

ST. TAMMANY RECREATION DISTRICT #4



INVESTIGATIVE AUDIT  
ISSUED SEPTEMBER 25, 2013

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LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

September 25, 2013

**MR. JIMMY LAURENT, CHAIRMAN,  
AND BOARD MEMBERS OF THE  
ST. TAMMANY RECREATION DISTRICT #4**  
Lacombe, Louisiana

We have audited certain transactions of the St. Tammany Recreation District #4 (District). Our audit was conducted in accordance with Title 24 of the Louisiana Revised Statutes to determine the propriety of certain allegations and consisted primarily of inquiries and the examination of selected financial records and other documentation. The scope of our audit was significantly less than that required of an audit by *Government Auditing Standards*; therefore, we are not offering an opinion on the District's financial statements or system of internal control, nor assurance as to compliance with laws and regulations.

Our audit revealed the following matter.

#### **Insurance Coverage Paid for but not Provided**

Based on interviews and available documentation, the District issued a \$9,824 premium payment to Mike Neely Insurance Agency, LLC (Neely Insurance) for one year's coverage of commercial and general liability insurance (from August 11, 2011, to August 11, 2012); however, such insurance coverage was not provided to the District. As a result, the District was uninsured during this period.

We were informed that as part of Neely Insurance's normal operations, prior to the District's insurance coverage expiring, Neely Insurance completes an insurance application and then secures coverage on the District's property for one calendar year. In this instance, on July 20, 2011, Neely Insurance completed an insurance application for commercial and general liability coverage on two of the District's public buildings prior to the current policy's August 11, 2011, expiration date. Approximately three months later on October 19, 2011, the District issued a check totaling \$9,824 to Neely Insurance for the renewal of the commercial and general liability insurance coverage. On October 24, 2011 (five days later), Neely Insurance deposited the check into its bank account.

According to the administrative assistant for the District, Ms. Stacey Henry, the time lapse between the policy expiration date (August 11, 2011) and the check payment date (October 19, 2011) occurred because Neely Insurance did not submit an invoice to the District until October 6, 2011. Since the payment was made approximately three months after the application date, it is reasonable that the District should have questioned whether its two buildings were insured during this period. However, we did not find any evidence that the District took action to confirm whether the buildings were properly insured.

Ms. Henry stated that a Board of Directors meeting was scheduled on August 15, 2012, and she knew there would be questions regarding renewal of the District's current 2011-2012 insurance policy. She said that she contacted Mr. Neely (owner of Neely Insurance) several weeks prior to the board meeting to renew the existing policy. Ms. Henry said she was told by Mr. Neely that, before the scheduled board meeting, the policy would be renewed to August 11, 2013, and that all necessary documents would be provided. According to Ms. Henry, the policy expiration date of August 11, 2011, passed without any notification from Mr. Neely on the status of the District's insurance coverage.

Ms. Henry stated that during the board meeting, members asked for a copy of the expired insurance policy (which she did not have). Ms. Henry stated that the day following the board meeting, she began to look through office files for the policy but was unable to locate it. She said she then spoke to Mr. Neely and requested a copy of the 2011-2012 policy, but that Mr. Neely provided her with a copy of the original "conditional binder,"<sup>1</sup> not the actual insurance policy. Ms. Henry said it was at this time (a few days after the board meeting) that she began to doubt whether the 2011-2012 insurance policy had existed. On August 20, 2012, she mailed a letter to Mike Neely Insurance Agency formally requesting the 2011-2012 policy. Ms. Henry stated that over the course of several months she contacted Mr. Neely numerous times to obtain a copy of the 2011-2012 policy, but was never provided a copy. On October 2, 2012, the District filed a formal complaint with the Louisiana Department of Insurance.

Our review of the conditional binder provided to the District indicates that if application and payment were not received within 12 days of the date of the binder, then it is voided by TAPCO, the Managing General Agent for Neely Insurance. We spoke with Mr. Neely to determine whether or not an insurance policy existed for the District during the period August 11, 2011, to August 11, 2012. According to Mr. Neely, coverage did not exist for this period. Mr. Neely stated that once payment was received from the District (check was deposited into Neely Insurance bank account), the completed application and his check were mailed to TAPCO. However, Mr. Neely was unable to provide us with documentation showing the application and payment was submitted to TAPCO to initiate the processing of the District's insurance policy.

Mr. Neely stated he was unaware that the check and application had not been received by TAPCO until the District requested a copy of the insurance policy. After being unsuccessful in locating the policy in his office, he said that he contacted TAPCO and was informed that the

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<sup>1</sup> According to staff at the Department of Insurance's Consumer Affairs Division, a conditional binder is issued by the insurance company to temporarily cover the insurer until payment is received. However, if the payment is not received within a predetermined time frame, the binder and quoted insurance coverage is voided.

policy was voided because no application or payment was received. Mr. Neely told us that he then reviewed his bank account and verified that the check accompanying the application to TAPCO was not negotiated. According to Mr. Neely, his company does not perform bank account reconciliations; therefore, he was unaware the check was never cashed. On June 11, 2013, Mr. Neely stated that he hired a CPA (Certified Public Accountant) to reconcile his bank statements and will repay the funds to the District within 30 days of the CPA completing his reconciliation work. When asked, Mr. Neely could not explain why the District might have to wait 30 days for reimbursement when he already confirmed his check was never cashed by TAPCO.

According to Ms. Henry, just prior to this issue being discovered, the District hired a new executive director and changes were made within the office. To eliminate any future occurrence, Ms. Henry stated that she:

- (1) terminated all insurance policies with Neely Insurance as they came up for renewal;
- (2) reorganized the filing system in the office to keep better track of records; and
- (3) ordered a calendar software system, which will notify her in advance of insurance renewal dates.

On September 25, 2013, 358 days after filing a formal complaint with the Louisiana Department of Insurance, the District received a \$9,824 refund check from Neely Insurance.

This is a public report and copies of this report will be distributed in accordance with state law.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE  
Legislative Auditor

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