MINUTES OF
SOUTHEAST LOUISIANA FLOOD PROTECTION AUTHORITY-EAST
FINANCE COMMITTEE MEETING
HELD ON JANUARY 20, 2022

PRESENT: K. Randall Noel, Chair
Roy M. Arrigo, Committee Member
Eugene J. Joanen, IV, Committee Member

The Finance Committee of the Southeast Louisiana Flood Protection Authority-East (FPA or Authority) met on January 20, 2022, at the Joseph Yenni Building, 2nd Floor Council Chambers, 1221 Elmwood Park Blvd., Jefferson, Louisiana. Mr. Noel called the meeting to order at 10:30 a.m.

Opening Comments: Mr. Noel requested that updates on the FPA's insurance coverage and investments be added to the agenda.

Adoption of Agenda: The Committee adopted the agenda.

Approval of Minutes: The Committee approved the minutes of the Finance Committee meeting held on October 21, 2021.

Public Comments: None

Regional Finance Director's Report:

Denise Businelle, Regional Finance Director, provided the following report:

- The final FY 2021 Finance Audit Report was received.
- An auditor from the Legislative Auditor's Office arrived at the FPA on January 10th to audit documentation on police details and a wire transfer that was made in December, 2017. The auditor requested documentation for calendar year 2021 on payroll for all employees for regular pay and all police detail pay. Finance staff provided the requested information. The auditor then requested additional information from Finance, which was provided. The auditor went to the Orleans Levee District Police Department headquarters to obtain additional information. The FPA is waiting to hear back from the auditor.
- Pronto training for the Asset Management Software has been on-going and time consuming for Finance and Purchasing staff. The system will go live on July 1st.
- Finance is in the process of developing the FY 2023 budget. The data was received last week and meetings will be scheduled with department heads in the coming weeks. The budget meetings must be coordinated so that they do not interfere with software training. The draft budget will be presented at the February meeting.

- The Finance team is working with the State on GASB 87, which is an accounting policy that changes the way that State agencies/entities report leases (e.g., rental of copiers). Finance staff participated in on-line training/meetings in order to comply with the policy and learn the new software system that will track leases. Ericksen Krentel, Division of Administration, and Deloitte and Touche staff members have been assisting the FPA's Finance staff by answering questions.
- Finance has been testing transactions with Positive-Pay, a fraud protection program with the FPA's bank, and the tests have been successful. The protection stops fraudulent transactions from going through. Select Finance staff will take part in a short training session next week on the use of Positive-Pay.
- Ms. Businelle advised that she has been learning about the FPA's investment program.

A. Discussion of budgeting process, scheduling and monitoring/review of the process.

Mr. Noel requested, as Treasurer, that he be advised when the numbers are developed for the budget so that he can review them. Ms. Businelle advised that she planned to be more involved in the budget process and the meetings with department managers. Kelli Chandler, Regional Director, noted that budget preparation will be more challenging this year because of inflation, price increases and supply chain issues. Mr. Noel suggested that the committee chairs be invited to the departmental meetings when the budget for the departments associated with their committees are discussed.

Mr. Arrigo offered a motion to amend the agenda to include updates on the FPA's investment program and insurance coverages. The motion was adopted.

B. Discussion of the Fiscal Year 2021 Financial Audit Report.

Josh Faubert, CPA, Manager in the Audit and Accounting Services Department of Ericksen Krentel, provided information on the audit of the financial statements as of June 30, 2021. He summarized the audit report conclusions:

- An unmodified opinion (a clean opinion) dated November 3, 2021, was issued on the financial statements.
- There is a "fairly stated in relation to" opinion for the Schedule of Compensation Benefits, Other Payments to Agency Head and Annual Fiscal Report to the Governor's Office.
- There was no assurance, but limited procedures were applied on the Management's Discussion and Analysis and the Required Supplementary Information.

Mr. Faubert pointed out that the Capital Assets totaling $6.9 billion include the value of the Hurricane and Storm Damage Risk Reduction System (HSDRRS). Depreciation of the HSDRRS will be shown in future years as a net loss.

Mr. Noel asked how much of the non-flood assets was included in Assets. Mr. Faubert responded that the non-flood assets are not very significant in this area because the fixed assets were transferred back to the Orleans Levee District. Therefore, the Lakefront Management Authority's assets are mainly cash investments and things of this nature totaling around $10 million. Mr. Noel asked did that include the Lakefront Airport, Lakeshore Drive and other non-flood assets. Ms. Chandler replied, yes, and that all of the proprietary funds totaled approximately $21 million.

Mr. Faubert explained that the main changes in Assets were due to the growth of investments primarily because of the net income from the Orleans Levee District (O.L.D.) Special Levee Improvement Project (SLIP) fund and less money spent than expected on levee improvements ($5 million net). The decrease in receivables was mainly due to FEMA receipts.

Mr. Faubert advised that the current liabilities are approximately $19.6 million versus current assets of $172 million for the entire organization. The investment in Capital Assets is the main portion of the liabilities. There is an $8 million increase this year in the Pension and Other Postemployment Benefits (OPEB) liabilities. A large payment to the U.S. Army Corps of Engineers (USACE) was included for the East Jefferson Levee District (EJLD) pre-Katrina project.

Mr. Faubert showed a diagram of the income statement, which included transfers from other agencies totaling $920 million (transfer of HSDRRS assets in the current year), tax revenues totaling close to $60 million, and uses of funds totaling about $67 million.

Mr. Faubert explained that from a fund balance basis (not including pension, OPEB and depreciation), the O.L.D. had a net loss of $4,000, the EJLD had a net income increase of $60,000, and the Lake Borgne Basin Levee District (LBBLD) showed a net income increase of $3.9 million primarily due to the transfer from the Authority's books in anticipation of the transfer of the pumping and drainage system.

Mr. Faubert explained that the financial statements were the responsibility of management and the auditors' responsibility was to form and express an opinion on the financial statements and obtain reasonable, but not absolute, assurance that they are free from material misstatement. The auditors considered internal controls as part of the audit, but do not provide an opinion on their effectiveness. The auditors are required to inform the FPA about material illegal acts and none were noted. There were no significant new accounting policies this year. There were no transactions that lacked authoritative guidance. There were several sensitive estimates that effect the financial statements (i.e., depreciation expense; valuation of investments; pension and OPEB liabilities; and the amounts due to the USACE, especially those recorded on the O.L.D.'s books; and the valuation of the USACE's transfer of HSDRRS assets). The financial statement disclosures were neutral, consistent and clear. There were no significant difficulties encountered in performing the audit. Any uncorrected misstatements were not material to the financial statements. There were no significant disagreements with management. Management provided a management representation letter to the auditors with the representations that were requested. There were no consultations with outside independent accountants. There were no other audit findings or issues.

Mr. Faubert addressed the two additional reports:

- The Internal Controls Communications – There were no material weaknesses, no significant deficiencies and no material instances of non-compliance.
- Reports Required for Uniform Guidance (single audit) – There were no material weaknesses and no significant deficiencies that would have a material effect on the major programs.

Mr. Faubert thanked Ms. Chandler, and Maria Chedid, FPA Accountant Administrator, for their assistance, and the Board for having Ericksen Krentel as their auditors. Ericksen Krentel has two years remaining on a three-year contract.

C. <u>Update on the FPA investment program.</u>

Richard Kernion, Financial Advisor with Edward Jones, distributed a copy of the FPA Portfolio Analysis dated January 19, 2022, and provided an update on the investment program. Last year the FPA intentionally maintained much of the extra cash in the LAMP (Louisiana Asset Management Pool) account due to low interest rates with the thought that interest rates would rise. Mid-2021 interest rates (10-year Treasury rate) bumped up from 1.2% to about 1.7% and then decreased to about 1.2%. After discussion with the Treasurer, Edward Jones put some of the monies to work at the time of the rate increase. The Federal Reserve has indicated that rates would rise three times, and possibly a fourth time, in the next year. Interest rates tend to move ahead of what is expected. In November the two-year Treasury was paying 0.13%; today the rate is 0.9% looking ahead at what is anticipated next year. The FPA left over $60 million in the LAMP account waiting for other opportunities. He anticipated that in the couple of months, as Federal rates are raised for the first time, the FPA will look into putting some of the LAMP monies to work with short term (one year to 18 months) investments.

Mr. Kernion explained that the FPA has approximately $115 million between the LAMP and the Edward Jones accounts with $61 million at LAMP and about $53 million with Edward Jones. Monies at LAMP are available instantly by request. The maturities of the investments with Edward Jones are as follows: $7 million in 2023, $12 million in 2024, $25 million in 2025, and $9 million in 2026. As the year goes on, he anticipated investing money from investments that mature at the end of 2022 in investments that mature in 2023, so that those monies can be reinvest at higher rates should that occur. The current LAMP rate is 0.006%. The Edward Jones money market rate is 0.01%. Therefore, overnight monies should remain in the LAMP account. One-year Treasuries are starting to show rates of about 4/10ths of one percent per year. Although the FPA is diversified in the timing of maturities, the average return is less than 4/10ths of one percent, which is significantly less than the rate of inflation. He expressed concern about losing the ability to pay for future projects by five or six percent this year, hopefully by a lesser amount in 2023, and, if interest rates rise and inflation decreases over time, breaking even by 2024 or 2025.

Mr. Kernion pointed out that three Edward Jones accounts were funded and that five accounts were not funded. He anticipated that as projections develop for levee lifts, wet gate maintenance, etc., that monies will be earmarked as holdings for future projects. This has not yet taken place due to the transition of leadership. He anticipated working on this issue with the Regional Director and Regional Finance Director.

Mr. Noel pointed out that the Board adopted resolutions last year for setting up reserve accounts for projects. Ms. Chandler advised that the initial calculation was done prior to the USACE's most recent estimates for future levee lifts. Therefore, she will meet with Ms. Businelle concerning revising the calculations based on the newest USACE estimates and then begin earmarking monies to set aside. Ms. Businelle will be the primary contact for Edward Jones. Mr. Noel added that he, Ms. Businelle and Ms. Chedid will participate in the conference calls when monies in the range of $5 million to $10 million are moved.

D. <u>Update on insurance coverages.</u>

Ms. Chandler advised that Property Insurance was renewed for a one-year period at a premium slightly higher than the estimated cost in December; however, the premium for Workers Comp Insurance was lower than the estimated cost, resulting in a net effect. The other coverages were extended and will be reevaluated, along with Property Insurance, in April. Mr. Noel reminded the Committee that in December the Board authorized the Regional Director to take the appropriate action should a better quote be received for certain coverages.

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