

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Natchitoches Parish Police Jury
Natchitoches, Louisiana

May 31, 2000



Investigative Audit

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

LEGISLATIVE AUDIT ADVISORY COUNCIL

MEMBERS

Representative Edwin R. Murray, Chairman
Senator J. "Tom" Schedler, Vice Chairman

Senator Robert J. Barham
Senator Foster L. Campbell, Jr.
Senator Lynn B. Dean
Senator Willie L. Mount
Representative Rick Farrar
Representative Victor T. Stelly
Representative T. Taylor Townsend
Representative Warren J. Triche, Jr.

LEGISLATIVE AUDITOR

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

DIRECTOR OF INVESTIGATIVE AUDIT

Allen F. Brown, CPA, CFE

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor and at the office of the parish clerk of court.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Sixty-two copies of this public document were produced at an approximate cost of \$100.00. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This document is available on the Legislative Auditor's Web site at www.la.state.la.us.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225/339-3800.

Natchitoches Parish Police Jury

May 31, 2000



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

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

Table of Contents

	Page
Executive Summary	1
Background and Methodology.....	3
Finding and Recommendation:	
Police Juror Received Commissions From Vendor	5
Attachment I - Management's Response	11
Attachment II - Legal Provisions.....	13

This page is intentionally blank.



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

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

1600 NORTH THIRD STREET
POST OFFICE BOX 94397
TELEPHONE: (225) 339-3800
FACSIMILE: (225) 339-3870

May 31, 2000

**HONORABLE JOSEPH MITCHELL, JR.,
PRESIDENT, AND MEMBERS OF THE
NATCHITOCHE PARISH POLICE JURY**
Natchitoches, Louisiana

Transmitted herewith is our investigative report on the Natchitoches Parish Police Jury. 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 the Natchitoches Parish Police Jury; the Honorable Van H. Kyzar, District Attorney for the Tenth Judicial District of Louisiana; the United States Attorney for the Western District of Louisiana; and others 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

[NATP]

Executive Summary

Investigative Audit Report Natchitoches Parish Police Jury

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.

Police Juror Received Commissions From Vendor

(Page 5)

Finding:

From April 1997 through November 1999, Mr. Kenneth Aaron, Natchitoches Parish Police Jury member, received \$27,976 in commission payments, in violation of state law, for insurance policies purchased by the police jury from Traber Insurance Agency, Inc. (Traber). These payments were directed to Mr. Aaron by Mr. Robert Morrow, Traber General Manager. As a police jury member, Mr. Aaron voted for the selection of Traber and solicited the vote of other jury members to select Traber as the police jury's independent insurance agent. State law prohibits police jury members from receiving commissions in this manner or otherwise using their positions to secure the expenditure of public funds to themselves.

Recommendation:

We recommend that the police jury implement procedures to ensure that its members and employees do not receive anything of economic value from its vendors. These procedures should include communicating provisions of the Louisiana Code of Governmental Ethics and requiring members and employees to annually certify their adherence to its requirements. Furthermore, we recommend that the District Attorney for the Tenth Judicial District of the State of Louisiana, the United States Attorney for the Western District of Louisiana, and the Louisiana Department of Insurance review this information and take appropriate action.

Management's Response:

The Natchitoches Parish Police Jury followed proper procedures in obtaining insurance coverage through a competitive bid or renewal process. The Jury had no knowledge of commissions paid to individuals by the Jury's insurance agent. Effective

immediately the Police Jury will implement procedures requiring Police Jury members and department heads to annually certify their adherence to the Louisiana Code of Governmental Ethics. These annual certifications will be kept on file in the Police Jury main office.

Background and Methodology

The Natchitoches Parish Police Jury is the governing authority for Natchitoches Parish and is a political subdivision of the State of Louisiana. The jury, under the provisions of Louisiana Revised Statutes 33:1236-1244, enacts ordinances, sets policy, and establishes programs in such fields as criminal and juvenile justice, highways and streets, sanitation, planning and zoning, public health, libraries, recreational facilities, and general administrative services. Eleven jurors representing the various districts of Natchitoches Parish govern the jury.

We received an allegation that Mr. Kenneth Aaron, while serving as a police jury member, received commission payments for insurance purchased by the police jury through Traber Insurance Agency, Inc. We performed this investigative audit to determine the propriety of this allegation.

The procedures performed during this investigative audit consisted of (1) interviewing employees and officials of the police jury; (2) interviewing other persons as appropriate; (3) examining selected police jury records; (4) performing observations and analytical tests; and (5) reviewing applicable state and federal laws and regulations.

The results of our investigation are the finding and recommendation herein.

Finding and Recommendation

POLICE JUROR RECEIVED COMMISSIONS FROM VENDOR

From April 1997 through November 1999, Mr. Kenneth Aaron, Natchitoches Parish Police Jury member, received \$27,976 in commission payments in violation of state law, for insurance policies purchased by the police jury from Traber Insurance Agency, Inc. (Traber). These payments were directed to Mr. Aaron by Mr. Robert Morrow, Traber General Manager. As a police jury member, Mr. Aaron voted for the selection of Traber and solicited the vote of other jury members to select Traber as the police jury's independent insurance agent. State law prohibits police jury members from receiving commissions in this manner or otherwise using their positions to secure the expenditure of public funds to themselves.

KENNETH AARON - POLICE JUROR/AARON INSURANCE AGENCY

Mr. Aaron served as a police juror and operated an independent insurance agency. Mr. Aaron served on the police jury from January 11, 1988, through January 10, 2000. During 1997, Mr. Aaron served as the police jury president, he served as vice president in 1998, and he served a second term as president in 1999. Mr. Aaron also operated Aaron Insurance Agency. Aaron Insurance Agency, located in downtown Natchitoches, occupied office space with Traber Insurance Agency, Inc. Traber is an independent insurance agency that provides insurance coverage to the police jury.



POLICE JURY SELECTION OF INSURANCE COMPANY AND AGENT

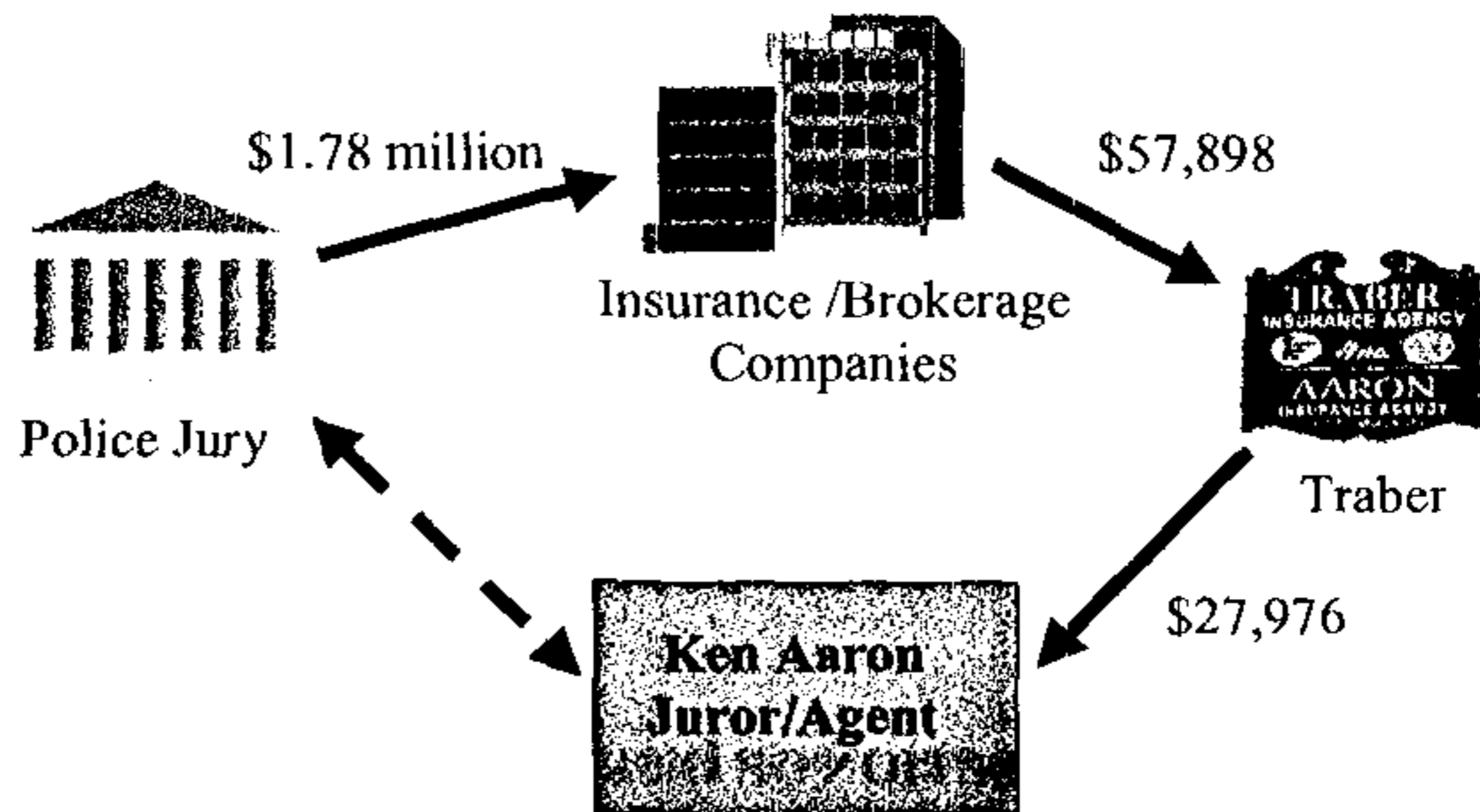
Mr. Aaron voted to select Traber as the police jury's independent agent and solicited the votes of other jury members. From 1997 through 1999, Traber served as the police jury's independent agent for health, life, and dental insurance. Each December, the police jury selects its insurance companies and agents for the following year's insurance coverage through a competitive bid or renewal process. At the December 1996, 1997, and 1998 meetings, the police jury selected Traber as its local independent agent. Minutes of these meetings indicate that, on each occasion, Mr. Aaron voted to select Traber's insurance proposals.

In addition, according to five police jury members, Mr. Aaron solicited their support for Traber as insurance agent.

- Mr. Joe Mitchell - Mr. Aaron asked him to vote for Traber as the jury's insurance agent during December 1999.
- Mr. Tom Collier - Mr. Aaron phoned him and asked him to vote for Traber as insurance agent.
- Mr. John Salter - During the 1998 selection, Mr. Aaron asked that he vote for Traber as insurance agent.
- Mr. James Scarborough - Mr. Aaron has asked him to vote for Traber each year from 1996 through 1999.
- Mr. George Celles - Mr. Aaron asked that he vote for Traber as agent each year; other jurors asked that he vote for another independent agent.

AARON RECEIVED NEARLY ONE-HALF OF TRABER'S COMMISSIONS

From January 1997 through December 1999, the police jury purchased \$1.78 million in health, life, and dental insurance for its employees with Traber as the local agent. During this time period, Traber received \$57,898 in commission revenue from the insurance companies for the police jury's insurance policies. During this period, Traber paid Mr. Aaron \$27,976, or approximately one half of the commissions. Mr. Gregory Friedman, President of Traber, stated in a letter dated April 17, 2000, that these payments were made at the direction of Mr. Robert Morrow, Traber's General Manager, and that shareholder officers were unaware of the commission payments to Mr. Aaron. Their understanding was any business solicited by Traber from the police jury was by Traber alone.

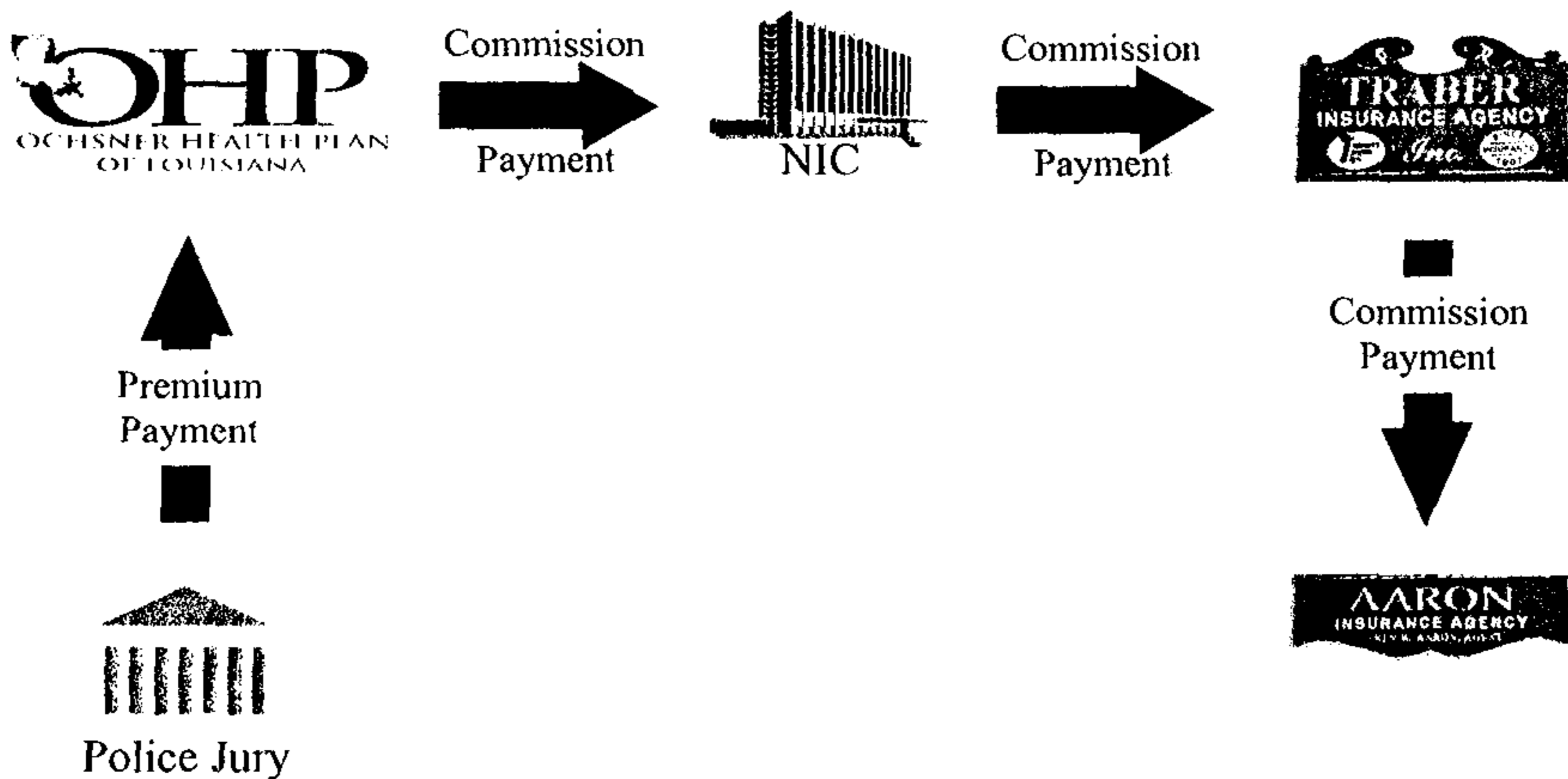


As mentioned previously, Aaron Insurance and Traber shared the same office building in downtown Natchitoches. Aaron Insurance and Traber have also maintained an agreement to share commissions from business referred by either party to the other. In accordance with this agreement, Mr. Aaron received a monthly commission check from Traber along with supporting documentation listing each policy from which the commission was generated. In addition to these commission checks, Mr. Aaron received separate monthly checks from Traber that included approximately one half of the commissions generated by Traber's police jury policies.

The commission payments that related to the police jury policies were not prepared in the same manner as Mr. Aaron's normal monthly commission payments.

- Though Aaron Insurance Agency normally received 50% of the total commission on referred business, Mr. Aaron did not always receive exactly 50% of the police jury commission.
- Traber's checks to Aaron Insurance for the normal monthly commission included notations similar to "January Statement" or "February Commission." Checks that related to police jury policies had notations that included erroneous statements such as "Health Comm/Dimension/NIC." Dimension is another Traber client and was unrelated to many of Kenneth Aaron's commission payments that included this notation.

For example, during July 1999, Ochsner Health Plan provided health insurance to the police jury through NIC Brokerage, Inc., and Traber. Ochsner made its commission payment to NIC. NIC in turn paid Traber. Thereafter, Traber issued a check made payable to Kenneth Aaron for slightly less than 50% of the commission. The notation on the Traber check to Mr. Aaron was "Health Comm/Dimension/NIC"; Dimension was not related to this transaction.



EXAMPLE OF COMMISSION PAYMENT TO KEN AARON

OHP
OCEANER HEALTH PLAN OF LOUISIANA
One Gallena Boulevard
Suite 1224
Mouline, LA 70001-7542
(504) 836-4600
(800) 999-5979
Fax: (504) 836-6566

Total Health Choice Broker Fee Statement

7/7/99

Vendor # 3116

NIC Brokerage
301 Milan, Suite A
Shreveport, LA 71101

Group Number	Group Name	Cash Received	Percentage	Broker Fees D
AT65021	Natchitoches Parish Police Jury	\$11,197.12	6.00%	\$1,767.88

Commission due to Traber for the Natchitoches Parish Police Jury policy - \$1,767.88

Natchitoches Parish Police Jury

NIC BROKERAGE, INC.
PHONE 318-821-8904
301 MILAN SUITE A
SHREVEPORT, LA 71101

4130

PAY TO THE ORDER OF Traber Agency DATE 7-22-99 \$ 1,767.88

One Thousand Seven Hundred Sixty Seven Dollars and 88/100 DOLLARS

FOR: see statement

[Signature]

Ken Aaron

Coded improperly to "Dimension," which is another Traber client

TRABER AGENCY, INC.
PHONE: 318/287-8277
129 ST. DENIS STREET P.O. DRAWER 908
NATCHITOCHE, LA 71458-0908

005326
Reference 4387
Check Date 07/28/1999

PAY TO THE ORDER OF Ken Aaron \$ 862.12

Eight Hundred Sixty-Two and 12/100 DOLLARS

Ken Aaron

TRABER AGENCY, INC.
[Signature]

FOR: Health Comm/Dimension/NIC

Aaron received 49% of Traber commission.

STATEMENT OF TRABER EMPLOYEE

According to Ms. Sarah Shoemaker, Traber bookkeeper who handled the police jury policies, Mr. Morrow routinely told her how much to pay Mr. Aaron. On occasion, Mr. Morrow told her to code some of the commission checks as if they related to another of Traber's clients, such as Dimension.

STATEMENT OF AARON INSURANCE AGENCY EMPLOYEE

According to Ms. Cheryl Jenkins, former Aaron Insurance Agency employee, it was her understanding that the police jury commission was not to be split with Mr. Aaron because he was a police jury member. She knew that Mr. Aaron was receiving checks from Traber related to the police jury policies; however, she and other Traber employees who were aware did not say anything about it because they may have lost their jobs.

MR. AARON'S STATEMENT

Mr. Aaron agreed that we should not find any records indicating that he or his company received commissions from police jury business. On three occasions during the interview, Mr. Aaron indicated that he did not receive payments resulting from police jury insurance business. Mr. Aaron would not answer any further questions and referred us to his legal counsel.

MR. MORROW'S STATEMENT

We attempted to discuss this and other issues with Mr. Morrow; however, he stated that he had been advised not to talk with us and referred us to his legal counsel.

State ethics laws forbid a police jury member from receiving anything of economic value from a person to whom the jury member has directed business of the governmental entity. State ethics laws further state that a police jury member shall not participate in a transaction in which he has a personal substantial economic interest of which he may be reasonably expected to know involving the governmental entity. Louisiana statutes also require a public official to disclose, prior to execution of the contract, pertinent information concerning contract negotiations of the type described above in which the public official participated and has an economic interest.

Furthermore, the Louisiana Criminal Code prohibits the giving or receiving of money to or by a police jury member with the intent to influence his conduct in relation to his position, employment, or duty. The Louisiana Criminal Code also prohibits the splitting of commissions with a police jury member when such commissions are derived from any police jury contract.

By splitting the commissions earned from insurance policies purchased by the Natchitoches Parish Police Jury, Mr. Aaron and Mr. Morrow may be in violation of one or more of the following laws:

Louisiana Code of Governmental Ethics

- 42:1111, "Payment from Nonpublic Sources"
- 42:1112, "Participation in Certain Transaction Involving the Governmental Entity"
- 42:1114, "Disclosure of Certain Financial Transactions"

Louisiana Criminal Code

- 14:118, “Public Bribery”
- 14:134, “Malfeasance in Office”
- 14:141, “Prohibited Splitting of Profits, Fees, or Commissions”

United States Criminal Code

- 18 U.S.C. § 666, “Theft From Federal Programs”

We recommend that the police jury implement procedures to ensure that its members and employees do not receive anything of economic value from its vendors. These procedures should include communicating provisions of the Louisiana Code of Governmental Ethics and requiring members and employees to annually certify their adherence to its requirements. Furthermore, we recommend that the District Attorney for the Tenth Judicial District of the State of Louisiana, the United States Attorney for the Western District of Louisiana, and the Louisiana Department of Insurance review this information and take appropriate action.

Attachment I

Management's Response



POLICE JURY OF NATCHITOCHES PARISH

P.O. BOX 799 • NATCHITOCHES, LOUISIANA 71458-0799 • (318) 352-2714 • FAX (318) 357-2208

JOE MITCHELL, JR.
PRESIDENT
TOM COLLIER, JR.
VICE-PRESIDENT

May 23, 2000

BOBBY W. DEEN
PARISH ADMINISTRATOR

Mr. Daniel G. Kyle, CPA, CFE
Louisiana Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

RECEIVED
LEGISLATIVE AUDITOR
2000 MAY 24 AM 11:05

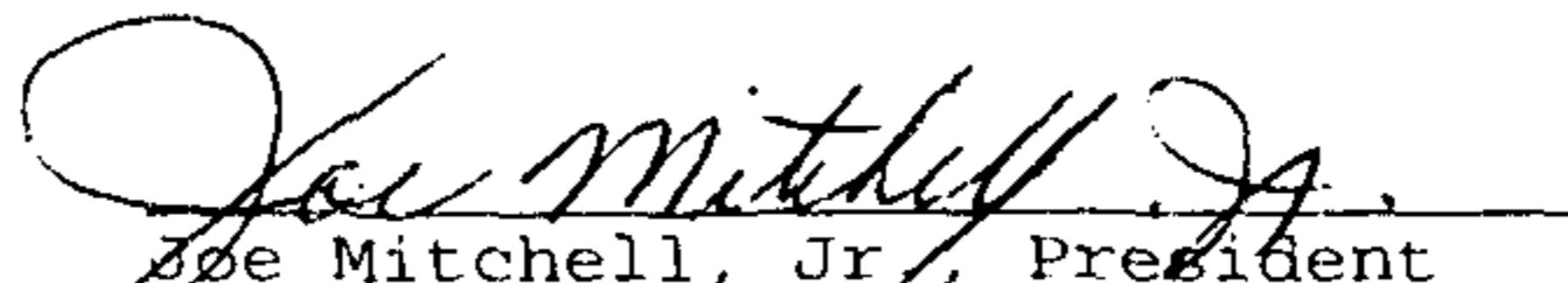
- MEMBERS:
- DISTRICT 1
CLAY MAYEAUX
- DISTRICT 2
CHRIS PAIGE
- DISTRICT 3
J.D. GARRETT
- DISTRICT 4
JOE ALLEN
- DISTRICT 5
WILLIAM HYNES
- DISTRICT 6
CHARLES HUGGINS
- DISTRICT 7
CALVIN HAY
- DISTRICT 8
TONI COLLIER, JR.
- DISTRICT 9
JOE MITCHELL, JR.
- DISTRICT 10
JOHN BALTER
- DISTRICT 11
GALE POTTS-ROQUE

Dear Mr. Kyle:

This letter constitutes the response of the Natchitoches Parish Police Jury to the findings of your report dated March 13, 2000. Your report referenced findings in the area of insurance purchases made by the Natchitoches Parish Police Jury. Please note that the Natchitoches Parish Police Jury followed proper procedures in obtaining insurance coverage through a competitive bid or renewal process. The Jury had no knowledge of commissions paid to individuals by the Jury's insurance agent.

However, effective immediately the Natchitoches Parish Police Jury will implement procedures requiring Police Jury members and department heads to annually certify their adherence to the Louisiana Code of Government Ethics. These annual certifications will be kept on file in the Police Jury Main Office.

Sincerely,


Joe Mitchell, Jr., President
Natchitoches Parish Police Jury

JM/cj

This page is intentionally blank.

Attachment II
Legal Provisions

Legal Provisions

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

R.S. 14:118(A) provides, in part, that public bribery is the giving or offering to give, directly or indirectly, anything of apparent present or prospective value to any of the following persons, with the intent to influence his conduct in relation to his position, employment, or duty: (a) Public officer, public employee, or person in a position of public authority. The acceptance of, or the offer to accept, directly or indirectly, anything of apparent present or prospective value, under such circumstances, by any of the above named persons, shall also constitute public bribery.

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. 14:141(A) provides, in part, splitting of profits, fees or commissions means the giving, offering to give, receiving or offering to receive, directly or indirectly, anything of apparent present or prospective value by or to a public officer or public employee or to any fund or fiduciary existing for the benefit of or use by such public officer or employee, when such value is derived from any agreement or contract to which the state or any subdivision thereof is a party.

R.S. 42:1111(B) provides, in part, no public servant shall receive anything of economic value from a person to whom the public servant has directed business of the governmental entity.

R.S. 42:1112(A) provides, in part, no public servant, except as provided in R.S. 42:1120, shall participate in a transaction in which he has a personal substantial economic interest of which he may be reasonably expected to know involving the governmental entity.

R.S. 42:1114(A) provides, in part, each public servant and each member of his immediate family who derives any thing of economic value, directly, through any transaction involving the agency of such public servant or who derives any thing of economic value of which he may be reasonably expected to know through a person which (1) is regulated by the agency of such public servant, or (2) has bid on or entered into or is in any way financially interested in any contract, subcontract, or any transaction under the supervision or jurisdiction of the agency of such public servant shall disclose the following: (1) The amount of income or value of any thing of economic value derived; (2) The nature of the business activity; (3) Name and address, and relationship to the

public servant, if applicable; and (4) The name and business address of the legal entity, if applicable.

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.