MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON OCTOBER 19, 2017

PRESENT: Mark L. Morgan, Chair
Richard A. Luettich, Jr., Committee Member

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (SLFPA-E or Authority) met on October 19, 2017, in the Franklin Avenue Administrative Complex, Meeting Room 201, 6920 Franklin Avenue, New Orleans, Louisiana. Mr. Morgan called the meeting to order at 10:30 a.m.

Opening Comments: None.

Adoption of Agenda: The Committee adopted the agenda as presented.

Approval of Minutes: The Committee approved the minutes of the meeting held on September 21, 2017.

Public Comments: None.

Regional Finance Director's Report: Ms. Chandler advised that she experienced her first storm related event with Hurricane Nate. She commented on the amazing teamwork and support from all levels of the organization. She also advised that she is working on defining how costs will be captured and structured for the Operation and Maintenance of the regional system. Other items included in the Finance Director's Report will be discussed under the New Business items.

New Business:

A. Discussion of insurance coverage for Franklin Avenue Complex Facility.

Mr. Morgan commented that a decision is required relative to the insurance coverage for the Franklin Avenue Complex prior to the end of the calendar year; however, the Authority's insurance agent of record requires direction in order to obtain appropriate quotes for the coverage.

Matt Byrd with Arthur J. Gallagher (Gallagher) explained that the Franklin Avenue Complex consists of the 500,000 square foot Warehouse Building, the Administration Building and the Loft Building. Insurance is obtained for contents and building coverages combined. The current building coverage is a little over $40 million. The question is, what size building would be constructed to replace the 500,000 square foot Warehouse Building should it be demolished as a result of a windstorm or fire? Gallagher targeted a number of around $25 million from a building perspective to replace the location as a whole with something more effective that would suit the Authority's needs. He explained that there are numerous ways to value things on insurance policies. The policy could be structured in such a way that additional required costs could be covered. He estimated a minimum replacement value of $65 per square foot for the building. Replacing a 500,000 sq. ft. building with the same size building would require coverage in the $40 to $50 million range. However, the Authority would probably not rebuild a 500,000 sq. ft. building. A good faith estimated replacement cost must be provided to carriers. If the Authority is not going to rebuild a 500,000 sq. ft. building, then it does not need to pay the premium for $40-$50 million of coverage. In addition, if the building is not rebuilt to the current size (500,000 sq. ft.), a carrier will not pay the full $40-$50 million replacement value.

Mr. Luettich pointed out that the Safehouse portion of the Warehouse Building would be a more expensive component than the warehouse space. In addition, office space must be considered. Mr. Byrd explained that this is the reason the new East Jefferson Levee District (EJLD) Safehouse and Administrative Complex, which is being constructed for $10.5 million, was used as an example. A complex twice the size of the EJLD Complex was considered to suit the needs of the Authority with several million dollars available to build a large non-air conditioned warehouse for housing equipment and other items. He pointed out that every year valuations change. Mr. Luettich noted that due to the centralization of administrative staff, the administrative space and safehouse at the Franklin Complex must be larger than the corresponding spaces in EJLD Complex. Mr. Byrd advised that the numbers could be adjusted accordingly.

Mr. Morgan asked, what would happen if only a portion of the building is destroyed? Mr. Byrd responded that if only a small portion of the building is damaged, a carrier would not agree to demolish the remainder of the building. However, if a significant portion of the building is lost, then certain other coverages under the policy would apply in order to demolish the part of the building that was not damaged, but no longer functional because of the amount that was damaged.

In summary, Mr. Morgan noted that a $25 million cash value would be utilized for the coverage. Derek Boese, Chief Administrative Officer, pointed out that the numbers could be reviewed and more defined in order to provide a good faith number. Mr. Byrd agreed that the square footage for the various spaces (safehouse, office and warehouse) should be rechecked.

Mr. Byrd advised that the current deductible is $25,000 for all perils other than wind. There is a $100,000 deductible for windstorm and a two percent deductible for hurricane. These deductibles are included on coverages for all structures on SLFPA-E policies. The current rate for the coverage is 55 cents per $100 in valuation.

B. <u>Fiscal Year 2017 Financial Audit Update.</u>

Ms. Chandler explained that she received the draft audit report late yesterday and had not had time to review. She asked that the Committee members provide feedback on the draft report. A decision has not been reached on two significant items, one of which just came up during the past week. The State received a qualified opinion last year on a portion of its audit dealing with the value placed on the projects (assets) constructed as part of the Hurricane and Storm Damage Risk Reduction System (HSDRRS) by the U.S. Army Corps of Engineers (USACE) that had been turned over to the local sponsor (CPRA) and subsequently turned over to the levee districts. A determination is needed as to the value of the assets as well as the cost share liability for the assets. The USACE could not provide this information last year; therefore, the State did not know how to record the asset or the liability. The USACE also said that it could not break the numbers down by district. The USACE did not have the information for this year; therefore, the Legislative Auditor contacted the Authority's Auditor and advised that the Authority should have a qualified opinion because eventually the projects are turned over to the levee districts and the value of the assets and the potential liability have not been recorded on the Authority's books.

Ms. Chandler further explained that she received some schedules from the Coastal Protection and Restoration Authority (CPRA) and that she spoke to a USACE representative who is putting together a schedule of the two amounts by project and by parish. She anticipated that the USACE's schedule would be received in the next couple of days. The numbers will be provided to the Authority's Auditor to decide whether the process by which the USACE produced the numbers is adequate or should be tested.

Mr. Chandler advised that the second item is the result of a new disclosure requirement; i.e., any tax abatements that happened during the year that would have impacted the Authority must be disclosed by district. This includes taxes that would have been, but were not collected, due to the various tax abatement programs that vary by parish. She noted that she received a significant amount of support information on tax abatements in Jefferson Parish that she must review and then develop the appropriate schedule.

Ms. Chandler summarized that she will be working on the two audit items discussed and will review the audit report in detail. She anticipated that the final report will be completed next month. She noted that the Non-Flood Protection Asset Management Authority will have the same finding that it had last year.

Mr. Morgan commented that the portion of the HSDRRS for Lake Pontchartrain and Vicinity (LPV) and West Bank and Vicinity (WPV) is estimated at $15.3 billion. The major portion of the cost was for the WBV. He estimated that $3-$5 billion of assets would be added to the East Authority's books. Ms. Chandler added that the corresponding liability for the assets would also be recorded.

C. <u>Update on payroll consolidation timeline.</u>

Ms. Chandler advised that all employees will be shifted to the SLFPA-E books soon. ADP will copy the data in the December 3rd payroll database after it is run by the Authority into the new database. All codes will be standardized by December 3rd.

Testing will begin by running parallel payrolls in the old and new databases during the month of December. Any issues discovered will be addressed. Effective January 1st all employees will be live in the new SLFPA-E payroll. Time clocks will be ordered and all employees will be on ADP timekeeping. Vendors providing vision, dental and other supplemental benefits have been consolidated and insurance premium updates will be completed by December 3rd.

D. Updates on staffing, successful completion of the benefit fair, and the beginning of regionalizing job functions.

Ms. Chandler advised that the Accountant 3 position must be re-advertised because the applicant selected secured another job at a higher rate of pay. The IT Liaison position was advertised and resumes were received; however, a decision was made based on feedback to table further action on the position at this time. Many of the duties in the job description for the IT Liaison have been incorporated into the job description for the Deputy Finance Director position. The job description for the Deputy Finance Director position is close to finalization and will be submitted to Civil Service for allocation. The individual selected for the Accounting Manager I position will begin work in a couple of weeks. The Finance Department is short staffed; however, the staff is working hard to get the work done.

Ms. Chandler stated that the Employee Benefits Fair hosted by Finance, H.R. and IT staff was a huge success. Excellent feedback was received. She advised that she was able to talk to each employee over the two day period about the impact of insurance leveling across the levee districts.

Ms. Chandler explained that the completion of the payroll consolidation process, which will allow one individual to be utilized for payroll instead of three, will lead to the regionalizing of certain job functions. The regionalization of some functions has already taken place.

E. Internal Audit Report.

Louis Capo, Internal Auditor, provided Committee members with a copy of the Internal Audit Report on Police Details. He explained that Mr. Boese and Police Superintendent Kerry Najolia requested that he review the processes for Police Details. Mr. Boese and Supt. Najolia learned that the Orleans Levee District Police Department (O.L.D. PD) maintained a separate account for the receipt and payment of monies for police details. The account had been maintained for the past 15 to 20 years and at one time had been an accepted practice. However, utilizing a separate account with a single Officer to perform all of accounting functions and no oversight is no longer an accepted practice. The O.L.D. PD has 23 active and 9 to 10 reserve officers; however, 1099's were issued to 106 officers last year by the Officer who maintained the account. The O.L.D. utilized officers from about six other agencies, which brings up the issue of certifications and qualifications. Officers working in excess of the maximum number of hours per day (industry standard is 16 hours) was a common problem. Eleven officers worked in excess of the 16 hour limit with one officer working 32 details in excess of the limit. He reported that he did not see any instances where officers worked details during their O.L.D. working hours.

Mr. Capo advised that all details should be authorized by the Police Superintendent. The EJLD Police work eight to ten details, while O.L.D. Police work approximately 57 details, some of which are not on the approved list and had not been authorized. The EJLD PD did not have a reliable tracking system for details. There is a need to ensure that accurate documentation regarding details is being recorded. He advised that Mr. Boese and Supt. Najolia in their responses concurred with his recommendations.

Mr. Capo reviewed some of the recommendations in the report:

- Creating and staffing a position that reports to the Police Superintendent. to handle scheduling, monitoring and organization of all details organization-wide.
- Establishment of an organization-wide policy to govern all police details, including the maximum number of hours worked in a single day.
- Whenever possible officers should be paid by the businesses utilizing the details. There will be instances when the agency will need to receive the funds.
- Assessment of an administrative fee for officers working details to offset the cost of management and oversight.
- Implementation of software for tracking details.

Mr. Boese commented that he appreciated the thorough job that was done by Mr. Capo. He advised that Supt. Najolia was unable to be at today's meeting. He explained that after the restructuring of the Authority and the appointment of Mr. Najolia as Police Superintendent, they began looking into the situation and learned about the separate account being maintained by the O.L.D. PD. This led to their request for the Internal Audit. The Audit has been a valuable process, and Mr. Boese stated that he and Supt. Najolia concur with the recommendations provided by the Internal Auditor. He emphasized that nothing illegal or unethical was discovered during the audit; however, there are a number of things that can be done better and steps are already being taken to implement the recommendations.

Mr. Luettich inquired about whether Levee District Police Officers are able to work outside jobs as security officers and commented on the potential danger of an officer working excessive hours in this type of situation because he is not being monitored.

Mr. Boese noted that the ability to offer police details to the Levee District Police Officers is important due to the current rate of pay for the positions. Many Officers rely on the additional pay from details. Police details are a standard practice with police organizations; however, oversight is needed.

There was no further business; therefore, the meeting was adjourned at 11:00 a.m.