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 4:00 P.M., Thursday, June 20, 2019, in the Board Room of the Port of Lake Charles located at 1611 West Sallier Street, Lake Charles, Louisiana.

In attendance were:

David J. Darbone, Committee Member

Elcie J. Guillory, Committee Member

Tom Lorenzi, Committee Member

Carl Krielow, Committee Member

Absent:

Dudley R. Dixon, Chairman

Michael G. Eason, President

John LeBlanc, Committee Member

Also Present:

Bill Rase, Executive Director

Richert Self, Deputy Executive Director

Jason Guillory, McElroy, Quirk & Burch, APC

Mr. Darbone called the meeting to order at 4:04 p.m.

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1. Consideration and appropriate action concerning receiving and accepting the audited financial statements as of and for the year ended December 31, 2018.

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Mr. Darbone asked Mr. Self to discuss the audited financials.

Mr. Self stated he would go over 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.

The CAFRA is made up of three main sections. There is an introductory section, financial section and a statistical section. Jason Guillory with McElroy Quirk and Burch, CPAs is here as well. McElroy conducts the audit for the Port.

Within the within the introductory section there is a transmittal letter, the organizational chart, the GFOA certificate, which is a certificate of excellence in financial reporting in which the Port received for 2017 and a list of principal officers and the Commissioners.

The financial section includes the auditor’s report, the balance sheet, income statement, statement of cash flows and notes to the financial statements.

The final section is the statistical section. It is a lot of information to give readers of the financial statements an overview of where the Port is and data such as tonnage and revenue and demographic information such as average ACT scores and population in different areas in this area.

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

Mr. Self turned the meeting over to Mr. Jason Guillory for the notes of the financial statements.

Mr. Guillory stated they would not go through very many of the notes because most of the notes are pretty repetitive from the prior year with just small changes.

The first note is on page 58 – 59 regarding the long-term debt. The current outdated portion of 2013 bond, which total $35,990,000 and they also provide the future retirement schedule of those bonds of principle and interest. Then there is a summary of all the long-term debt. Mr. Self had stated there was about $65,500,000 long-term debt, of which almost $36,000,000 is the 2013 bonds outstanding and $23,000,000 of that is the Port’s net pension liability. The pension liability represents the Port’s proportionate share of the LASERS unfunded pension liability. That is where that number comes from. The $4, 253,000 is the OPEB liability, which relates directly to the new implementation of GASB 75. Under GASB 45, which was the previous statement that governed OPEB liabilities, it was a gradual buildup to what your total liability was. They were actually increasing the liability by one-twentieth every year, with the theory being that in 20 years the entire liability will be on the books. When GASB 75 came out, they said this was taking too long and said the Port was to put the total estimated liability. That liability went from about $2 million last year to $4.2 million this year. That is the reason for the big increase.

Those are the three substantial liabilities that make up the long-term liabilities. Those total about $62 – 63 million of the $65 million.

On page 60 is a long note that goes into detail about the LASERS retirement system. How it is funded and the current state of LASERS and how it relates to the District. The most pertinent information is on page 65 showing the LASERS has a total current liability of $19.1 billion and they have a total plan for this year a net position of $12.2 billion. They have an unfunded net pension liability of $7.8 billion. The District’s proportionate share of the liability is .33629 percent, which yields approximately $23 million, which is on the District’s balance sheet. The District is covering that part of the unfunded pension liability of the LASERS retirement system.

On page 70, note 18 – Other Post-Employment Benefits Other than Pensions. This is a new OPEB note, which also changed because of the implementation of GASB 75. He focused on page 72. When the District restated the prior year OPEB liability, it was $4.8 million. It then shows all of the additions and subtractions that happen from an actuarial sense, because the Districts is not actually spending any money directly with the OPEB. They are just paying medical claims as they come along. In the last year they reduced the liability from $4.8 million at 11/17 and dropped to $4.25 million at 12/31/18. Going forward it will probably be in the $4.0 million range but will probably vary widely from one year to the next. It is dependent upon medical costs trends as well as some of the demographic information of the retirees.

Page 74, Note 19 – Net Position. This is further describing how the prior year of net position has been restated from $303 million to $301 million as a result of the implementation of GAB 75. They put that additional liability on the books and to offset they reduce the net position for the District.

Following the notes on page 76, 77 and 78 are various required supplementary information. These are required by the Standards and they relate to the OPEB liability and the pension liability and provide historical context of where those liabilities are and how that relates in proportion to things such as current payroll and so forth.

On Page 80 – 81 is the presentation of the budget to actual results of 2018. They take the same current data that Mr. Self went over and the actual column and compared to the final version of the budget.

Mr. Self then presented the statistical section. This section is to give the reader an idea financial trends, revenue capacity, debt capacity, demographic and economic information and operating information about the Port.

Mr. Guillory discussed the supplementary report. As a part of every governmental audit in Louisiana, they are required to report on internal controls in compliance with laws, regulations, contracts and other matters as part of the audit and how those things relate to the financial statements themselves. They are looking at laws that would have an impact on the financial statements to cause them to be misstated. They are not actually issuing an opinion on the internal control, but they are taking it into consideration in order to plan and perform their audit of the financial statements. This is also the area where they would reference any findings that they have for the year.

They do have one finding titled 2018 – 001. It relates to some controls over the payroll time keeping, primarily at City Docks. It could also relate to any offsite locations. He stated they became aware of an allegation from a former employee that there were potentially employees at City Docks that were being paid for time that they were not working. He felt that was a credible accusation and they needed to investigate as part of their audit. In doing so, the first thing they do is look at the actual time sheets that were kept, the time records that were kept and compare those with what those individuals were paid. In doing so, they found hand written timesheets that were kept by shift supervisors and approved by the superintendent of City Docks and then passed onto the Director of Operations. All of the basic requirements of a functioning payroll system were there. This does not mean that there were no controls over timekeeping, but they were all manual controls and subject to potential management override, subject to possible collusion between employees, which is virtually impossible for internal control to rid that risk. What this finding is really related to is them trying to come up with other ways to test whether or not this time was actually work, was the difficulty of finding other documentation that could substantiate it. He thought to look at the swipes at the gate going in and out of City Docks. Would that give them an indication where this can verify time records? Employees are currently only swiping into the docks and not out. That type of control could not quantify whether or not an employee had actually worked at City Docks.

Mr. Self stated those swipes are more access controls. Mr. Guillory stated the primary way time was being kept was by the time sheets. They are looking for some compensating controls that can help them investigate this matter. They looked at GPS on certain employee’s port vehicles. When they compared those, they did see some things that were different, but also found out that person had use of his own vehicle with swipes in. It was very inconclusive in order to definitely say one way or the other if that allegation was true or false.

Finally, the biggest things was that for an offsite location some type of an electronic timekeeping system is what is ideal to have the best verification to take out any collusion or management override out of the system. The finding is suggesting that this be done and it has been implemented. Going forward the issue has been mitigated by the steps the Port has taken to implement the Executime time system.

Mr. Guillory said that as part of their audit, they do look at contracts and compliance with contracts. This year, as a note, they did pull a sample of some of the most significate contracts affecting the financial statements. Those included the three handling contracts with CITGO, Phillips66 and LCCHT. They looked at seven or eight of the largest leases which included the casino leases and most of the new LNG leases. They specifically looked at the FMT lease. Obviously they read the minutes of the board meetings throughout the year and all of the way up to the audit, so they were aware there has been an ongoing issue of the minimum tonnage in the FMT lease. They looked for themselves to see if there was something that they needed to comment on. They read that lease and saw that there were minimum tons requirements and saw that were mitigating paragraphs. In their minds and as seen by discussion there are some grey area differences of opinions on those. He said they are not going to issue an opinion on that. However, if they had a black and white noncompliance with a contract that would be significant to the financial statements. That could rise to a finding, but in the other eleven contracts they looked at they did not find anything. This did not appear to be a systemic issue in terms of monitoring contracts. He said they would leave that up to the District to handle the FMT issue. He wanted to make sure the Board knew they looked at contracts.

The last report is the report on the agreed-upon procedures. The way the statewide agreed-upon procedures have evolved over the last three years is they started out with 17 or 18 procedures and then any procedures after year one that you did not have any findings on you can eliminate those and just do the ones you have findings on. This year the Port was down to four areas that they tested including cash disbursements, credit cards travel and payroll and personnel. They did not find any exceptions in those four areas this year. Consequently, going forward next year, the Port will not be required to have the agreed-upon procedures because all of the sections have been cleared with not having any exceptions.

Mr. Self stated he would request approval from the Administration Committee of the audit report.

Mr. Krielow said, on the finding on the timekeeping, does he recall what the dollar amount was or what the potential dollar amount was? Mr. Guillory replied that because they could not actually say, what he did is pull a sample that went back to 2018. All they have are the time sheets. There is no difference so there is no quantifiable dollar. Then they said, “When was GPS put in to place.” They looked at late 2018 into 2019 information. They did come up with a list of time exceptions between the GPS and what was shown as overtime for one particular individual. They gave that to management to get with the person about what where some of the reasons that would explain the differences. That is what they started finding out. Say, this person only showed two hours of overtime according to the GPS, but he had six hours of overtime because there was an afternoon shift that did not show up anywhere on the GPS. They found out that he had driven his personal truck to the Port and they have a swipe into the system that shows he had come to the Port at approximately at 6:00 that made sense.

They also had some other instances where he met with other members of the Port in the Accounting Department. As they were going through these exceptions, there was conflicting information as whether or not they could definitively say what that would be. The total population of what they could not really put their finger on was about $1,400. That is a very small number.

Mr. Krielow asked if Mr. Guillory felt the event was enough that he needed to know. Mr. Guillory stated he thought so because it was brought up and it just kind of looks like there could have some abuse, but he cannot prove anything.

Mr. Krielow said Mr. Guillory alluded to the minimum annual tonnage deal with FMT. In prior years did they do a sampling of contracts and that one just got overlooked? Mr. Guillory replied that they probably looked at that one the very first year that came in, but had not looked at the FMT contract in the last three years.

Mr. Krielow said that what goes to the credit to the staff in the accounting department the upgrades the Port got in Moody’s and S&P, but if you read the upgrade in Moody’s they allude to the fact that their upgrade is based in part on the fact that the Port of Lake Charles, with their minimal annual guarantee contracts, has a base of income that generated some of the reasons for the upgrade. One thing that could cause a downgrade would be increase in debt and not enough minimum annual guarantee to offset that additional debt. Even they know it is not a substantial amount of money, it still happened and fell through the cracks. It is $150,000 or so. So an event of $1,400 was substantial enough to put a note to the statement, he feels like… Mr. Guillory replied that the finding they had was more on the internal controls on that and not the $1,400. Not the dollar amount.

Mr. Krielow said that, going forward, so that they do not get into a situation where maybe some contractual obligations either way, money owed to the Port or the Port may owe money, what can be done in future audits to verify these 200 plus agreements that are floating around and have all kinds of contingencies in them. Mr. Guillory replied that the most important thing to note is the audit is not part of the District’s internal control structure and those things are relative to the Port’s internal control. The audit is sort of a last line of defense. There is a control in place where the Port has a master list of contracts. For several years, they had the contracts assigned out to responsible parties to monitor and look at those contracts on a regular basis for any particular CPI adjustments and tonnage. That is the best system in place. They will continue to pull a sample on a year to year basis because an audit, by its nature, provides reasonable assurance based on test basis, not absolute assurance based on looking at every contract or every transaction. Going forward, he thinks the best action is better vigilance in controls that are already in place, monitoring those contracts and making sure they are looked at the director or responsible party level.

Mr. Krielow stated that as an audit procedure, it should be looked at especially items dealing with minimum annual guarantees both ways. Mr. Guillory stated that was correct and any of those whether it was a CPI adjustment or minimal annual tonnage or a thruput lease, those will have increased risk that they try to flag on the front in of things they need consider. But, it would also be helpful that in the master list of contracts that those be specifically highlighted as ones that maybe need to have a little scrutiny by whoever is managing the contract so that does not happen.

Mr. Krielow stated in their engagement letter does it call for specific sampling like that or… Mr. Guillory replied that no it is just part of the audit procedure. It is part of the GASP procedure. Mr. Krielow asked if that was something that when they need to renew the audit, is that something that can be added to the responsibilities of more in depth look at agreements that would. Mr. Guillory replied that it would have to be a separate agreed-upon procedure similar to what the state did for them. The Port has the ability to engage them to an agreed-upon procedures engagement that would specifically address that issue or whatever issue that you would have. The audit is the audit according to the standards. That would be raising it above the level of the standards. But, you can do a separate engagement for that and that can be done at any time.

Mr. Krielow said his background is in construction and they had to do audits for bonded companies. When the auditor would come in, first thing he would walk to was their contract file and ask for all of the contracts, change orders before he started looking at anything else and would note any discrepancy. He realizes this is different. Mr. Guillory agreed.

Mr. Krielow said that still it is contracts and agreements. Mr. Guillory said that contracts are part of the engagement and it is not a small part of the engagement, but comparing a construction review versus a governmental audit are two pretty different animals. If you ask anyone, what is a construction review and what are you looking at, you are looking at the jobs in progress on a construction review, so that is your primary focus – those contracts. The contracts in this instance, you are talking about most of your revenue is derived from very long-term contracts. In FMT and the stevedoring, when you look in the grand scheme of where do you derive your revenue from, that is not near the top of the list. They are looking at how much you get off of CITGO this year versus Conoco versus Phillips. Those, from a cost benefit standpoint are going to require more attention. They are not going to look at every single contract. It is unfortunate the way that happened, but from an audit standpoint, he cannot give any assurance that they will look at every contract. Mr. Krielow said it was unfortunate. It is just one of those that fell through the crack, but at the end of the day, if they, depending how it works out, may have to take a write-off or loss because the income had already been booked on the billing when it was discovered.

Mr. Krielow said on the audit last year, in the final section dealing with the executive compensation of the executives that work for the Board as far as their salary, benefits and all that. He did not see it. Mr. Guillory said it was on page 82. It is in the same spot as it was last year.

Mr. Elcie Guillory offered a motion to approve Resolution 2019 – 017 to receive and accept the audited financial statements as of and for the year ended December 31, 2018 and to bring to the full board for approval at the June 24, 2019 Regular Meeting. Mr. Krielow seconded the motion and it carried unanimously.

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

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Mr. Darbone asked for a motion to adjourn. Mr. Lorenzi offered a motion to adjourn. Mr. Krielow seconded the motion and it carried unanimously. The meeting adjourned at 4:45 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.

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 David Darbone, Member

ATTEST:

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Carl Krielow, Committee Member

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Elcie Guillory, Committee Member

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Tom Lorenzi, Committee Member