

Minutes of the Special Meeting of the Administration, Personnel and Audit Committee of the Board of Commissioners of the Lake Charles Harbor and Terminal District held at 3:45 P.M., Wednesday, June 20, 2018, in the Board Room of the Port of Lake Charles located at 1611 West Sallier Street, Lake Charles, Louisiana.

In attendance was:

John LeBlanc, Committee Member
Dudley R. Dixon, President

Absent:

Michael G. Eason, Chairman

Also Present:

Carl Krielow, Commissioner
Tom Lorenzi, Commissioner
Bill Rase, Executive Director
Richert Self, Executive Deputy Director/Director of Administration and Finance
Mike Dees, General Counsel
Jon Ringo, Assistant General Counsel
Jason Guillory, McElroy, Quirk and Burch, CPA

Mr. LeBlanc called the meeting to order at 3:45 p.m.

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1. Consideration and appropriate action concerning approving and levying for the tax year 2018 an ad valorem millage rate of 2.53 mills.
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Mr. Self stated they receive the information from the tax assessor for 2018, which included the assessed values. What staff is asking for the board to approve keeping the current millage rate of 2.53 mills which will generate about \$3.7 million in ad valorem taxes for the District.

Mr. Dixon offered a motion to recommend Submission 2018 – 016 to the full Board at the June 25, 2018 regular meeting to approve and levy for the tax year 2018 an ad valorem millage rate of 2.53 mills. Mr. LeBlanc seconded the motion and it carried unanimously.

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2. Consideration and appropriate action concerning receiving and accepting the audited financial statements as of and for the year ended December 31, 2017.
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Mr. Self stated he would go over certain aspects from the Comprehensive Annual Financial Report (CAFR). Jason Guillory with McElroy Quirk and Burch, CPAs is here as well. McElroy conducts the audit for the Port.

Mr. Self stated the report is made up of three sections. There is an introductory section, financial section and a statistical section. Within the within the introductory section there is a transmittal letter, which is essentially a letter from Mr. Rase and himself and to the Board explaining certain things. Also included is an organizational chart, the GFOA certificate, which is a certificate of excellence in financial reporting in which the Port received for 2016. They will be applying for their 2017 financials in hopes of getting the same award for 2017.

The introductory section also includes a list of principal officers, which is a list of Mr. Rase and the Board.

The financial section includes the auditor's report, the management's discussion and the analysis which compares 2017 results with 2016 results. It explains the variances between the two years. It also includes the basic financial statements and the notes to the financial statements. There is also supplementary information.

Mr. Self presented the CAFR report. The report is on file in the executive office.

After Mr. Self presented the CAFR, he called upon Mr. Jason Guillory, McElroy, Quirk and Burch use talk about two other reports.

Mr. Guillory stated he wanted to speak about two reports that they will be issuing in addition to the CAFR.

The first one they have historically issued is the governmental auditing standards supplementary report on internal control and compliance. They have a brand-new report this year which is the agreed-upon procedures report.

The most important thing he wants to do is try to distinguish between what they are communicating between the two reports. In the supplemental report on governmental auditing standards they have what they call findings. There are generally three levels or three different types of findings. There are reportable conditions and material weaknesses, which deal with significant deficiencies in the internal control structures that could result in a material misstatement of the financial statements. These are really big things wrong with the internal control of the entity.

They also issue findings based off of issues on noncompliance material with laws regulations and so forth. Those types of findings are very significant issues and if they had any of these issues they would be reported in this report on the governmental auditing standards supplementary reports. They have issued no findings of that kind in this report. Essentially it is a clean opinion on the compliance and internal control at the most significant level and how they traditionally and historically report on internal control and compliance.

The legislative auditor, a year and half or so ago, decided that they were going to require all governmental entities that have audits to contract with their own CPA to do agreed-upon procedures, which are simply that, they are designated procedures by the legislative auditor. They have to follow each particular line item and perform those procedures on their financial records. These are not necessarily super material items. A lot of these actually deal with some fairly small items in terms of dollars. Some of the thought process behind these procedures were to look at best practices and see governmental entities are implementing best practices that their office has recommended for quite some time. They pinpointed some areas that historically have been areas for fraud and abuse, which is obviously a focal point of the legislative auditor's office – to discover report and root out any fraud and abuse in public entities.

This was the first year that they performed these procedures and the Port was responsible for these procedures, even though they have been doing a lot of these things the whole time.

The first thing he wanted to say was that he wanted to commend Mr. Self and his business manager/controller, Ms. Talbot, for really taking these procedures and preparing these procedures very seriously. They have spent a lot of time making sure that all of the Port's procedures were up to date and were addressing what was in the procedures. It made their lives as auditors a lot easier. It shows their diligence and their dedication towards good government and financial reporting. When he would do these procedures, and within these procedures there are about 33 different times they have to say whether there is an exception to the procedure or no exception. Probably within those 33 instances they are talking about hundred or 200 individual transactions. Any time anything is wrong with any one of those transactions, it is in this report. He wanted to give a sense of the magnitude when they say these are not findings. These are exceptions. Findings are what they would have reported here. These are exceptions. These are when they tested a transaction and it didn't conform to the letter of the procedure that the legislative auditor prescribed. The Port could have a perfectly valid accounting policy that they adopted and abided by, but if it did not conform to the specific level that the legislative auditor set, it would still be an exception. It is not necessarily a bad thing. He does not want to over magnify these exceptions to a level that they should not be brought to. There were only about four different areas in which they had exceptions on these reports. He wanted to briefly touch on them because he wanted to call it to their attention that the district has already made corrective action in these areas.

When they tested cash disbursements, the procedure requires or forces them to look and see if there was an approved purchase order for every transaction. Within the Port's delegation of authority, that is not required for every transaction. There were a couple of transactions that technically were exceptions to the legislative auditor's procedures but that conformed to the Port's on all policies. But because of the nature of the procedure they still had to be included and even though that conformed to the Port's policies and are making adjustments to catch those.

In regards to credit cards, there were two instances which the person who had the meal did not include all of the names of the people who had the meal. It happens. He said the District will be a little more particular about looking at its credit card receipts.

Regarding travel, the legislative auditor had a benchmark on travel rates based off of GSA rates for hotels. Sometimes the GSA rates are difficult to find and they are very low. They did know that there were four or five instances in which the hotel rates that the person traveled was higher than the GSA rates. They included a table where all of the hotels stays were. They were Hampton Inns and Hiltons as they were not the four seasons or the Ritz-Carlton. It is good to give context to when there is an exception.

Finally, one of the payroll tax submissions was a day late from the due date. That happens. He said the Port brought it up to his attention that they had missed payment by one day. That is one of the exceptions. That is something they will be paying closer attention to. But overall it was a very good result because of the effort of Mr. Self's finance staff put together. These procedures will be changing a little bit next year.

The legislative auditor has come up with some new procedures and changing the scope. He said they will come back and revisit these next year.

Mr. LeBlanc asked if there was a cash threshold that needs a P.O. Mr. Guillory stated on the agreed-upon procedures themselves there is not a delineated cash threshold. On every purchase of a good or supply they would expect to see an approved purchase order. It is not very practical for a large entity and that is one of the changes in they made for the agreed-upon procedures next year. They will no longer ask them to look at the purchase order system. They just want to make sure there is adequate segregation of duties within the purchasing function. He thought that was a really good really good change going forward. It is more practical for larger entities. The port has had a delegation of authority for years now where they have looked at those thresholds and have done things to scale it down to a reasonable level based on their own operations.

Mr. Krielow asked if the two purchase orders that he noted in this report initiated by someone who did not approve. Mr. Guillory said it was done at the director level. One of the directors did. It was well below – like a \$25-\$30 purchase. It was really immaterial amounts. They were cash purchases.

Mr. Guillory stated the report that he would really pay attention to is the first report that deals with significant or reportable conditions on internal controls on the instances of noncompliance, in which they had no findings.

Mr. Self stated they are requesting approval from the audit committee and then from the board so they can submit the information to the legislative auditor by June 30, 2018

Mr. Dixon offered a motion to recommend Submission 2018 – 017 to the full Board at the June 25, 2018 regular meeting to receive and accept the audited financial statements as of and for the year ended December 31, 2017. Mr. LeBlanc seconded the motion.

Mr. Krielow stated he had a question on the report Mr. Self gave earlier. There was a favorable discrepancy in the budget versus the actual 2017 on the total operating revenue and said it was subject to a claim. What was the claim? Mr. Self stated there were three claims. One was the Gospel Light, a tug that hit one of the berths at City Docks and the Port collected from the tug owner. There was one from stevedoring claim the Port got reimbursed from a prior lawsuit and the third one was a smaller claim. Relative to the other two it was very small claim.

The motion carried unanimously.

3. Other matters that may properly come before the Committee.

Mr. LeBlanc stated there were no other matters to be discussed. Mr. Dixon offered a motion to adjourn and Mr. LeBlanc seconded the motion and it carried unanimously. The meeting adjourned at 4:24 p.m.

This minute entry is made to document the presence of a quorum of the Committee. No other minutes are required or necessary.

All discussions held on the above items were recorded on the FTR Gold program, and saved on the District’s mail file servicer in the District’s office.

John L. LeBlanc, Member

ATTEST:

Dudley R. Dixon, President