

STATE OF LOUISIANA LEGISLATIVE AUDITOR

City of Natchitoches
Natchitoches, Louisiana

May 31, 2000



Investigative Audit

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

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City of Natchitoches

May 31, 2000



**Investigative Audit
Office of the Legislative Auditor
State of Louisiana**

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

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OFFICE OF
LEGISLATIVE AUDITOR
STATE OF LOUISIANA
BATON ROUGE, LOUISIANA 70804-9397

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

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May 31, 2000

HONORABLE JOSEPH SAMPITE', MAYOR,
AND MEMBERS OF THE COUNCIL
Natchitoches, Louisiana

Transmitted herewith is our investigative report on the City of Natchitoches. 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, as well as your response. Copies of this report have been delivered to those individuals as required by state law.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

TLS:DGP:AFB:dl

[CITYNA1]

Executive Summary

Investigative Audit Report City of Natchitoches

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 I.

Robert Morrow Over-Billed the City \$585,316 and Diverted the Excess to Himself and Kenneth Aaron

(Page 5)

Finding:

From June 1994 through November 1999, Mr. Robert E. Morrow, General Manager of the Traber Agency, Inc. (Traber), over-billed the City of Natchitoches (City) \$466,566 for property, casualty, and liability insurance policies. In addition, from June 1995 through October 1999, Mr. Morrow billed the City \$118,750 under an administrative claims handling agreement, which the City never approved or needed. Mr. Charles Powell, the City's Chief Finance Officer responsible for approving Traber's billings, failed to properly review the insurance invoices and also misrepresented the claims handling agreement.

City checks made payable to Traber were endorsed by Mr. Morrow and converted to cash and bank money orders made payable to Traber, Mr. Kenneth Aaron, Aaron Insurance Agency and to himself. The excess payments were divided as follows:

Robert Morrow	\$337,015
Kenneth Aaron/Aaron Insurance Agency	183,504
Traber Insurance Agency	64,797

Recommendation:

The City should process its insurance purchases through its central purchasing system as required by its Home Rule Charter. These purchases should be requested through a requisition process, quotations should be obtained when appropriate, purchase orders should be prepared and approved by management, the insurance policies should be compared to purchase orders and invoices, and invoices should be properly approved before payment. Periodically, the City's insurance positions should be reviewed by the city council.

Officers and employees of Traber Insurance Agency cooperated and assisted throughout this investigative audit. In addition, Traber has already refunded \$29,000 to the City for excess billings and has offered to refund any additional excess billings rightfully due to the City. Traber terminated Mr. Morrow's employment in December of 1999.

We also recommend that the District Attorney for the Tenth Judicial District of Louisiana and the United States Attorney for the Western District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

In addition, this report has been provided to the Louisiana Department of Insurance, Louisiana Department of Revenue, and the Internal Revenue Service for their consideration.

Management's Response:

We note and concur in your recommendation. In August 1999, the Mayor and City Council implemented processing insurance through the central purchasing system. At that time, the City Council mandated that all matters dealing with the acquisition and purchasing of City insurance be transferred from the Finance Department to the Purchasing Department. The first action of the Purchasing Agent was to secure expert professional assistance in reviewing the City's insurance portfolio, and as a result of the review this very investigation was precipitated. The Mayor and the City Council intend to continue the new process in all future insurance matters. Further, all future purchases of all types of insurance will be made through a requisition process. The City will require the Purchasing Agent to prepare purchase orders which will be reviewed and approved by management prior to final awards. The City Council will review the insurance positions of the City on a periodic basis. Finally, the Mayor and City Council intend to vigorously pursue any and all causes of action against those parties who are responsible for overcharging the City. Appropriate legal action will be instituted by the City as soon as practical against these parties.

Background and Methodology

The City of Natchitoches is located in Natchitoches Parish in northwest Louisiana. The city adopted a home rule charter on January 27, 1975, under the authority of Article VI, Section 5 of the Louisiana Constitution of 1974. The City operates under a Mayor/Council form of government.

The Legislative Auditor received information alleging that the City was being overcharged on insurance policies purchased by the City. This investigation was performed to determine the propriety of this allegation.

Our procedures consisted of (1) interviewing employees and officials of the City; (2) interviewing other persons as appropriate; (3) examining selected documents and records of the City; (4) performing tests and other procedures as deemed necessary; and (5) reviewing applicable state and federal laws.

Finding and Recommendation

ROBERT MORROW OVER-BILLED THE CITY \$585,316 AND DIVERTED THE EXCESS TO HIMSELF AND KENNETH AARON

From June 1994 through November 1999, Mr. Robert E. Morrow, General Manager of the Traber Agency, Inc. (Traber), over-billed the City of Natchitoches (City) \$466,566 for property, casualty, and liability insurance policies. In addition, from June 1995 through October 1999, Mr. Morrow billed the City \$118,750 under an administrative claims handling agreement, which the City never approved or needed. Mr. Charles Powell, the City's Chief Finance Officer responsible for approving Traber's billings, failed to properly review the insurance invoices and also misrepresented the claims handling agreement.

City checks made payable to Traber were endorsed by Mr. Morrow and converted to cash and bank money orders made payable to Traber, Mr. Kenneth Aaron, Aaron Insurance Agency and to himself. The excess payments were divided as follows:

Robert Morrow	\$337,015
Kenneth Aaron/Aaron Insurance Agency	183,504
Traber Insurance Agency	64,797

The City purchased \$1,888,304 of insurance and claims handling services through Traber from June 1994 through November 1999. Traber is an independent agency that sells insurance for various insurance companies. Mr. Morrow served as Traber's general manager until December 1999. Traber is located in downtown Natchitoches and, until February 2000, shared office space with Aaron Insurance Agency. Aaron Insurance Agency is owned and operated by Mr. Kenneth Aaron. Neither Mr. Aaron nor Aaron Insurance were associated with the City's property, casualty, and liability insurance during this period.



During the period June 1994 through November 1999, Mr. Morrow (1) inflated the City's insurance billings, (2) billed the City for services that were neither received nor needed, and (3) diverted these excess payments to Traber, Mr. Aaron and himself.

INFLATED CHARGES FOR PROPERTY, CASUALTY, AND LIABILITY POLICIES

The City purchased property, casualty, and liability insurance policies through Traber Insurance Agency. Mr. Robert Morrow, General Manager for Traber, over-billed the City through the use of inflated invoices. In addition, the City failed to properly review Traber's invoices and detect these overbillings in the normal course of operations.

ROBERT MORROW INFLATED INVOICES

Traber's insurance underwriters provide Traber a policy that details the premium inclusive of agent commission. Traber prepares an invoice based on the total premium and commission and sends both the policy and the invoice to the City. The City then sends Traber a check for the total amount. Traber retains its commission and forwards the policy premium to the underwriting insurance company.

Louisiana law (R.S. 22:627) requires that any additional fees charged by the agent must be specifically itemized on its invoice. Therefore, unless additional fees are itemized on the

R.S. 22:627 states, in part, that no agent shall charge or receive any fee, compensation, or consideration for insurance which is not included in the premium quoted to the insured and the premium specified in the policy delivered to the insured except for reimbursement for expenses due the agent, and except for an agency fee. Any reimbursement or agency fee shall be itemized separately on an invoice statement.

invoice, the invoice sent to the City should agree with the invoice maintained in Traber's files. This amount should also be the same as listed on the policy. However, for the public officials' liability, commercial property, boiler and machinery, and workers' compensation policies, the invoices sent to the City were substantially higher than the corresponding copies maintained in Traber's files and

the amounts listed on the various policies. For example, the City's copy of the 1997/1998 commercial property invoice was \$113,181. However, the corresponding invoice in Traber's files was \$67,503, a difference of \$45,678.

TRABER AGENCY, INC.
 PHONE 318-557-8277
 123 ST. DENIS STREET P.O. DRAWER 606
 NATCHITOCHES, LA 71456

INVOICE

ACCOUNT PROPERTY
 POLICY
 NUMBER
 DATE 10-06-97
 MAIL

CITY OF NATCHITOCHES
 OCT 09 1997

City of Natchitoches
 Renewal of 88830270
 10-11-97 LA

Property 10-11-97 Royal Indemnity \$7,728,300 per annum \$113,181 of value

1/2
 001-5700-580-2008

1/2
 002-6600-660-2008

\$113,181

113,181
 Thank You

10-06-97

City Invoice
 Exhibit 1

TRABER AGENCY, INC.
 PHONE 318-557-8277
 123 ST. DENIS STREET P.O. DRAWER 606
 NATCHITOCHES, LA 71456

INVOICE

ACCOUNT PROPERTY
 POLICY
 NUMBER
 DATE 10/7/97
 MAIL

City of Natchitoches
 P.O. Box 37
 Natchitoches, LA 71456

City of Natchitoches
 Pending
 10/11/97-98

Renewal 10/11/97 Royal Indemnity Co. Renew Policy \$67,503.

\$67,503

\$67,503.00
 Thank You

Traber Invoice
 Exhibit 2

INVOICES NOT PROPERLY REVIEWED

Though the City has in place purchasing procedures designed to provide proper internal control, insurance purchases were handled by Mr. Charles Powell, Finance Director, and were not processed through this control system. Normally, purchases are processed using a requisition/purchase order system, whereby the accountants compare the vendor's invoice to the requisition and purchase order ensuring that the proper items, quantity, and prices have been received by the City. By contrast, Traber simply sent its invoices to the City where, normally, Mr. Powell approved their payment.

Though Traber sent both the policy and invoice to the City, Mr. Powell failed to compare these documents and note the inflated amounts being charged by Traber. We found that the insurance policies were on file in Mr. Powell's office at city hall. The insurance policies corresponding to the inflated invoices had a gold Traber sticker placed over the insurance company's premium amount, thereby hiding the correct premium and concealing the discrepancy between the policy and invoice. According to Ms. Darlen Knecht, Traber employee, Mr. Morrow personally handled each of the City's insurance policies. Ms. Knecht stated that there were two copies of the City's insurance policies, one copy for the agency and one copy for the City. According to Ms. Knecht, Mr. Morrow placed the gold Traber sticker on the City's copy of the policy.

THE COMPANIES OF THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY WHICH SHALL MEAN:
 THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY OF TEXAS FOR ALL COVERED LOCATIONS IN THE STATE OF TEXAS; AND
 THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY FOR ALL OTHER COVERED LOCATIONS.

BOILER & MACHINERY DECLARATIONS
 ISSUE DATE . . . 06/27/94
 PAGE NUMBER . . . 1

POLICY NUMBER . . . BHI-SA-9510447-22
 NAMED INSURED . . . CITY OF NATCHITOCHEs
 MAILING ADDRESS . . . NATCHITOCHEs, LA 71457

POLICY PERIOD . . . FROM 6/28/94 TO 6/28/95 AT 12:01 A.M. STANDARD TIME AT THE ABOVE ADDRESS. **\$92,520**

ANNUAL PREMIUM . . . \$ 92,520.
 PREMIUM DUE NOW . . . \$ 92,520.

LIMIT OF INSURANCE . . . \$ 25,000,000
 DEDUCTIBLE . . . SEE ENDORSEMENT NO. 1
 LOSS PAYEE . . . NONE
 MORTGAGE HOLDER . . . NONE

LOCATIONS COVERED . . . SEE ENDORSEMENT D

SCHEDULE OF COVERED OBJECTS
 FOR THE LOCATION OF "OBJECTS" DESCRIBED BELOW, SEE ENDORSEMENT B

DEF	SECTION	GROUP OF "OBJECT" DESCRIPTION	SEE FORM NO.
6	1	COMPREHENSIVE COVERAGE (INCLUDING PRODUCTION MACHINES)	BH 00 01 02 9)

Traber Policy

THE COMPANIES OF THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY WHICH SHALL MEAN:
 THE HARTFORD STEAM BOILER INSPECTION AND INSURANCE COMPANY OF TEXAS FOR ALL COVERED LOCATIONS IN THE STATE OF TEXAS; AND
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POLICY NUMBER . . . BHI-SA-9510447-22
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 MAILING ADDRESS . . . NATCHITOCHEs, LA 71457

POLICY PERIOD . . . FROM 6/28/94 TO 6/28/95 AT 12:01 A.M. STANDARD TIME AT THE ABOVE MAILING ADDRESS.

ANNUAL PREMIUM . . . \$ 92,520.
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 DEDUCTIBLE . . . SEE ENDORSEMENT NO. 1
 LOSS PAYEE . . . NONE
 MORTGAGE HOLDER . . . NONE

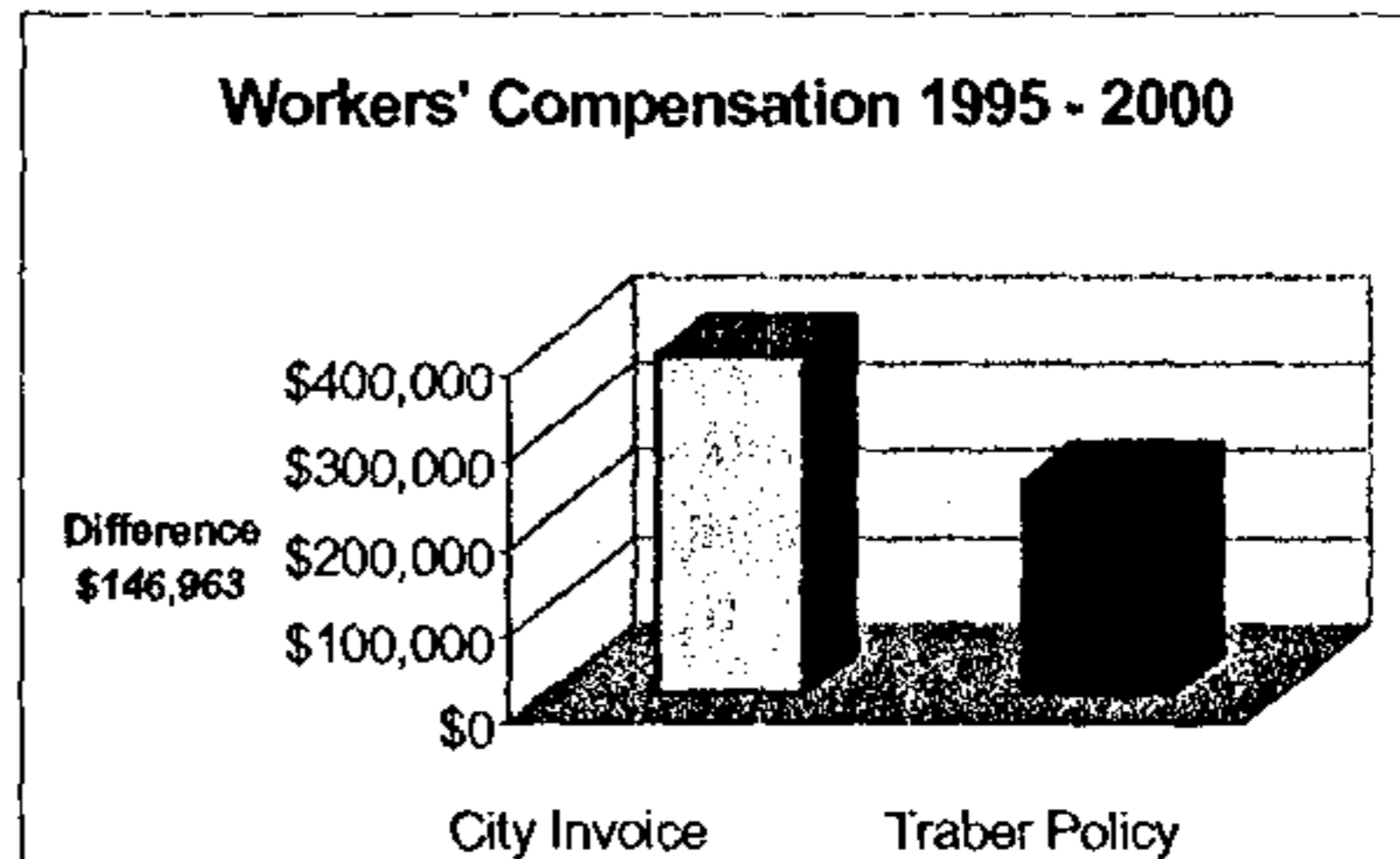
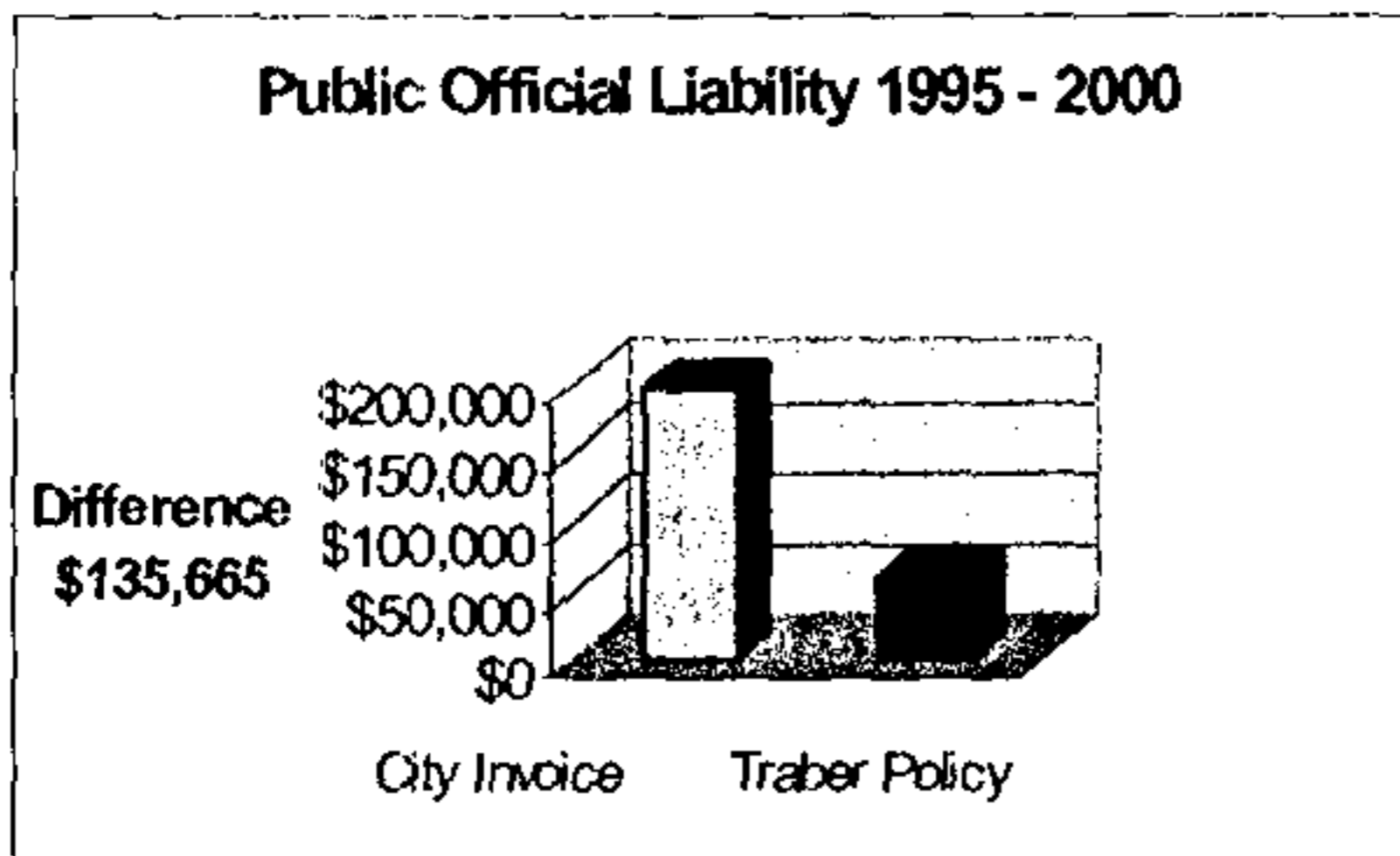
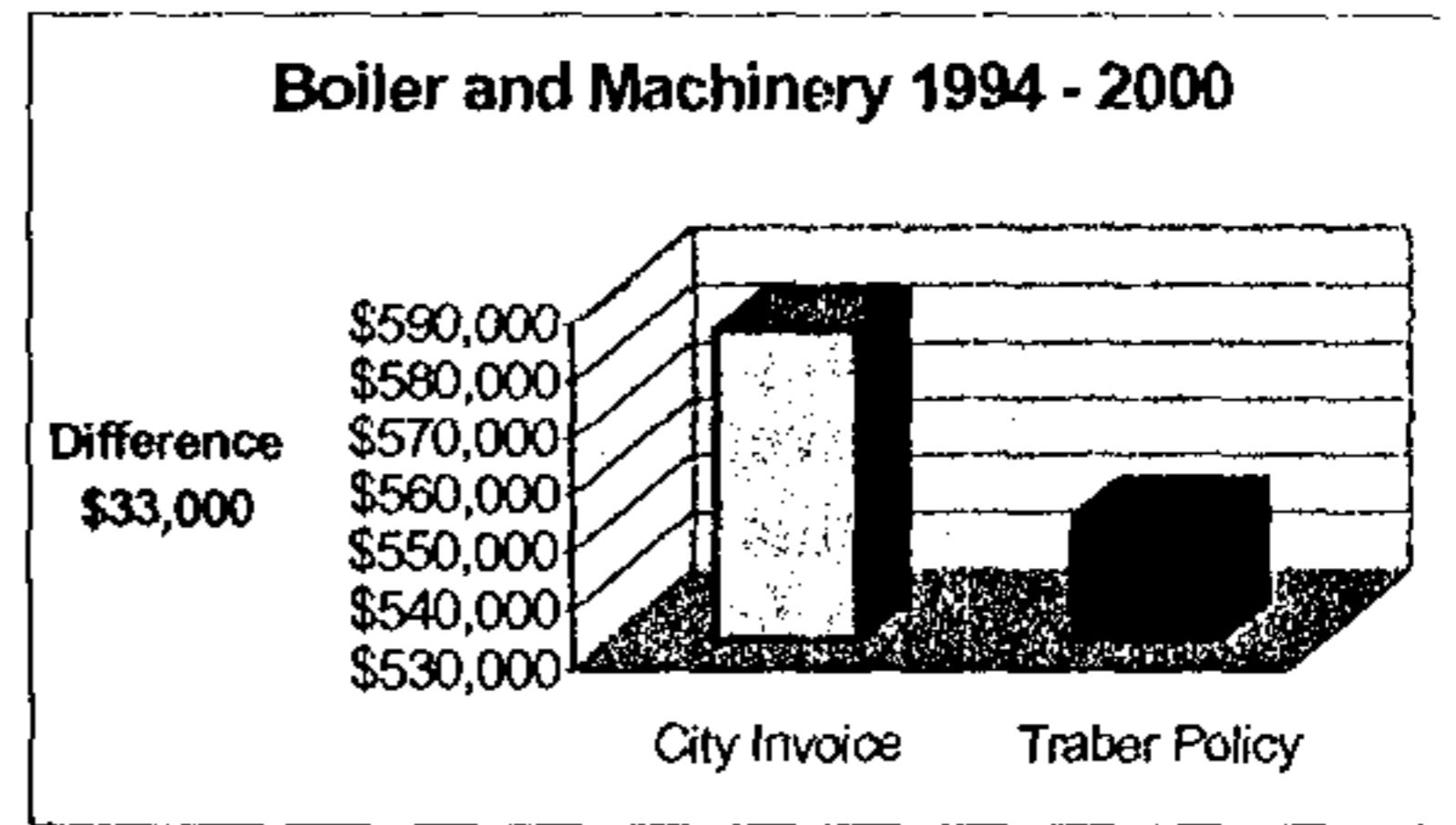
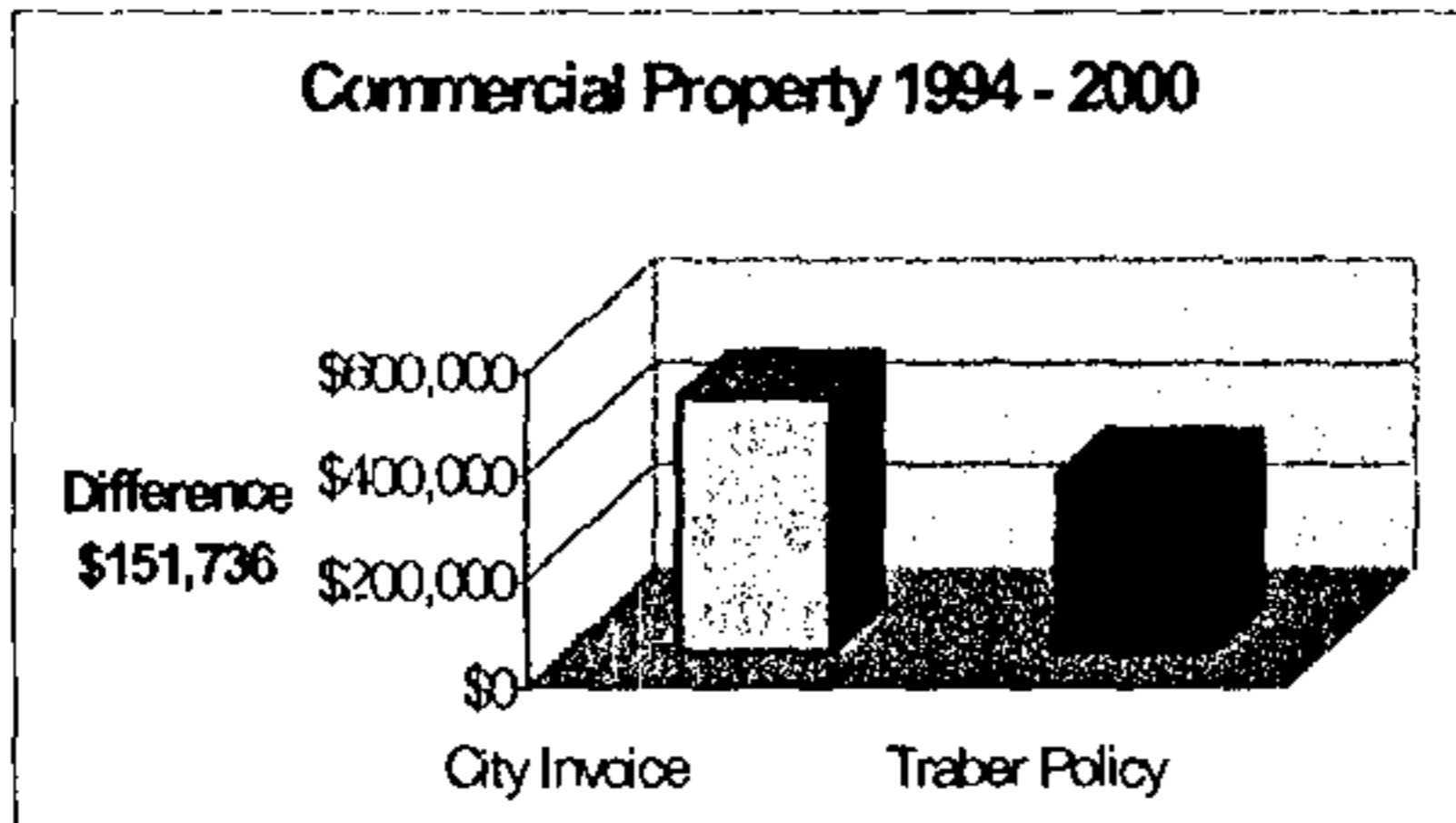
LOCATIONS COVERED . . . SEE ENDORSEMENT D

SCHEDULE OF COVERED OBJECTS
 FOR THE LOCATION OF "OBJECTS" DESCRIBED BELOW, SEE ENDORSEMENT B

DEF	SECTION	GROUP OF "OBJECT" DESCRIPTION	SEE FORM NO.
6	1	COMPREHENSIVE COVERAGE (INCLUDING PRODUCTION MACHINES)	BH 00 01 02 9)

City Policy

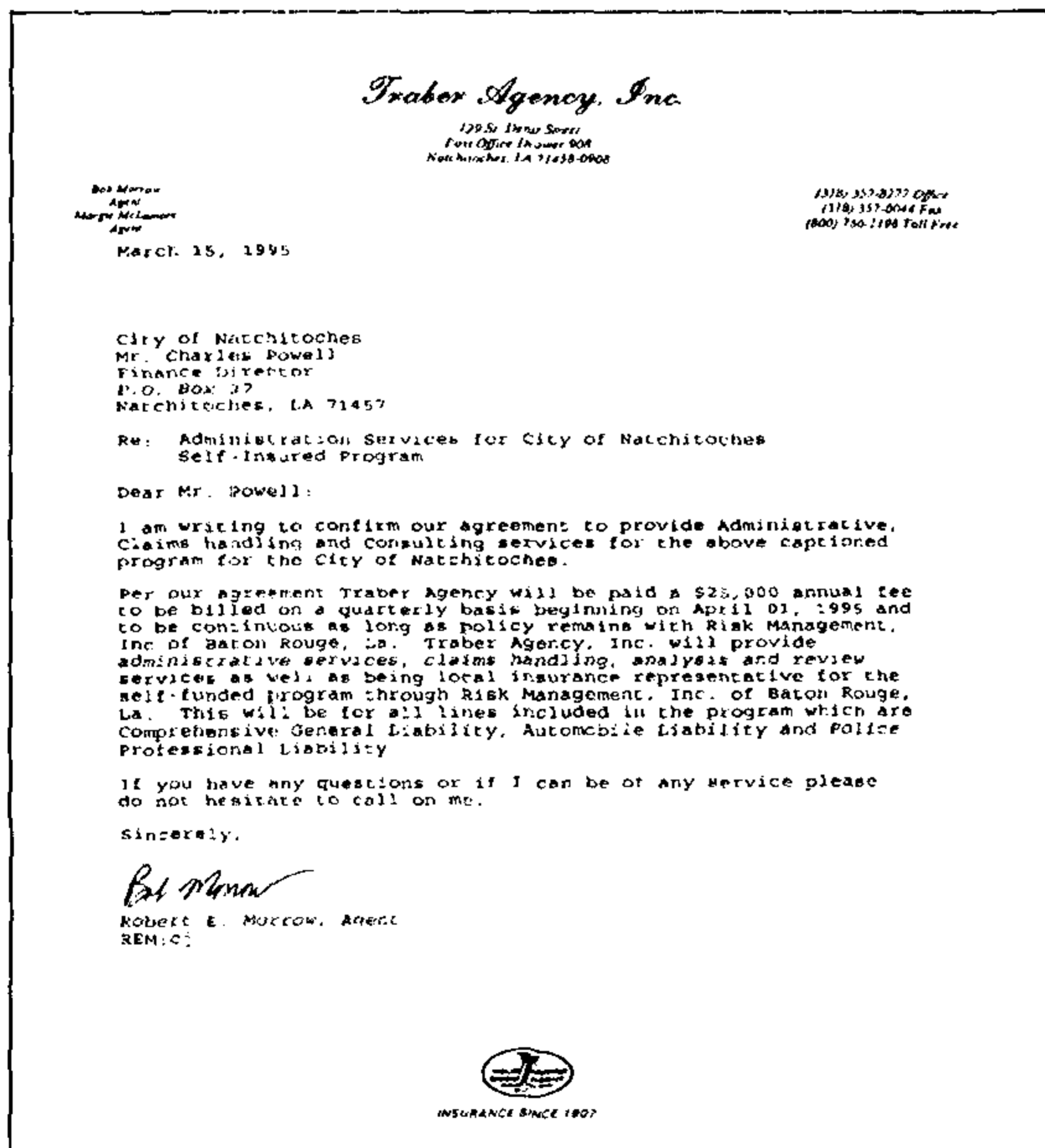
Many times, Traber's charges per the invoices sent to the City were grossly in excess of the correct amount represented by the actual policy premium. This is illustrated in the following bar chart which shows the total premiums per the City's invoices and the total per Traber's policies.



Had an adequate review of Traber's invoices been performed by Mr. Powell, these discrepancies would have been obvious and detected before payment. Mr. Powell said he was not aware that Mr. Morrow was over-billing the city. He said he personally received the invoices from Traber and compared the invoice to the prior year's invoice for accuracy. If there was a price difference, he contacted Mr. Morrow for an explanation. Although the insurance policies were filed in Mr. Powell's office, he said he did not compare the invoice amount to the premium amount on the policy.

ADMINISTRATIVE, CLAIMS HANDLING, AND ANALYSIS SERVICES NOT RECEIVED OR NEEDED

In addition to the insurance policies purchased, the City also paid Traber \$118,750 to perform administrative services, claims handling, and analysis services during the period June 5, 1995, to October 27, 1999. However, (1) the City's written agreement for these services, provided to us by Mr. Powell, was fraudulently prepared; (2) these services were already being performed for the City by another company; (3) these were not services officially offered by Traber; (4) Mr. Powell could not describe the services performed by Traber; (5) this agreement and payments were not approved by the mayor or the city council; and (6) Mr. Morrow diverted the funds paid by the City under this agreement to himself and Mr. Kenneth Aaron.



WRITTEN AGREEMENT WAS FRAUDULENTLY PREPARED

According to Mr. Powell, the payments were made in accordance with an agreement dated March 15, 1995. Normally, the City's professional service agreements are reduced to written contracts and are approved by the mayor and/or city council. This agreement, which is simply a letter from Mr. Morrow to Mr. Powell, states that Traber will provide administrative, claims handling, analysis and review services for the City's liability policies through Risk Management, Inc. (RMI). The agreement also states that Traber will serve as the City's local representative for RMI in return for \$25,000 annually (\$6,250 quarterly).

According to Mr. Powell, he received this letter in 1995 shortly after the letter was typed. However, the letterhead does not match the letterhead used by Traber during 1995. Rather, it is letterhead used by Traber during 1999. In addition, Ms. Cherry Jenkins, former Aaron Insurance employee, said she typed the letter in or around June 1999 at Mr. Morrow's request. Ms. Jenkins further stated that she typed the letter from a handwritten letter that Mr. Morrow brought to her. She dated the letter March 15, 1995, because Mr. Morrow asked her to type the letter exactly like the handwritten version. Ms. Jenkins stated that since Aaron Insurance and Traber were located in the same office she occasionally assisted Mr. Morrow when his secretaries were busy. Because the letter agreement was typed in June 1999, Mr. Powell could not have received it in 1995 and the \$118,750 could not have been paid as a result of the letter as he stated to investigative auditors.

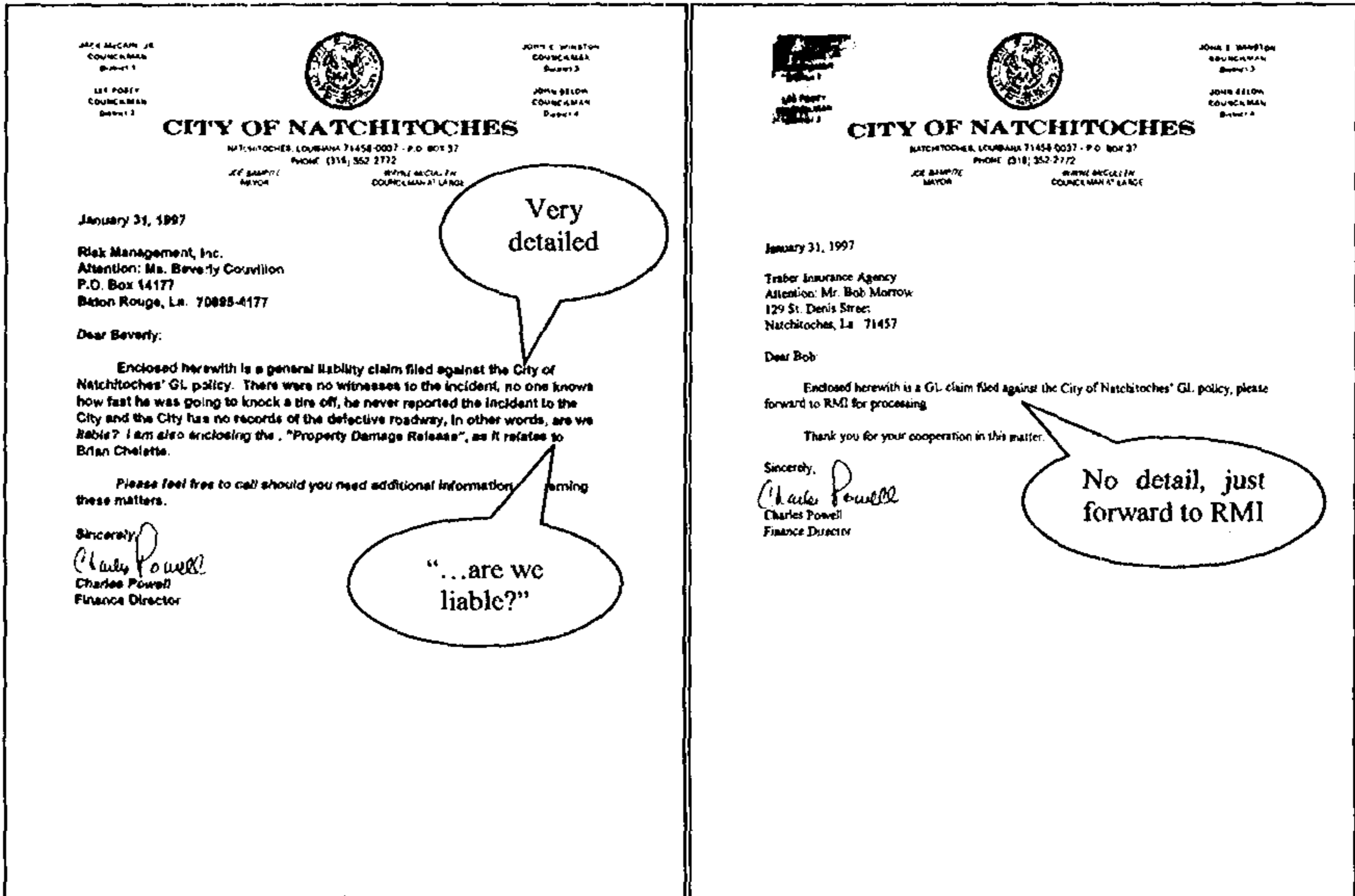
SERVICES ALREADY PERFORMED BY INSURANCE COMPANY

The agreement calls for Traber to perform administrative, claims handling, analysis, and review services; however, these are services already included in other agreements and being performed by another company. According to Mr. Powell, Traber actually performs claims handling, loss prevention, and consulting services.

Claims Processing

Mr. Powell stated that Traber handles claims processing for the City's liability insurance through Risk Management, Inc., (RMI) an affiliate of the Louisiana Municipal Association. Mr. Powell explained that Mr. Mike Collins, RMI's marketing representative, told him to get someone to process claims for the City's liability policies. However, Mr. Collins, denied ever having told Mr. Powell to get someone to process these claims. According to Mr. Collins, RMI handles all claims processing. He added that the City does not have the authority to handle claims. Mr. Collins said that Mr. Powell is aware that RMI processes claims because he told him (Powell) so. Ms. Beverly Smith, former RMI claims adjuster, also said that Mr. Powell is aware of the fact that RMI processes claims as she recalls talking to him on several occasions about the City's liability claims.

Mr. Powell admitted that he did not know what Traber did for the fee paid by the City for claims processing. He stated that he prepares and compiles all documentation necessary to process claims and sends a copy to Traber and RMI. It should be noted that Mr. Powell's letters to Traber simply ask Mr. Morrow to review and forward the documentation to RMI for processing. However, several of Mr. Powell's letters to RMI give specific instructions for the processing of claims.



Loss Prevention

As stated previously, Mr. Powell said that Traber performed loss prevention services under the agreement. According to Mr. Powell, loss prevention is a program that involves the safety directors and mainly entails safety education. Loss prevention or loss control operates on the presumption that safety education reduces claims. Mr. Powell said that Chief Hebert is the City's safety director. According to Chief Hebert, at one time his department performed safety training for the whole City; however, safety training is now the responsibility of each department head. Mayor Joe Sampite' also said that each department head conducts safety training for his department. All other departmental directors stated that safety training is handled by City employees and not by Traber.

Consulting Services

Mr. Powell said that any consulting services performed by Traber would have concerned claims processed for the City. City files and Traber files reveal a total of four instances wherein Mr. Morrow gave advice to the City on liability claims. It should be noted that, in each instance, Mr. Morrow advises the City to pay claims that were less than \$100 instead of processing the claims through RMI.

SERVICES WERE NOT OFFICIALLY OFFERED BY TRABER

Mr. Gregory Friedman, President of Traber, stated that Traber does not provide claims administration services to the City. In a letter dated January 12, 2000, Mr. Friedman stated that (1) instructions were never given to Mr. Morrow to increase the bill of the City over the premium amount set forth by the carrier; (2) Traber does not provide claims administration services to the City; and (3) with the exception of one \$4,500 payment, Traber did not receive the City's payments for claims administration.

TRABER AGENCY, INC.
401 KEYSER AVENUE
NATCHITOCHEs, LA 71457
(318) 352-8238

January 12, 2000

Ms. Tracy Schexnaydre, Investigative Auditor
State of Louisiana
Office of Legislative Auditor
1600 North Third Street
Baton Rouge, LA 70804-9397

Dear Ms. Schexnaydre:

Pursuant to your request, we are writing this letter to provide certain clarifications on behalf of the corporation, Traber Agency, Inc.

Instructions were never given by the corporation to the agency's general manager, Bob Morrow, to increase the bill of the City of Natchitoches over the premium amount set forth by the carrier.

With the possible exception of officer and general manager, Bob Morrow, to the knowledge of the remaining officers and directors of the corporation, Traber Agency, Inc. does not provide claims administration services to the City of Natchitoches.

With the possible exception of officer and general manager, Bob Morrow, to the knowledge of the remaining officers and directors of the corporation, Traber Agency never received income from any claims processing services provided to the City of Natchitoches (\$6,250 quarterly). However, the accountant of the shareholders has worked with you and in the course of reviewing the records of the corporation, the corporation determined on one occasion that a money order drawn on City Bank & Trust Company, which showed the City of Natchitoches as remitter, for \$4,500, was deposited in the bank account of Traber Agency. The receipt book for this deposit showed it as a claims administration fee. This was on February 6, 1998. With the possible exception of officer and general manager, Bob Morrow, the remaining officers and directors of the corporation have no knowledge of why that was deposited and can find no record of any invoice for such a billing and have no knowledge of any such services performed.

Also, with the possible exception of officer and general manager, Bob Morrow, the remaining officers and directors of the corporation, Traber Agency, Inc., have no knowledge of an agreement for Ken Aaron to split commissions with Traber Agency on insurance policies issued by Traber Agency to the City of Natchitoches.

I trust these clarifications will be sufficient for your request. If anything further is needed, please let me know.

Sincerely,


Gregory Friedman
President

GF/af

Morrow was not instructed to increase city invoices. . .

Traber does not provide claims administration services. . . .

Traber never received income from claims processing services provided to the City. . .

CHARLES POWELL COULD NOT DESCRIBE THE ACTUAL SERVICES PERFORMED

Though Mr. Powell approved substantially all of the invoices for payment, he admitted that he did not know what Traber did related to claims processing. Mr. Powell further stated that he sent the necessary claim documents to both Traber and RMI. Concerning loss prevention, Mr. Powell indicated that this was a function performed by Traber though he provided no evidence that Traber performed any loss prevention activities. The consulting services, according to Mr. Powell, were related to claims processed for the City. As stated previously, these claims were processed by RMI, not Traber.

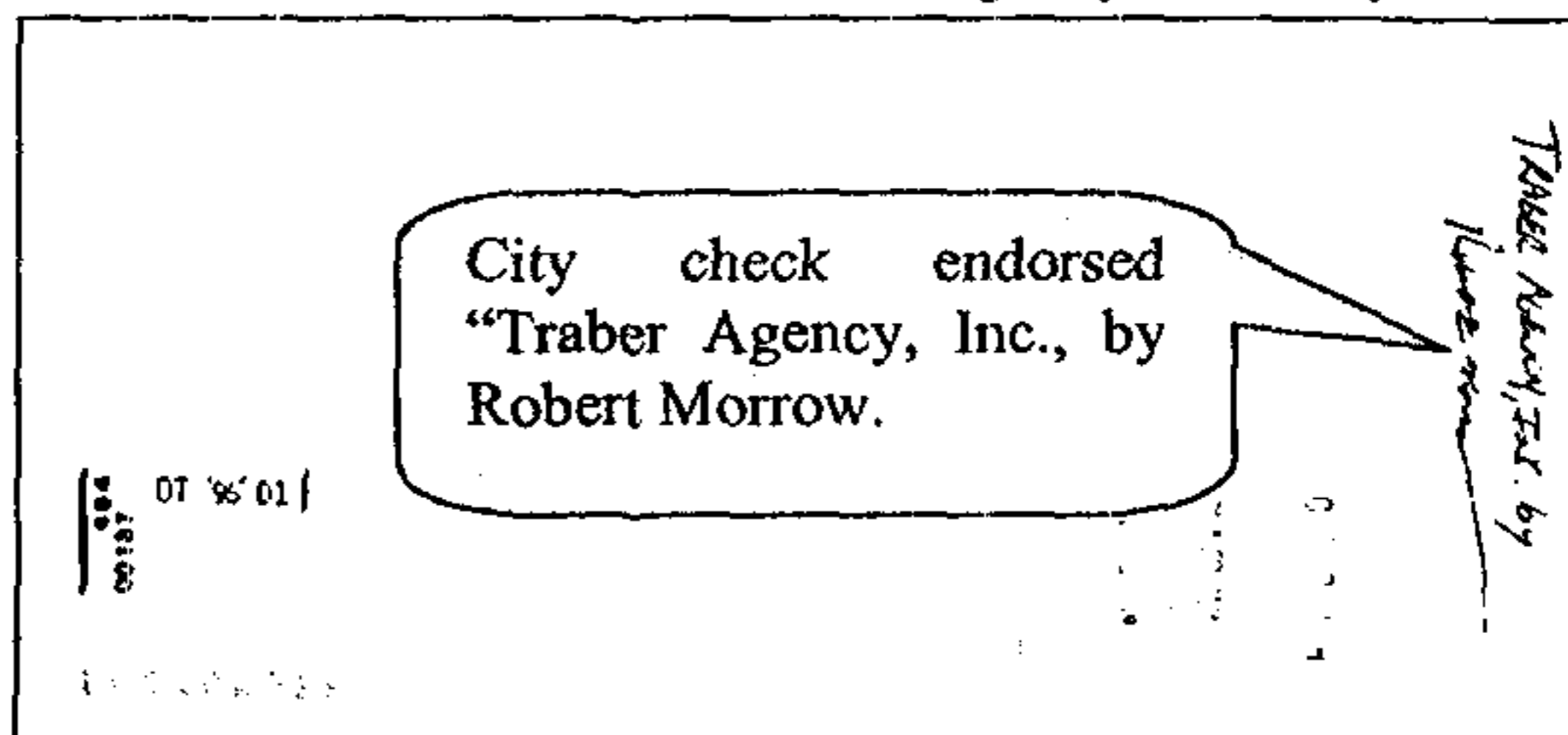
AGREEMENT NOT APPROVED BY MAYOR OR CITY COUNCIL

Normally, the City's professional service agreements are reduced to writing and approved by the mayor and/or the city council. As mentioned previously, this agreement was simply a letter from Mr. Morrow to Mr. Powell and was prepared after the payments had been made by the City. According to Mr. Powell, he had full authority to negotiate the City's insurance policies and he always received Mayor Joseph Sampite' and the council's approval for everything. However, Mayor Sampite' and all of the members of the city council stated that they were not aware of the professional service agreement or the payments to Traber for administrative services.

PAYMENTS DIVERTED TO MR. BROWN AND MR. AARON

Mr. Morrow diverted much of the payments for the City's insurance and all of the payments for the administrative/claims handling agreement to himself and Mr. Kenneth Aaron.

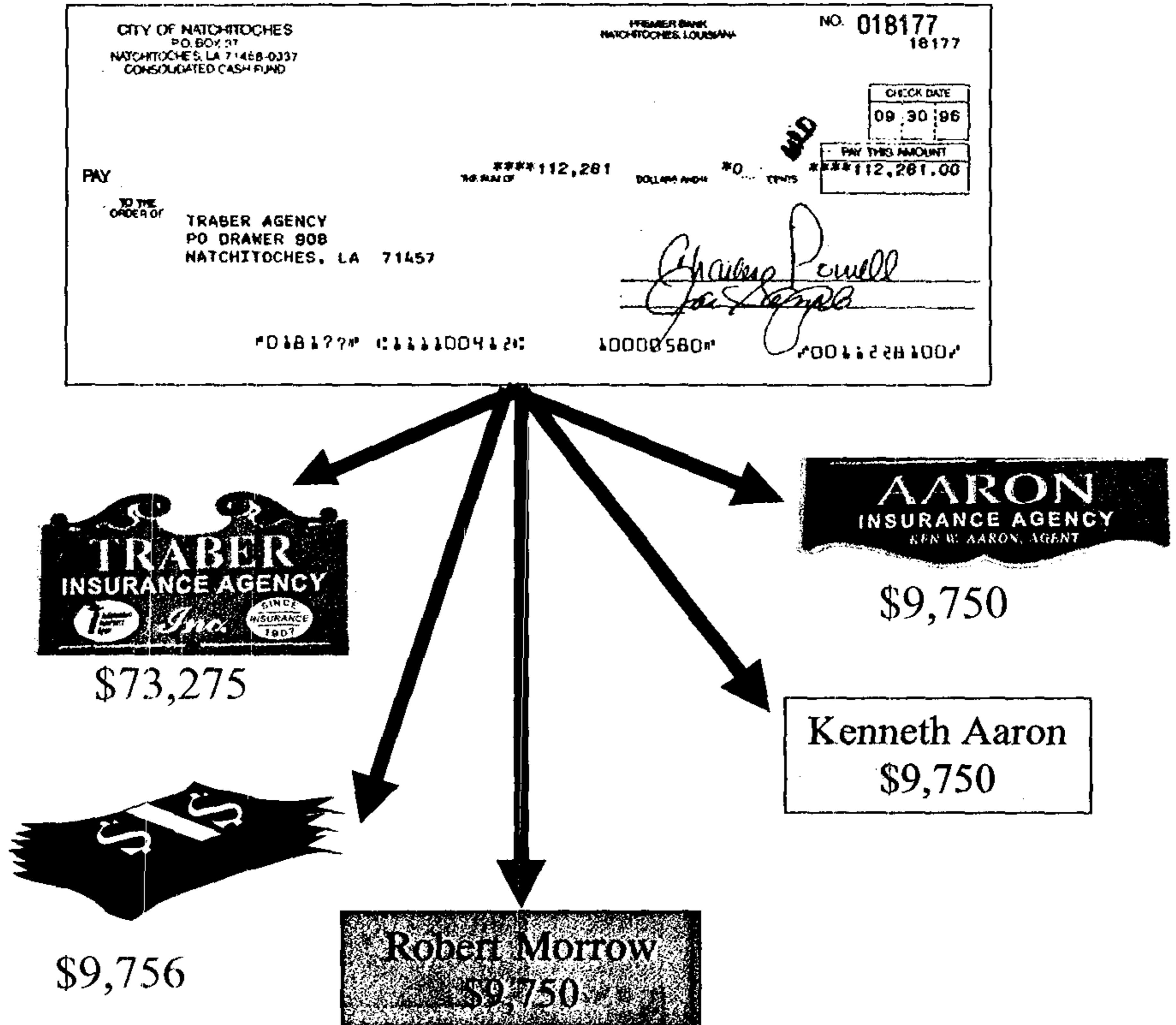
The City made its payments for its property, casualty, and liability insurance by checks payable to Traber. However, Mr. Morrow did not deliver many of these City checks to Traber. Rather, Mr. Morrow converted the city checks to cash and money orders payable to himself, Kenneth Aaron, and Aaron Insurance Agency. Mr. Morrow took the City checks to various branches of City Bank & Trust Company and endorsed the checks "Traber Agency, Inc., by Robert Morrow." Several of the City Bank tellers recalled Mr. Morrow conducting these transactions. Mr. Morrow then had the tellers convert the city checks into cash and several money orders. Several of the tellers indicated that they questioned the transactions and therefore obtained their supervisor's authorization. City Bank's head teller said that she remembers showing one of



Back of City check made payable to Traber.

Mr. Morrow's transactions to Mr. Jim Pierson, Senior Vice President, for his approval. According to the head teller, Mr. Pierson told her to do anything that Mr. Morrow and Mr. Aaron wanted.

For example on October 4, 1996, Traber invoiced the City \$73,275 for the commercial property policy; however, the City's copy of the invoice is for \$112,281. The City paid the invoice amount of \$112,281. Of that amount, Traber received \$73,275, Mr. Morrow received \$9,750, Mr. Aaron received \$9,750, Aaron Insurance received \$9,750, and Mr. Morrow received \$9,756 in cash.



During the period June 1994 through November 1999, the City made 68 payments to Traber totaling \$1,888,304. Mr. Morrow directed \$1,367,785 to Traber, \$337,015 to himself, \$106,514 to Mr. Aaron, and \$76,990 to Aaron Insurance.

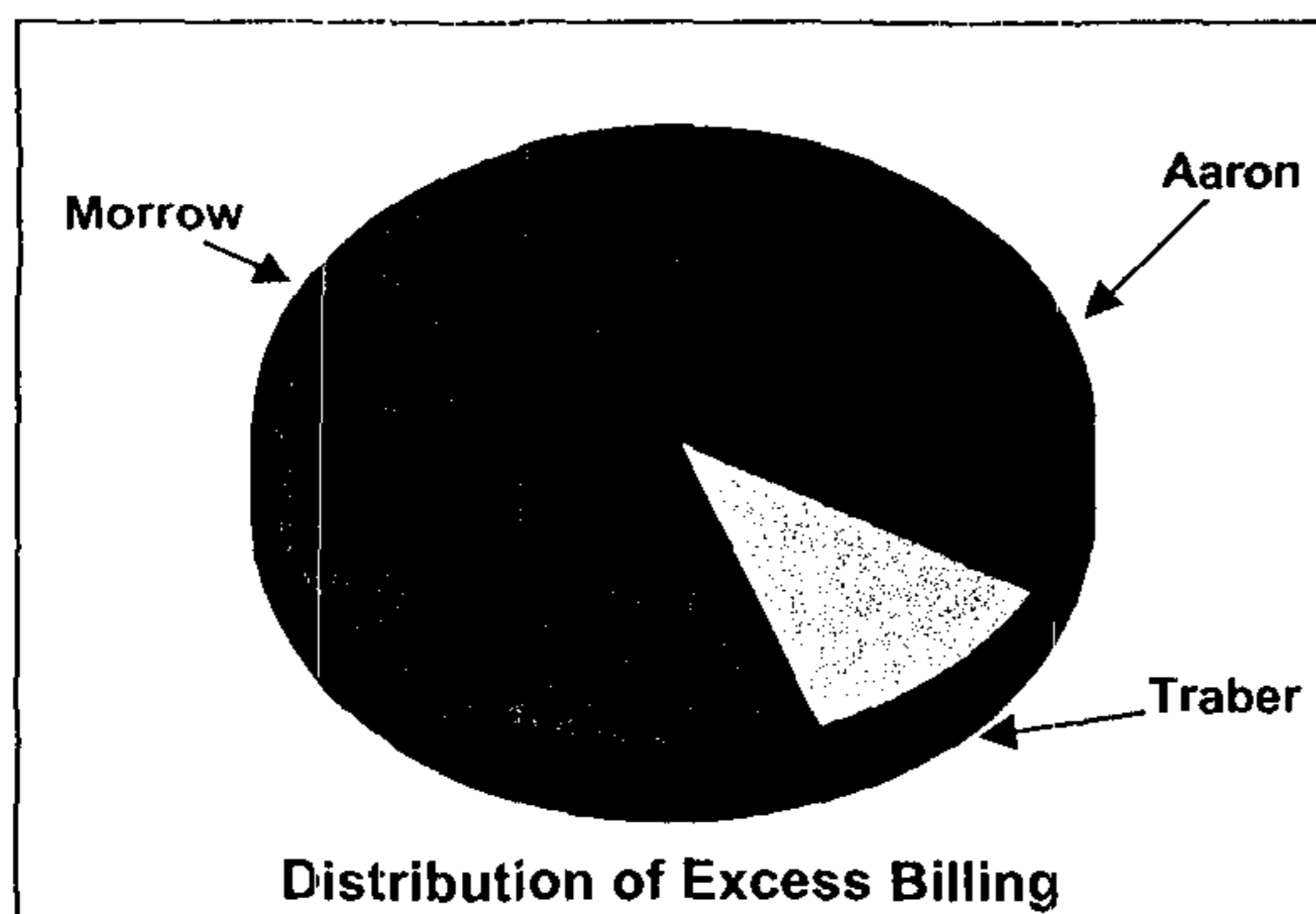
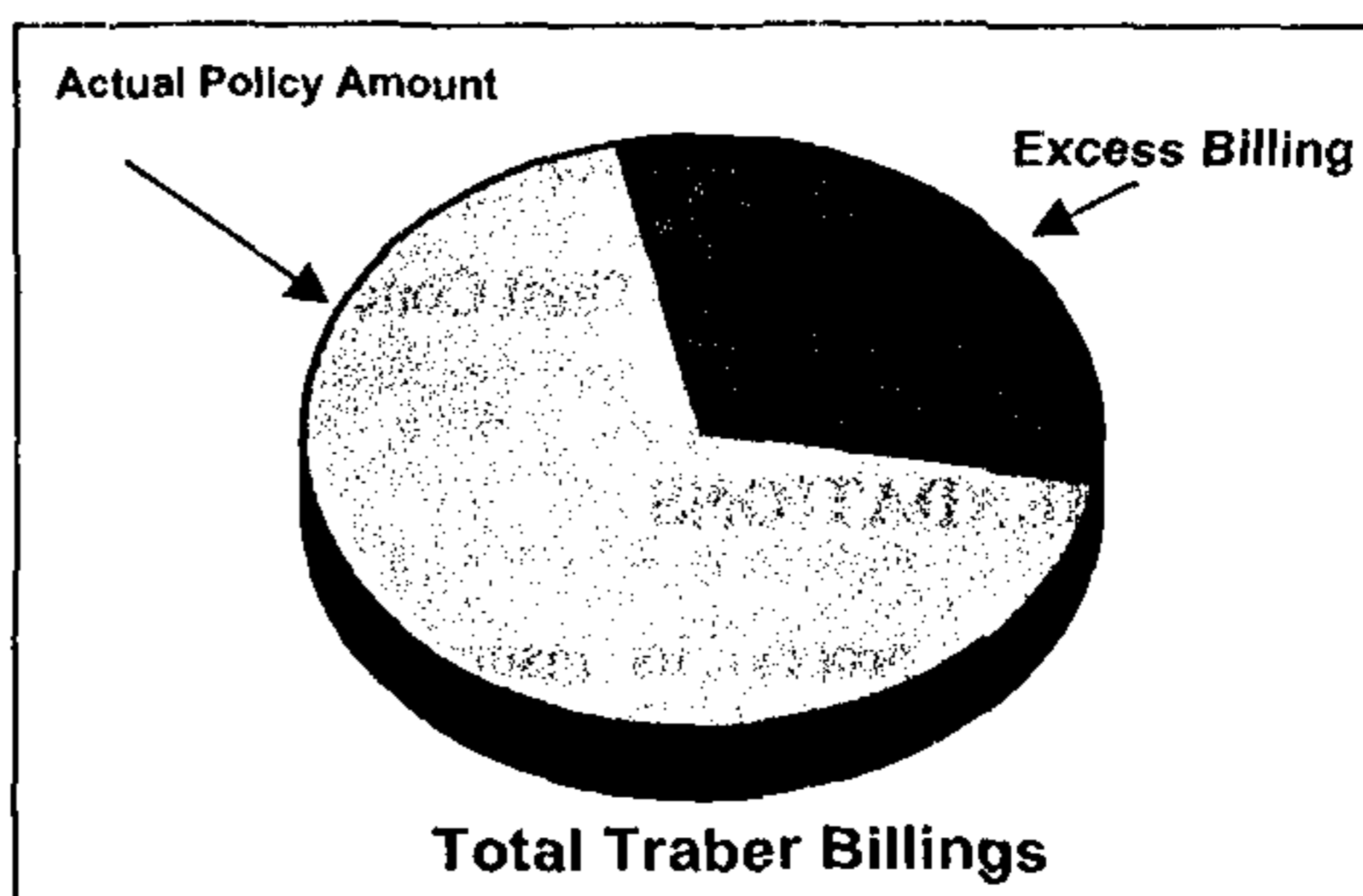
KENNETH AARON'S ASSOCIATION WITH TRABER

As stated earlier, Mr. Aaron and Aaron Insurance received a portion of the over-billings. Mr. Aaron stated that Aaron Insurance and Traber split commissions on the referral of clients. Consequently, Aaron Insurance could have received a commission from Traber for the referral of a client. However, according to Ms. Cherry Jenkins, Aaron Insurance has had no dealings with the City since Aaron Insurance held a health insurance policy for the City approximately 3 years ago. According to Traber's records, from August 1994 until November 1996, Traber paid Aaron insurance \$7,418 in commissions relating to the City's health insurance policy. Traber's records indicate that Aaron Insurance did not receive a commission from Traber for City policies after November 1996.

SUMMARY AND CONCLUSION

During the period June 1994 through November 1999, Mr. Morrow inflated the City's insurance billings and submitted fraudulent billings for professional services totaling \$585,316.

Of the total excess paid by the City, Mr. Morrow submitted \$64,797 to Traber. Traber retained these overpayments until the City noted a problem. In addition, Traber placed these excess payments in an account called miscellaneous company income, thus indicating knowledge that they were receiving amounts in excess of the correct premiums. Mr. Morrow split the remaining amount between Mr. Aaron and himself. Mr. Morrow received \$126,975 in bank money orders and \$210,040 in cash. Mr. Aaron received \$106,514 in bank money orders and \$76,990 in bank money orders made payable to Aaron Insurance.



As Director of Finance, Mr. Powell had a duty to ensure that City funds were spent only for the proper obligations of the City, that City funds were not donated or otherwise given to any individual, and he had an obligation to not misappropriate, misapply, or misuse the funds belonging to the City. Mr. Powell failed to properly review Mr. Morrow's grossly overstated insurance billings and also approved payments for professional services

that were neither needed nor received. Furthermore, Mr. Powell misrepresented the Traber agreement letter thereby impeding the investigation conducted by the Legislative Auditor.

Mr. Morrow submitted false and inflated billings to the city and diverted city funds to himself and Mr. Aaron. Mr. Aaron received city funds that he was not entitled to receive. These actions indicate that *Mr. Powell, Mr. Morrow, and Mr. Aaron may be in violation of one or more of the following state and federal laws:*

- R.S. 22:627, "Disclosure of Agent Fee"
- R.S. 42:1461, "Obligation Not to Misuse Public Funds"
- R.S. 14:67, "Theft"
- R. S. 14:134, "Malfeasance in Office"
- R. S. 14:230, "Money Laundering"
- 18 USC 666, "Theft Concerning Programs Receiving Federal Funds"

RECOMMENDATIONS

The City should process its insurance purchases through its central purchasing system as required by its Home Rule Charter. These purchases should be requested through a requisition process, quotations should be obtained when appropriate, purchase orders should be prepared and approved by management, the insurance policies should be compared to purchase orders and invoices, and invoices should be properly approved before payment. Periodically, the City's insurance positions should be reviewed by the city council.

Officers and employees of Traber Insurance Agency cooperated and assisted throughout this investigative audit. In addition, Traber has already refunded \$29,000 to the City for excess billings and has offered to refund any additional excess billings rightfully due to the city. Traber terminated Mr. Morrow's employment in December of 1999.

We also recommend that the District Attorney for the Tenth Judicial District of Louisiana and the United States Attorney for the Western District of Louisiana review this information and take appropriate legal action, to include seeking restitution.

In addition, this report has been provided to the Louisiana Department of Insurance, Louisiana Department of Revenue, and the Internal Revenue Service for their consideration.

Attachment I

Management's Response



**Office of the Mayor
Joe Sampité
City of Natchitoches**

(318) 352-2772
(318) 357-3829 Fax

May 22, 2000

Post Office Box 37
Natchitoches, Louisiana 71458-0037

Dr. Daniel G. Kyle
Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

Re: City of Natchitoches Response
to Preliminary Investigative
Audit Report received by City
on May 19, 2000

Dear Dr. Kyle:

We met with members of your office on May 19, 2000, and the preliminary Investigative Report was reviewed. We also have read your Report and studied it in full.

We have been awaiting this report for some time and after receiving it, we can appreciate the complexity of the investigation. We were impressed with the professionalism of your office and the detail and clarity of the report.

We note and concur in your recommendations. You have recommended that the City process its insurance through its central purchasing system. As a matter of fact, this very procedure was implemented by the Mayor and City Council in August of 1999. At that time, the City Council mandated that all matters dealing with the acquisition and purchasing of City insurance be transferred from the Finance Department to the Purchasing Department.

The first action of the Purchasing Agent was to secure expert professional assistance in reviewing the City's insurance portfolio, and as a result of the review this very investigation was precipitated.

The Mayor and the City Council intend to continue the new process in all future insurance matters. Further, all future purchases of all types of insurance will be made through a requisition

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process. The City will require the Purchasing Agent to prepare purchase orders which will be reviewed and approved by management prior to final awards.

Again, we have already instituted this new procedure, effective last August. The new procedure has become standard operating procedure and to date the City has already benefited from a significant savings of public money in the purchase of insurance for the City's operations. We intend to continue with this new procedure.

The City Council further notes your recommendation that the insurance positions of the City be reviewed by the City Council periodically. This recommendation will be implemented by Resolution of the City Council in June. The City Council may choose to make these periodical reviews as often as bi-annually or quarterly.

Finally, as a result of your thorough investigation, it is apparent that the City may have causes of action against a number of persons or entities for the reimbursement of considerable monies. The Mayor and City Council intend to vigorously pursue any and all causes of action against those parties who are responsible for overcharging the City. Appropriate legal action will be instituted by the City as soon as practical against these parties.

Again, on behalf of the Mayor, the City Council, and the citizens of the City of Natchitoches, we commend your interest in this matter, and appreciate your courtesy and professionalism in bringing this matter to closure.

Respectfully submitted:

THE CITY OF NATCHITOCHEES

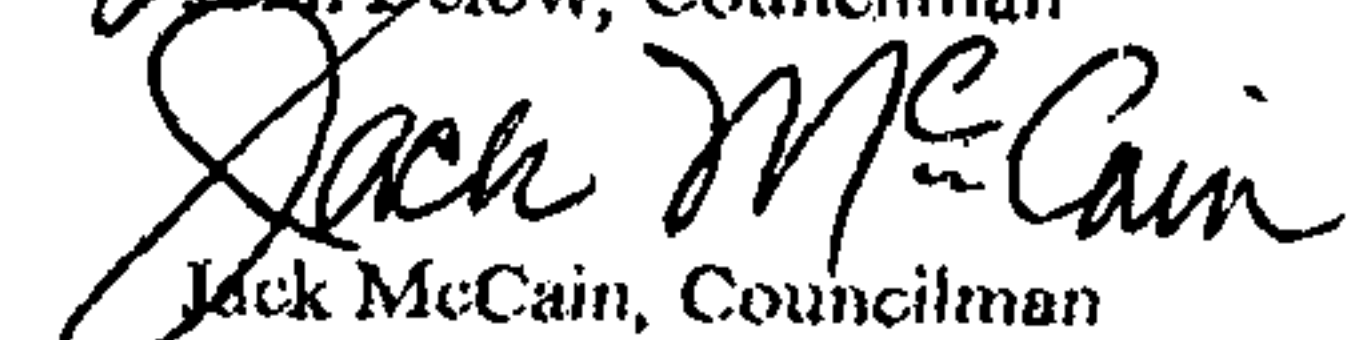
By:


Joe Sampite, Mayor



Wayne McCullen, Councilman at Large


John J. Winston, Councilman


John Below, Councilman


Jack McCain, Councilman

18 Lee Posey, Councilman



Attachment II
Legal Provisions

Legal Provisions

The following legal citations are referred to in the Finding and Recommendation section of this report:

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

R.S. 14:134 provides, in part, that malfeasance in office is committed when any public officer or public employee shall (1) intentionally refuse or fail to perform any duty lawfully required of him, as such officer or employee; (2) intentionally perform any such duty in an unlawful manner; or (3) knowingly permit any other public officer or public employee, under his authority, to intentionally refuse or fail to perform any duty lawfully required of him or to perform any such duty in an unlawful manner.

R.S. 14:230, money laundering, provides, in part that it is unlawful for any person knowingly to do any of the following:

- (1) Conduct, supervise, or facilitate a financial transaction involving proceeds known to be derived from criminal activity, when the transaction is designed in whole or in part to conceal or disguise the nature, location, source, ownership, or the control of proceeds known to be derived from such violation or to avoid a transaction reporting requirement under state or federal law.
- (2) Give, sell, transfer, trade, invest, conceal, transport, maintain an interest in, or otherwise make available anything of value known to be for the purpose of committing or furthering the commission of any criminal activity.
- (3) Direct, plan, organize, initiate, finance, manage, supervise, or facilitate the transportation or transfer of proceeds known to be derived from any violation of criminal activity.
- (4) Receive or acquire proceeds derived from any violation of criminal activity, or knowingly or intentionally engage in any transaction that the person knows involves proceeds from any such violations.
- (5) Acquire or maintain an interest in, receive, conceal, possess, transfer, or transport the proceeds of criminal activity.
- (6) Invest, expend, or receive, or offer to invest, expend, or receive, the proceeds of criminal activity.

R.S. 42:1461(A) provides, in part, 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.

18 U.S.C. §666 provides, in part, that theft concerning programs receiving federal funds occurs when an agent of an organization, state, local, or Indian tribal government or any agency thereof embezzles, steals, obtains by fraud, or otherwise intentionally misapplies property that is valued at \$5,000 or more and is owned by or under control of such organization, state, or agency when the organization, state, or agency receives in any one year period, benefits in excess of \$10,000 under a federal program involving a grant contract, or other form of federal assistance.