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October 19, 2012  
*Via Federal Express*

Shreveport City Council  
Attn: Arthur G. Thompson, Clerk of Council  
P. O. Box 31109  
Shreveport, LA 71130-1109

RE: *Shreveport City Council Investigation per Council Resolution No. 281 of 2011*  
Our File No. 18459

Dear Councilmen of the Shreveport City Council:

Pursuant to Shreveport City Council Resolutions No. 281 of 2011 and No. 71 of 2012, the Shreveport City Council (the "Council") retained the law firm of Laborde & Neuner to assist the Council in conducting its investigation into matters relating to an Agreement for the retention of financial advisory services (the "Contract") with Grigsby & Associates, Inc. ("Grigsby & Associates" or the "Firm"). Under the Contract between the City of Shreveport (the "City") and Grigsby & Associates, dated December 1, 2007, Grigsby & Associates provided, and continues to provide, financial advisory services to the City.

Specifically, we were retained:

- A. To determine if proper policies and procedures were followed in awarding the contract,
- B. To audit all payments made to Grigsby & Associates under the current contract,
- C. To render an opinion regarding the contract with Grigsby & Associates, and
- D. To determine whether there are judgments, indictments or SEC/FINRA rulings against Grigsby & Associates, or any principal of Grigsby & Associates, that could negatively impact the City of Shreveport, taxpayers, and citizens.<sup>1</sup>

We worked in close consultation with the firm of Postlethwaite & Netterville ("P&N"), which conducted an in-depth review of payments made under the Contract, analysis of the awarding of the contract, and comparative analysis of the Contract with industry standards and another city's municipal advisor contract. We also relied on the

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<sup>1</sup> Shreveport City Council Resolution No. 71 of 2012 contains a full description of services we were retained to perform.

opinions of an expert in the field of financial advisory services, Robert Phelps, in analyzing information revealed during our investigation. The findings of P&N's review and analysis are attached in full as Addendum I. We also verified Grigsby & Associates' compliance with registration requirements under Louisiana and Federal laws and investigated possible SEC/FINRA/MSRB disciplinary actions in public records. These findings are attached in full as Addendum II.

### **Findings In Brief**

#### **A. Proper Policies and Procedures in Awarding the Contract**

Though our investigation revealed no inconsistencies with the City's procurement policies and procedures, no formal grading of proposals submitted in response to the City's RFP occurred and Grigsby & Associates was not considered in the original memorandum analyzing submitted proposals. Best practices require the formal grading and ranking of proposals submitted in reply to an RFP. While formal grading need not necessarily be determinative in selecting the highest ranked candidate every time, the formal grading of proposals is a best practice that ensures a fair and transparent selection process. By not utilizing a formal grading process for analysis of the proposals submitted, the City's selection of Grigsby & Associates is called into question.

#### **B. Review of Payments Made to Grigsby & Associates**

Under the Contract, the financial advisor is required to maintain full and adequate records to show the actual costs incurred in the performance of the Contract. Moreover, the Contract authorizes only two types of services: core services and special services. These categories are defined by enumerated lists describing the services contained therein. Our investigation revealed three major problems regarding payments made to Grigsby & Associates: 1) Grigsby & Associates failed to maintain and provide adequate documentation of its services to justify payment by the City, 2) Grigsby & Associates billed for services that may not have been compliant with the Contract, and 3) some payments to Grigsby & Associates were not properly approved.

Grigsby & Associates did not maintain full and adequate records to show the actual costs incurred in the form of monthly accountings of working days for its performance of special services nor did the firm provide sufficiently detailed lists or other verification of expenses incurred in the performance of its duties under the Contract, both of which are expressly required by the Contract.

Multiple invoices for services performed by Grigsby may not have been compliant with the Contract. Invoices submitted to the City contained mathematical and other errors. Grigsby & Associates' charges for its core services for the year of 2008 exceeded the maximum allowed under the Contract. Questionable charges are associated with Grigsby & Associates work related to the LCDA 2005 Water and Sewer Bonds, the 2008 Convention Center Hotel Bonds, and the 2011 General Obligations Bonds.

Grigsby & Associates received total payments in the amount of \$677,333 of questionable costs. These are detailed in P&N's Report, attached in full as Addendum I.

C. Contract with Grigsby & Associates

The Contract between the City and Grigsby & Associates does not appear to be inconsistent with City policies and procedures nor does the Contract appear to violate any known state, federal, or local laws or ordinances. We do note the Contract is silent regarding payment for swap activities associated with bond issuance. Though the Contract itself is not necessarily problematic, the implementation of the Contract is called into question by our analysis of the payments made under it to Grigsby & Associates (see B. immediately above).

D. Judgments, Indictments, and/or Rulings Against Grigsby & Associates

Grigsby & Associates appears to be in compliance with federal and state registration requirements for municipal financial advisors. However, the Firm has not maintained authorization to do business in the State of Louisiana at all times during its performance of the Contract. The Firm corrected this deficiency after receiving notice from us during our investigation of the Firm.

Public records also reveal numerous negative disclosures regarding actions brought against the Firm, prior to and during Grigsby & Associates' performance of the Contract. In the two most recent FINRA actions against the Firm, Grigsby & Associates resolved the matters by Acceptance, Waiver, and Consent for alleged violations of SEC, FINRA, and MSRB Rules, including conducting a securities business while failing to maintain the minimum required net capital, failing to make and preserve accurate computation of its net capital, failing to timely report purchase and sale transactions effected in municipal securities, and failing to maintain a supervisory system for supervision reasonably designed to achieve compliance with applicable laws, regulations, and rules related to timely reporting.

In addition to these closed actions, there is a pending action. The Secretary of State for the State of Illinois scheduled a hearing for October 17, 2012, "to determine whether an Order should be entered against Grigsby and Associates, Inc. and Calvin Grigsby which suspends or revokes their dealer and salesperson registrations respectively, prohibits them from offering or selling securities in the State of Illinois and granting such other relief as may be authorized under the Act including but not limited to imposition of a monetary fine in the maximum amount..."<sup>2</sup> A negative outcome in this proceeding and any negative findings revealed related thereto, in addition to the negative disclosures for the Firm, detailed in Addendum II, would reflect poorly on the operations and reputation of the firm

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<sup>2</sup> Exhibit "Q" to Addendum II, *In the Matter of: Calvin Grigsby and Grigsby and Associates, Inc.*, Notice of Hearing, State of Illinois Secretary of State Securities Department, File No. 1100227, 16 July 2012.

of Grigsby & Associates and seriously call into question the propriety of utilizing the services of the Firm.

### **Recommendations**

Our review of public records and Grigsby & Associates' compliance with registration requirements reveal a pattern of tardy compliance with registration and legal requirements, while the review and analysis performed by P&N reveals myriad instances of noncompliance with the Contract. Thus, we recommend, at a minimum, the City take the following general actions moving forward:

1. Assign a project manager to consistently monitor Grigsby & Associates' performance of the Contract and authorize payments to the firm,
2. Require detailed lists and verification, including receipts, of expenses prior to payment, in accordance with the Contract,
3. Require documentation and accounting for work performed prior to payment, in accordance with the Contract,
4. Verify amounts prior to disbursement,
5. Periodically monitor Grigsby & Associates' compliance with SEC/FINRA/MSRB requirements, and
6. Utilize a formal grading and ranking process in the City's next selection of a Financial Advisor.

With regard to the questionable costs of \$677,333 identified by P&N, we recommend the following actions:

Mathematical and other errors on Grigsby & Associates invoices resulted in the City being overcharged by \$8,900. The City should seek immediate and full reimbursement of these overcharges from Grigsby & Associates. (See Addendum I, Finding 4).

To date, in the course of L&N's and P&N's investigation, Grigsby & Associates has repeatedly failed to provide the full and adequate records that are explicitly required under the Contract to show the actual costs incurred in its performance of its services to the City. We recommend the City request these records to verify the payments already expended to Grigsby & Associates. If Grigsby & Associates fails, again, to provide these records verifying the actual costs for the performance of its work, the City should seek full reimbursement for those costs that cannot be verified.

Moreover, based on our investigation, some payments made to Grigsby & Associates were for work possibly not authorized by the Contract (as neither core nor special services) or work for which Grigsby & Associates was possibly already paid. Grigsby & Associates has failed to sufficiently justify these costs. We recommend the City seek from Grigsby & Associates: (1) full and adequate records to show the actual costs incurred in the performance of these disputed amounts, as explicitly required by the Contract, (2) detailed explanations of how the payments conform with descriptions of core and/or special services (where applicable) and the payment schedule of the Contract, and (3) thorough

explanations as to how payments are not duplicative (where applicable). Until Grigsby & Associates properly validates its fees and expenses under the Contract, the City should seek full reimbursement of these payments.

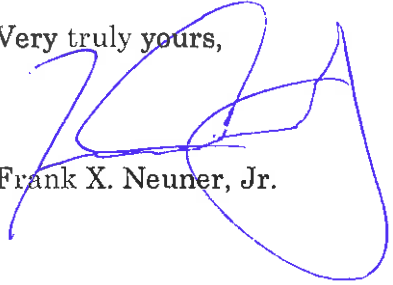
We also recommend close monitoring of the Illinois action. Negative findings related to the action could severely and negatively impact the reputation of Grigsby & Associates. Our investigation has revealed a pattern of tardy compliance with legal and regulatory requirements and serious concerns with the Firm's supervisory procedures and practices throughout the Firm's history. In some instances, the Firm appeared only to comply with legal and regulatory requirements upon our investigation's prompting when we requested evidence of such compliance.

Should Grigsby & Associates again fail to properly justify and verify its charges to the City for its services, its failure to comply with the Contract, in light of these other negative reflections on the Firm, would seriously call into question the propriety of continuing to utilize the services of the firm of Grigsby & Associates.

We have enclosed a hard copy of all exhibits referenced in the Addenda attached to this letter. We have also provided twelve CDs, which include electronic versions of this letter, the attached Addenda, and all of the exhibits.

Please do not hesitate contact me if you have any questions.

Very truly yours,



Frank X. Neuner, Jr.

FXN/jwp  
Enclosures