It was very important that they arrive in time to be prepared for the Agency's presentation. Those reviewing the presentation, to issue the Moody's rating,

⁶ See Exhibit 2, attached.

⁷ See Exhibit 3.

⁸ See Exhibit 4.

⁹ See copy attached as Exhibit 5, multiple documents, in globo.

¹⁰ See LHFA memo dated September 3, 1999, attached as part of Exhibit 5.

¹¹ *Id.*

evaluate the expertise, experience, and knowledge of Board members, as well as others involved in the rating applicant's business. The Commissioners were actually required to make presentations during the meeting. As they are not full time employees or managers for the Agency¹², they require some preparation before participating in these crucial rating meetings.

Mr. Miller is a past chairman of the LHFA Board of Commissioners. Consequently, he is very familiar with the Agency's operations, goals, plans, etc. The Agency very much needed Mr. Miller, and other Commissioners, to arrive in New York with adequate time to prepare for the important presentation at issue.

In short, in preparing for matters of this significance, the Board and its President must exercise their discretion based on available information, and perceptions of potential problems which could arise as obstacles to Agency goals. At the time, the necessity of success mitigated in favor of making sure that adequate resources were in place for these meetings. The result, i.e. the rating, speaks for itself.

"Ineligible" Meal Reimbursements

Three LHFA representatives, Helena Cunningham (Vice-President), Lana Todd (Manager) and Debra Washington (Manager), have been accused of improperly claiming reimbursements for meals during the New York trip. A statement by Debra Washington is attached hereto as Exhibit 6. These individuals and the Agency dispute these claims.

In this respect the draft report again focuses on PPM 49, which does not apply. However, the Agency does acknowledge the meal allowances in PPM 49 as a guideline for such circumstances. These meal allowances have always been treated as a daily allowance while traveling on Agency business, regardless of the actual amounts (more or less than the allowance) spent on particular meals. In fact, Ms. Washington confirmed with representatives of the State Travel Office that they typically treat these amounts as a daily allowance for persons covered by PPM 49, regardless of the actual expenditures. The individuals followed established Agency practices, and there is no indication of any "wasteful" result.

Reimbursement of Personal Phone Calls

The allegations of improper reimbursement to Phillip Miller are wrong. Mr. Miller did not charge the LHFA for any telephone calls during the New York trip, as confirmed

¹² In fact, each makes their living completely separate from their service on the Board.

by his statement.¹³ Ms. Butler was reimbursed for some personal calls she made while in New York taking care of Agency business. The draft report suggests she was not entitled to amounts in excess of the schedule in PPM 49, which does not apply. The calls were actual expenses, made necessary because she was away from home on Agency business, and the amount reimbursed was not unreasonable.

Airfares

Louis McKnight does not dispute that he reserved and purchased two airline tickets through the state's travel agent. The LHFA paid his airfare, and he paid his wife's.¹⁴ The arrangements were made together for convenience and consistency. There was no detriment or expense to the Agency or the state in any respect.

CONCLUSION

Apparently, at the outset of the Inspector General's investigation, it was suggested that the Agency was guilty of a number of significant financial excesses or improprieties. Obviously, the Agency is pleased that the Inspector General's efforts have established these allegations were false and without merit.

The remaining issues can primarily be explained under two categories. Alleged inconsistencies with PPM 49 standards are inapplicable, because PPM 49 does not apply to the LHFA. The remaining matters, for the most part, involved the exercise of reasonable discretion by the LHFA Board of Commissioners and President, in conducting the day-to-day operations of the Agency. To the extent any details required further action, they have been addressed appropriately, as outlined in this response.

The LHFA Board of Commissioners, officers, and staff are committed to the mission and other provisions set out in the Agency's enabling legislation. This includes due diligence in the management of the budget and expenditures. Agency officials will continue to monitor and evaluate every aspect of the Agency's operations, to maintain economy and efficiency while promoting and accomplishing the LHFA's mission. Additional guidelines concerning expenses, allowances, disbursements, reimbursements, etc. will be considered as necessary.

The LHFA respectfully requests that the proposed report be withdrawn, based on this response. Considerable time and effort have been expended by personnel of the

¹³ Exhibit 5, attached.

¹⁴ See Exhibit 7, attached.

Mr. Bill Lynch
December 15, 2000
Page 10

Inspector General's Office and the LHFA. The vast majority of allegations have been refuted. The remaining items fall within the sound discretion of the Agency Board of Commissioners and other officials. The LHFA submits that thorough attention has been given to these matters, as discussed above, and that no further review is necessary. Alternatively, please include the Agency's response with any further correspondence concerning these matters.

Respectfully,


Albert S. Pappalardo
Chairman, Board of Commissioners
Louisiana Housing Finance Agency



RICHARD P. LEYOUS
ATTORNEY GENERAL

State of Louisiana
DEPARTMENT OF JUSTICE
CIVIL DIVISION
BATON ROUGE
70804-9005

One American Place
301 Main Street, Suite 600
P.O. Box 94005
TEL.: (225) 342-7013
FAX: (225) 342-2090

OCT 04 2000

OPINION NUMBER 00-317

Ms. Helena R. Cunningham
Vice-President
Louisiana Housing Finance Agency
200 Lafayette Street, Suite 300
Baton Rouge, LA 70801

Dear Ms. Cunningham:

You requested the opinion of this office concerning whether the Louisiana Housing Finance Agency (the "LHFA"), which is a non-budgetary unit of the State and does not receive appropriated funds, is required to adhere to the State Travel Guidelines (PPM-49). PPM-49 was adopted pursuant to R.S. 39:231, which provides in pertinent part as follows:

A. Except as provided in Subsection B, Subsection C, and Subsection D, the commissioner of administration, with the approval of the governor, shall, by rule or regulation, prescribe the conditions under which each of various forms of transportation may be used by state officers and employees in the discharge of the duties of their respective offices and positions in the state service and the conditions under which allowances will be granted for traveling expenses.

Subsections B, C and D pertain to statewide elected officials, meal allowances and higher education and are not pertinent to the LHFA.

Section I(A) of PPM-49 states that the regulations "apply to all state departments, boards and commissions created by the legislature or executive order and operating from funds appropriated, dedicated, or self-sustaining; federal funds; or funds generated from any other source." Section II of PPM-49 contains various definitions, including "Authorized Persons" which is defined as "members of boards, commissions, and advisory councils required by federal or state legislation or regulation. Travel allowance levels for all such members and any staff shall be those authorized for state employees unless specific allowances are legislatively provided." (Emphasis added)



PPM-49 applies to all state departments, boards and commissions created by the legislature and operating from appropriated or self-sustaining funds or funds generated from any other source. PPM-49 applies to even non-budget entities. Therefore, in the absence of a specific statutory exception, the members of the Board of the LHFA and the staff would be subject to the travel regulations contained in Division of Administration PPM 49.

LHFA's enabling legislation is contained in R.S. 40:600.1, et seq. R.S. 40:600.5 provides in pertinent part as follows:

C. Appointed commissioners may receive fifty dollars per diem for attendance at meetings of the agency and may be reimbursed by the agency for actual expenses incurred in the performance of their duties as commissioners. All other commissioners shall be reimbursed by the agency for actual expenses incurred in the performance of their duties as commissioners, but shall not receive a per diem allowance.

G. The agency shall operate from self-generated revenues and shall not be a budget unit of the state. The agency may, however, receive state appropriations at any time it is deemed advisable by the legislature, and **only the expenditure of such appropriated funds shall be subject to budgetary controls or authority of the Division of Administration.** The agency shall establish its own operating budget for the use of its self-generated revenues or unencumbered fund balances subject to a two-thirds approval of the board of commissioners of the agency. Any budget adopted shall be effective for a fiscal year commensurate with that of the state. (Emphasis added).

R.S. 40:600.5(C) is a legislative exception to PPM-49 and the commissioners may be reimbursed for their actual expenses incurred in the performance of their duties. Staff of the agency, however, would be subject to PPM-49 in the event the LHFA receives and expends State appropriated funds. It is our understanding that the LHFA does not receive an appropriation from the legislature.

While LHFA commissioners and staff may not be subject to PPM-49 and are entitled to be reimbursed their actual expenses, we would suggest, and we are sure that the commissioners would concur, that expenses are subject to a "reasonableness" test. Unreasonably high actual expenses should not be reimbursed. Reasonable will depend upon the particular factual situation. See enclosed Op.Atty.Gen. No. 91-43 to Mr. Bill Lynch.

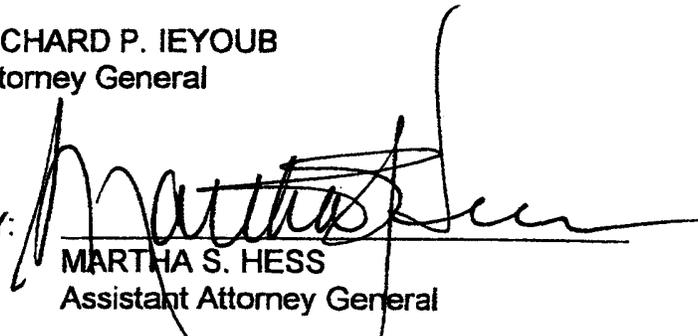
Ms. Helena R. Cunningham
OPINION NUMBER 00-317
Page -3-

Trusting this adequately responds to your request, we remain

Yours very truly,

RICHARD P. IEYOUB
Attorney General

BY:

A handwritten signature in black ink, appearing to read "Martha S. Hess", is written over a horizontal line. The signature is fluid and cursive, with a prominent vertical stroke on the right side.

MARTHA S. HESS
Assistant Attorney General

Enclosure

RESPONSE TO INSPECTOR GENERAL'S DRAFT REPORT

I, Jonathan P. Rovira, Sr., have reviewed a draft report of findings issued November 22, 2000 by the Office of State Inspector General relative to the operations of the Louisiana Housing Finance Agency. Some of the findings involve activities in which I was engaged for the LHFA. Therefore, I offer the following specific responses:

1. I am employed as the Chief Fiscal Officer for the Louisiana Housing Finance Agency. Among other things, it is my responsibility to maintain all records of the Agency involving its financial operations and programs. I am also responsible to assist in preparation for meetings, conferences and presentations necessary for the LHFA to carry out its mission and duties.
2. In September of 1999 I traveled to New York City to assist in preparations for a presentation by the LHFA to Moody's bond rating authorities. The LHFA was seeking a bond rating to qualify to participate in a variety of types of financing, and to allow the Agency to issue bonds to build its own building at considerable savings to the state.
3. The Inspector General's draft report suggests that I arrived unnecessarily in New York City an extra day in advance of the bond rating meetings. At page 5 of the draft report it is suggested that I did not perform any Agency work on Saturday or Sunday of the trip, but that I only went sightseeing those two days. This is incorrect.
4. I traveled to New York City on Saturday, September 19, 1999 in order to transport pertinent documents and materials for the bond rating presentation. I also arrived that day to be available to the President of the Agency, Ms. Jean Butler, in preparation of the materials and presentation to be made. The presentation involved financial and other information maintained by me as Chief Financial Officer, so I was able to supplement the presentation materials.
5. On Saturday, September 19, 1999, I delivered to the hotel accounting department individual LA Sales Tax Exemption Certificates and photo identifications of all attending staff and board members which was a hotel requirement in order to attain a tax exempt status. This saved the Louisiana Housing Finance Agency in excess of \$1,240.
6. During my stay, I also provided assistance to LHFA Commissioners and others making presentations for the meeting. I was further responsible to assist with hotel arrangements for meeting attendees, and for other meeting arrangements.

7. Contrary to the Inspector General's draft report findings, I did perform official work on behalf of the Agency on the days in question. Considering the nature of the schedule, however, I was allowed some free time during which I did some sightseeing.
8. I attended the meeting, and arrived at the time I did, in accordance with instructions by Ms. Butler and other Agency officials. I believe I provided information and assistance which contributed to the success of the bond rating meetings.


Jonathan P. Rovira, Sr.

Date 12/15/2000



Miller & Associates
P.O. Drawer 700
Iowa, Louisiana, 70647-0700
(318) 582-3564
Fax (318) 582-7229

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

December 1, 2000

ATTENTION: Frank Roberts

Dear Mr. Roberts:

This letter will serve as a response to your letter dated November 22, 2000 and our subsequent telephone conversation.

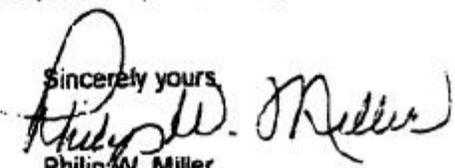
My name appears twice in your draft report under the "Trip to New York City" and I want to respond to them separately. The first was that I improperly billed the agency for hotel and meals for my arrival date in New York which was Saturday, September 18, 1999. When you called me several weeks ago and we discussed this matter, you mentioned the hotel bill but not the meals. Based on the attached memorandum, I erroneously assumed every one was traveling to New York on Saturday. After our conversation, I called Mr. Rovira at the agency to ascertain the cost for the Saturday night stay at the hotel and reimbursed the agency. I do not have the cancelled check as yet and I will be happy to furnish it when received from the bank. With respect to the meals, you neglected to mention during our telephone conversation, and upon review of my travel voucher, it was determined, and you agreed, that I did not charge the agency for any meals for the entire trip to New York.

Secondly, your draft report indicated that I requested and was reimbursed for telephone calls. Again, during our telephone conversation and upon review of my travel voucher, it was determined, and you agreed, that I did not charge the agency for any telephone calls on the trip to New York.

It is important to note that the agency prepaid our hotel charges at the Hyatt. The prepayment resulted in a credit which was paid to me at checkout. Immediately upon my return from New York, I reimbursed the agency for the amount of the credit together with all incidental charges to my room. I am attaching a copy of my cancelled check, number 6929 dated September 24, 1999, to the agency for verification of the above.

Based upon the above response to your draft report, I request that my name be removed from the report.

Sincerely yours,


Philip W. Miller
Commissioner

cc. Helena Cunningham

Enclosures

RECEIVED

DEC 01 2000

LOUISIANA HOUSING

OFFICE OF THE INSPECTOR GENERAL
FILE NO. 1-00-0055
RESPONSE SUBMITTED BY DEBRA A. WASHINGTON

FINDING: Ineligible Meal Reimbursements

Helena Cunningham, Lana Todd, manager, and Debra Washington, manager for Louisiana Housing, improperly claimed reimbursements totaling \$155 for the cost of meals in New York for which they did not pay. Ms. Todd and Ms. Washington requested and received reimbursements from the Agency for dinner on Monday, Sept. 20, 1999, that were provided by the underwriters. Ms. Cunningham, Ms. Todd, and Ms. Washington requested and received reimbursement from the Agency for lunch and dinner on Tuesday, Sept. 21, 1999, and a lunch on Tuesday, Sept. 21, 1999 and a lunch on Wednesday, Sept. 22, 1999. The underwriters also provided those meals.

RESPONSE: While the LHFA has not adopted the Louisiana Travel Guide, certain of the provisions are considered relative to reimbursement of expenses while on Agency business. For the circumstances involved, a person traveling on behalf of the Agency may be reimbursed for meals according to the schedule in the Travel Guide. The Agency has treated allowances for meals as daily allowances, regardless of amounts actually spent. Traveling staff are reimbursed in accordance with the schedule, without the need to present receipts.

When this issue was brought to my attention, I contacted the State Travel Office to ask how they deal with state employees in terms of these allowances. I spoke with "Ellie" in the State Travel Office. When I explained the situation, Ellie advised that if a state employee requests no more than the allowance amounts in the Travel Guide, they are entitled to the reimbursement as a daily allowance, regardless of receipts or actual amounts paid.

Consequently, I strongly disagree with the finding in the Inspector General's report, and feel that I owe no reimbursements in connection with the circumstances described.

Debra A. Washington

Louis C. McKnight III
8555 United Plaza Blvd., Suite 200
Baton Rouge, La. 70809

December 1, 2000

Ms. Helena Cunningham
Vice President
Louisiana Housing Finance Agency
200 Lafayette Street, Suite 300
Baton Rouge, La. 70821

Dear Ms. Cunningham:

This letter is pursuant to your November 29, 2000, request for a written response to the specific part of the Louisiana Inspector General's draft report that refers to my purchase of airline tickets. As I recall I purchased two tickets through the travel agency that the LHFA recommended. One of the tickets was for me and was charged to the LHFA account and the other was for my wife which was paid for with my personal check.

Please let me know should you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Louis C. McKnight III". The signature is fluid and cursive, with a large loop at the end.