OFFICE OF INSPECTOR GENERAL
JEFFERSON PARISH

FOLLOW-UP OF Jefferson Parish Finance Authority

2016-0021

FOLLOW-UP REVIEW
ISSUED 7/16/2020

Office of Inspector General
Jefferson Parish

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July 16, 2020

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Audit #2016-0021’s Follow-Up Audit of Jefferson Parish Finance Authority (JPFA), dated 12/12/2017.

The Jefferson Parish Office of Inspector General (JPOIG) conducted a **follow-up review** of the **Audit of Jefferson Parish Finance Authority (2016-0021),** dated 12/17/2017. Follow-up reports monitor the implementation of recommendations previously made. The review demonstrates that most recommendations were resolved. Nine recommendations were resolved, two recommendations were unresolved, and one recommendation was resolved-in-part. Resolution of the issues fall primarily with the management of the JPFA.

The audit follow-up process does not require a written response, nor do we include any external commentary as each finding has already been addressed through the JPFA’s initial response to the original report. In the interest of facilitating positive change, we will make arrangements to meet with any recipient who may wish to discuss the report or a corrective action plan.

I appreciate the sincere and earnest efforts by the staff of the JPFA and others in the Administration who worked with us during this effort

Respectfully,

David McClintock

David McClintock

cc:
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Date of Report: 07/16/2020	**PUBLIC FOLLOW-UP AUDIT**	**Case:** 2016-0021
Period of Review: Fiscal Years 2018, and 2019	**Report By:** JPOIG Staff	**Status:** Final
Subject of Review Jefferson Parish Finance Authority Public Trust		

STANDARDS

Pursuant to the Jefferson Parish Code of Ordinances (JPCO) §2-155.10(11)(a), the Jefferson Parish Office of Inspector General (JPOIG) initiated a follow-up review of JPOIG audit report 2016-0021 ("Original Audit) dated 12/12/2017. The follow-up audit was performed in accordance with the code of ethics and standards of the International Professional Practices Framework (IPPF), promulgated by the Institute of Internal Auditors (IIA).

ACRONYMS

The following acronyms appear in the document:

HOME	Home Investment Partnership	**JPCO**	Jefferson Parish Code of Ordinances
JPOIG	Jefferson Parish Office of Inspector General	**SMAP**	Southern Mortgage Assistance Program
JPFA	Jefferson Parish Finance Authority		
JP or Parish	Jefferson Parish		

BACKGROUND

On 12/12/2017, the JPOIG issued a public report titled "Jefferson Parish Finance Authority – 2016-0021". The JPOIG received three separate, written responses to the audit report: (1) Greg G. Faia, Chairman of the Board of Trustees for JPFA, (2) Marcy Planer, Board member of the JPFA, and (3) Councilwoman Jennifer Van Vrancken. A copy of the full report can be located on JPOIG's website. The report's audit period was from 01/01/2015 through 6/30/2017. The audit resulted in twelve (12) findings related to staff and Board expenses, professional services expenses, and the loan down payment assistance program. The audit determined cost exceptions totaling in excess of $2.7 Million. This report assesses corrective actions taken by the JPFA's management since the issuance of the original report.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objective

The primary objective of the follow-up review is to determine whether JPFA's management has effectively implemented the recommendations made in the JPOIG's original audit report issued in 12/2017. Additionally, the follow-up will also evaluate the efficiency and effectiveness of any efforts made to address the recommendations. If matters not addressed in the original audit were noted as part of this effort, additional observations will be included as part of the follow-up report.

Scope and Methodology

To accomplish the above objectives, the following procedures were performed:

- A review of applicable resolutions and contracts between the Parish and the JPFA;
- Interviews with the JPFA's management and staff to determine if corrective action plans have been effectively implemented since the issuance of the original report;
- A review of the JPFA's policies and procedures;
- Research and analysis of the JPFA's financial records and external audit report for fiscal year 2018 and 2019.
- Review of documents, invoices and records supporting certain expenditures selected for testing in fiscal year 2018.
- Investment statements for the period ending May 31, 2020.
- Loan Volume Reports provided by the agency for the years 2012 through 2019.

The JPOIG determined that nine of the twelve recommendations were resolved, one was recommendation resolved-in-part, and two recommendations remain unresolved. A detailed discussion of each recommendation is detailed in the Follow-up Results section. The table below summarizes the results of the JPOIG follow up audit by finding. Some findings have multiple recommendation elements:

Table 1	Follow-Up Summary				
Finding	**Topic**	**Items Reviewed**	**Resolved**	**Un-Resolved**	**Resolved In-Part**
#1	Employees Misclassified	6	✓		
#2	Executive Director	4			✓
#3	Assistant Director	4	✓		
#4	Retirement Benefits	9	✓		
#5	Trustee Per Diem	4	✓		
#6	Travel Expenses	3	✓		
#7	Professional Services Fees	9	✓		
#8	SMAP Premium Pricing	4		✗	
#9	HOME Fund	2	✓		
#10	Financial Position/Sustainability	15		✗	
#11	Operating Transfers	4	✓		
#12	Self-Governance		✓		

Current Financial Trends for the JPFA:

Since fiscal year 2012, the JPFA has incurred a total cumulative deficit of $6.2 million[1]. See Chart #1.

The trends depicted here are driven largely by the JPFA's current business model, where the main source of revenue is generated from the issuances or sales of bonds and the related investments that collateralize these bonds. Normally, the entities surplus activity results from either a bond roll up, wherein the bond investment assets are sold to pay off the bonded debt, and the residual monies are retained by the JPFA. It should be noted that cumulatively, the JPFA continues to spend more operating dollars than the entity is able to support. Investment values were also negatively affected post 2019, as the markets adjusted in early 2020 due to Coronavirus-related downturns.

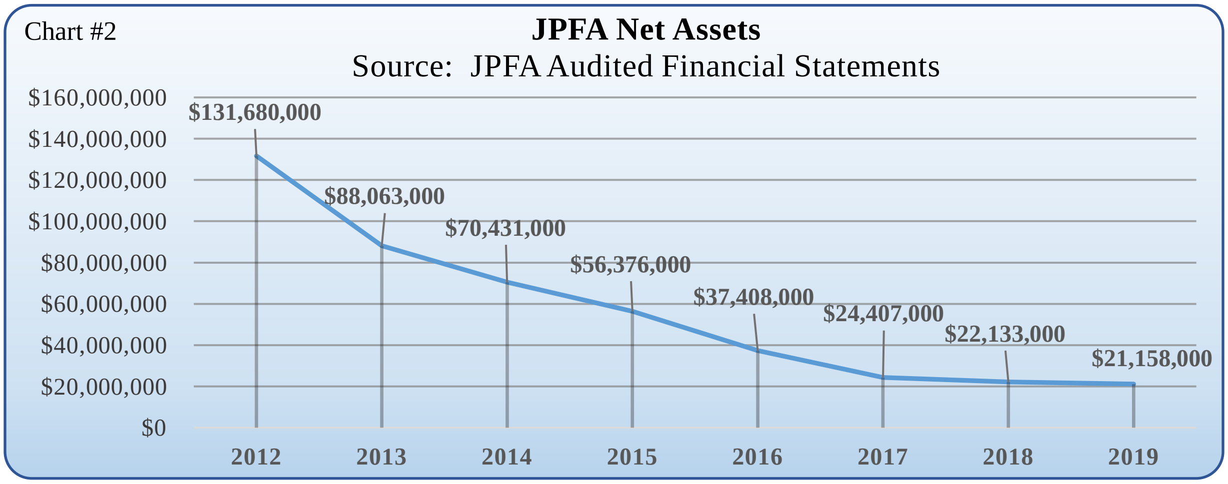
JPFA Net Asset Balances

Considering the JPFA's audited net assets the JPOIG determined that there was a decrease of $3.2 million between 2017 and 2019. The downward trend has continued since 2012, when net assets totaled $131.7 million. It was noted that the JPFA's audited 2019 financial report reflects net assets at $21.2 million.[2]

Updated values of investment balances since the beginning of 2020, indicate a further decline of .6 million, or values sitting at $20.6 million as of May 31, 2020. The JPFA has outstanding bonds of $10.2 million as of December 31, 2019.[3] The residual non-restricted assets remaining are estimated to be $10.4 million. With average annual deficits totaling $778,500 per year, as depicted in Chart #1, the JPFA's future sustainability is calculated to be a term of approximately

[1] Based upon the JPFA audited financial reports for fiscal years ending 2012-2019.
[2] Based upon the JPFA audited financial reports for fiscal years ending 2012-2019.
[3] Based upon the JPFA audited financial report for fiscal year ending 2019.

13.3 years.[4] This calculation assumes that annual loan volumes will remain at the levels indicated in the following section.

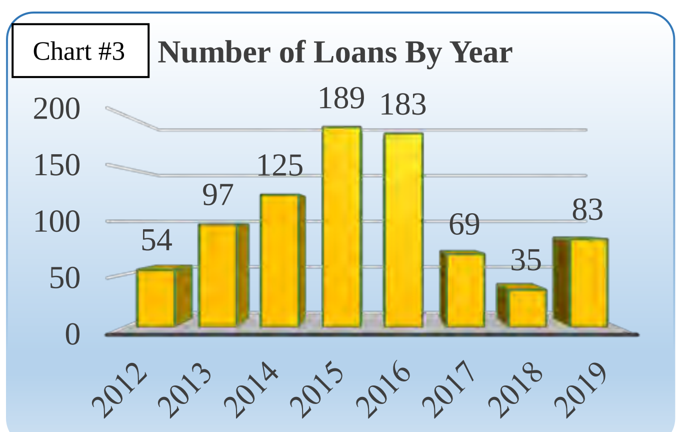


The JPOIG remains concerned regarding the fiscal sustainability of the JPFA as a result of decreasing loan volumes, and revenues, decreasing asset values, decreasing investment valuations, and continued elevated operating expenditures. Additionally, the JPOIG notes that the JPFA has not produced a business plan or strategy by which the Parish, and the public, could evaluate the entities fiscal health.

The trends illustrated above are clear, while reasonable solutions to fiscal security are not. At present there are resources available to function during a continual decline; however, without a reversal in fiscal status the Parish will soon be faced with difficult financial questions similar to those experienced preceding the lease and pending sale of the two Parish hospitals.

Loan Volume Trends

Chart #3 illustrates the JPFA's loan volume for all programs from 2012-2019.[5]



Loan volume peaked in 2015 and 2016, during a period when home lending market rates were elevated. In such environments, which can be complex, the cost of home ownership can be a more difficult hurdle for low to middle-income home buyers with less available resources for down-payments. In the

[4] Total Cumulative deficit per Chart # 1 is $6,228,000 divided by 8 years equals $778,500 average annual deficit.
[5] Based upon loan volume data obtained from the JPFA during the follow-up audit.

years following, loan volumes dropped to a low of 35 in 2018 and rose meaningfully to 83 in 2019.

As a point of comparison, in the past year, a comparable agency, Capitol Area Finance Authority (CAFA) based in Baton Rouge, processed 102 loans of a similar type in the year 2019. CAFA serves a populace comparable in size to that of the JPFA, including loans made to residents of Jefferson Parish.[6]

In our original audit report we discussed in depth the financial lending components that result in revenue to the JPFA. Thus, loan volumes are relevant to long term financial health. With JPFA's current operating expenses of approximately $965,000 a continued decline in net assets should be anticipated.

Operating Expenses

The following in an excerpt of the 2019 Audited Financial Statements. As seen in the table below, operating expenses increased by $106,000 due to an increase in other operating expenses of $82,000 grant expense of $13,000 and an increase in uncollectible down payment assistance of $53,000 from the prior year. Presented in thousands of dollars.

	2019		**2018**		**Variance**	
Interest on debt	$	251	$	286	$	(35)
Servicing fees		56		63		(7)
Trustee fees		30		30		-
Uncollectible DP assistance		53		-		53
Grant expense		13		-		13
Other operating expenses		562		480		82
Total operating expenses	**$**	**965**	**$**	**859**	**$**	**106**

FOLLOW-UP RESULTS

The three (3) potential categories of corrective action are:

1. Resolved - The Department/Parish/Entity has implemented actions that have, or should if implemented; resolve the core findings/concerns noted in the original report.
2. Resolved, in part - The Department/Parish/Entity has implemented actions in response to the audit but the actions do not fully address the findings/concerns raised in the original report.
3. Unresolved – The Department/Parish/Entity has not implemented actions that resolve the core findings/concerns noted in the original report and/or rejected the recommendation in the original report.

[6] CAFA offers comparable loan programs statewide, including in Jefferson Parish. Although the JPFA is not statewide, the JPFA does offer loan programs to residents of other neighboring parishes.

Finding #1	Employees Misclassified as Parish Employees	Resolved

JPOIG Recommendation

The Parish should:

(1) Recognize the JPFA as a separate entity and sever the inappropriate and unsupported relationship with all JPFA employees,
(2) Ensure that all persons recorded as Parish employees are in fact employees of Jefferson Parish government entities established by Charter or Ordinance, and
(3) Seek to clarify and redress any past reporting that has been made to third parties concerning JPFA employees.

The JPFA Board, based upon its authority as set out in the Trust Indenture, should implement the following:

(1) Human Resource policies and procedures for all employees, including the Executive Director, and
(2) A salary and benefits plan to include salaries and benefits supported by policy and procedure.

JPFA's Response

"The Executive Director "has been hired as a JPFA employee; An intergovernmental agreement (IGA) between Jefferson Parish and the JPFA mandates that all Authority hires after January 1, 2018 must be employees of the Authority. The current parish employees assigned to the JPFA will be phased out by attrition allowing them to maintain their civil service property rights as they are all vested in the classified system of Jefferson Parish."

Validation Results

After review of relevant documents the JPOIG observed the following:

The Parish:

(1) The approved an IGA that adequately recognizes the JPFA as a separate entity and includes a plan to sever the inappropriate and unsupported relationship with all JPFA employees,
(2) Ensured the IGA set forth an attrition plan for all JPFA employees who are in fact, civil service Parish employees.
(3) Through its payroll reporting function, has corrected past reporting inaccuracies to third parties concerning JPFA employees.

The JPFA Board:

(1) The JPFA is currently mirroring the Parish's current civil service pay plans, and human resources policies and procedures until such time the current employee's attrition from the JPFA, and the JPFA elects to hire or replace existing staff.

(2) Through current Executive Director, indicated that no action is planned by the board on a salary and benefits plan beyond what the Parish uses, or for the completion of a salary and benefit analysis.

Finding #2	Executive Director Misclassified as a Parish Employee	**Resolved In-Part**

JPOIG Recommendation

The JPFA Board implement the following regarding the Executive Director:

(1) Review the role and responsibilities of the Executive Director and amend the salary and benefits package so that it is supported by current policy, contract requirements, and the JPFA operating budget.
(2) Relate the Executive Director's salary to performance metrics based upon meeting JPFA's mission.

JPFA's Response

The current Executive Director "has properly separated from Jefferson Parish, ending her term of employment and she is solely an employee of the JPFA."

Validation Results

The JPOIG observed the following that:

(1) The JPFA amended policies and procedure manual effective 1/1/2019 and entered into an employment directly with the Executive Director.
(2) The current Executive Director confirmed that the Board has no action planned to relate the Executive Director's salary to specific performance metrics based on the agency's mission.

Finding #3	Retention of the Assistant Director as a Parish Employee	**Resolved**

JPOIG Recommendation

The JPFA Board, based upon its authority as set out in the Trust Indenture, implement the following:

(1) Evaluate all position descriptions, including the Assistant Director,
(2) Revise the current job descriptions to reflect the knowledge, skills and abilities to properly operate the business of the JPFA, and
(3) Establish policies and procedures for selection and retention of individuals in a manner which does not unnecessarily reduce the applicant pool.

JPFA's Response

The former Assistant Director has retired and the position has been eliminated from the Jefferson Parish classified system pay plan. The Executive Director's corrective action plan indicated that no further action is planned by the Board.

Validation Results	

After review of relevant documents the JPOIG observed that:

(1) The JPFA Board has not moved to refill the position of Assistant Director.
(2) The JPFA has mirrored the current civil service pay plans and human resources policies and procedures.
(3) The JPFA intends to establish personnel policies and procedures to coincide with the eventual hiring of JPFA employees.

Finding #4	Parish Retirement Benefits	**Resolved**

JPOIG Recommendation

The JPFA Board should execute a written request that PERSLA make a determination as to whether JPFA may participate in PERSLA.

JPFA's Response

The Current Executive Director stated in corrective action plan that the JPFA executed an Agreement with the Parochial Employees' Retirement System of Louisiana (PERSLA) on June 18, 2019 to extend benefits to eligible officers and employees of the JPFA.

Validation Results

After review of relevant documents the JPOIG observed that the the Louisiana Legislature amended RS11:1902 and 11:1903 to include employees of public trusts whose sole beneficiary is a parish of the State of Louisiana, including those of the JPFA.

Finding #5	Excessive Trustee Per Diem Payments	**Resolved**

JPOIG Recommendation

The JPFA Board, based upon its authority as set out in the Trust Indenture:

(1) Reduce the meetings to monthly, absent exigent circumstances, and
(2) Evaluate and amend the current policy authorizing payment of extra per diems.

JPFA's Response

The former Executive Director stated: "The by-laws of the Authority were amended to state that the board will meet twice per month cutting meeting frequency by fifty (50%) percent."

Validation Results

After review of relevant documents the JPOIG observed that:

(1) The JPFA Board reduced the regular meeting schedule from weekly to the first and third Monday of each month
(2) The per diem amount of $150 was unchanged. The JPOIG compared the 2017 and 2018 meeting schedules.

(3) The number of meetings was reduced from 42 in 2017 to 26 in 2018. Total amounts of board per diems were $33,300 in 2019 and 37,200 in 2018.[7] Language in the JPFA Policy and Procedures document did not address "extra" or special meetings, but states that: "The number of Board meetings shall not exceed twenty-six (26) per year."

Finding #6	Travel Expenses	**Resolved**

JPOIG Recommendation

JPFA Board, based upon its authority as set out in the Trust Indenture:

(1) Establish and maintain policies and procedures to provide increased control over travel expenditures and reimbursements. These should include the following:
   a. Specifications of personal travel such as extended stays, preferred routes and airlines, preferred seating, upgrades, and so on.
   b. Specifications on travel advances and the process to follow when airfare and accommodations are booked and paid for in advance.
   c. Monitoring of the JPFA AMEX card expenditures including invoice requirements and approval procedures.

(2) Evaluate the Executive Director's receipt of car/cell phone allowance to include:
   a. The amount of the allowance,
   b. A specific allocation of the car allowance from cell phone allowance to ensure accurate calculation of mileage reimbursement, and
   c. Require justification for additional vehicle reimbursement and expenditures.

JPFA's Response

JPFA former Executive Director stated: "This finding will be remedied by the oversight of the executive director as well as the adoption of a more stringent policy regarding travel. Further, the JPFA no longer possesses a credit card. The new executive director's car allowance has been adjusted to coincide with that of IRS reimbursement guidelines."

Validation Results

After review of relevant documents the JPOIG observed that:

(1) The JPFA amended policies and procedures effective 1/1/2019 to address the recommendation to establish and maintain policies and procedures to provide increased control over travel expenditures and reimbursements. The JPFA no longer utilizes a credit card for travel expenses.

(2) The JPFA provided the employment contract for Ms. Brolin. The JPOIG reviewed 100% of travel expenses in 2018, and noted no exceptions.

[7] Based upon the JPFA audited financial statement for fiscal year ending 2019.

Finding #7	Professional Service Fees	Resolved

JPOIG Recommendation

The JPFA Board should:

(1) Adopt adequate procurement policies and procedures for securing professional services, to include competitive advertisements, scope of work to be performed, minimum qualifications, and the selection criteria that will be used by the JPFA.
(2) Adopt adequate policies and procedures for contracting professional services, to include sufficiently detailed services to be performed (scope of work), deliverables to be provided, compensation, and requirements for invoicing and timekeeping, etc.

JPFA's Response

The JPFA board agreed, with a corrective action plan to evaluate and strengthen policies and controls. The Board also sought the Attorney General's opinion on compensation structure for Professional Service fees.

Validation Results

After review of relevant documents the JPOIG observed that:

(1) The JPFA amended policies and procedures manual includes assurance that the Executive director ensure competitive advertisements which includes the scope of work, the minimum qualifications, and the selection criteria that will be used by the JPFA.
(2) Professional contracts and sample invoices reviewed were sufficiently detailed to describe the services to be performed, deliverables to be provided, compensation, and specific requirements for invoicing and timekeeping.
(3) Professional fees expense was reported at $70,300 for fiscal year 2019.[8]

Finding #8	Premium Pricing to Borrowers-SMAP	Unresolved

JPOIG Recommendation

The JPFA Board develop a process, including:

(1) Borrower training courses, as utilized in other similar entities,
(2) "Exhibit D" disclosure language which clearly expresses the higher interest rate associated with the assistance to the borrower.
(3) Require participating lenders to explain the premium interest rate and the impact this has over the life of the loan before the borrower signs the disclosure.

JPFA's Response

"There will be no corrective action for this finding as the JPFA strongly disagrees with the position of the JPOIG regarding this matter; Exhibit D, which is executed prior to all closings, includes information regarding a possible higher rate."

[8] Based upon the JPFA audited financial statement for fiscal year ending 2019.

The current Executive Director provided the modified D-SMAP and D-LAP-DPA letter in her corrective action plan.
Validation Results After review of relevant documents the JPOIG observed that: (1) The JPFA did not provide evidence of borrower training courses, as utilized in other similar entities. (2) The single modification to the 2-2019 letter was the elimination of the reference the percentage of down payment. (3) The JPFA did not provide evidence supporting a requirement that participating lenders explain the premium interest rate, and the impact this has over the life of the loan before the borrower signs the disclosure.

Finding #9	Overpaid HOME Fund Service Fees	**Resolved**
JPOIG Recommendation The Parish: (1) Recover all funds that were expended and not adequately supported by the JPFA. (2) Implement policies to ensure all CEAs involving the distribution of federal grant funds include specific provisions to document the expenditure of funds in accordance with the terms of the grant. The JPFA Board: (1) Return all funds to the Parish that are not supported with adequate documentation. (2) Implement policies and procedures to assure an effective compliance plan to govern the management and expenditure of grant funds in accordance with applicable grant terms.		
JPFA's Response The former Executive Director stated: "The funds have been returned to the Department of Community Development; the overpayment is a result of the misrepresentation of the scope of work needed by Community Development. Once scope of work was modified, funds were returned."		
Validation Results After review of relevant documents the JPOIG observed that: The Parish: (1) Recovered funds that were expended and not adequately supported by the JPFA. (2) Implemented policies to ensure all CEAs involving the distribution of federal grant funds include specific provisions to document the expenditure of funds in accordance with the terms of the grant. The JPFA Board: (1) Returned all funds to the Parish that are not supported with adequate documentation. (2) Implemented policies and procedures to assure an effective compliance plan to govern the management and expenditure of grant funds in accordance with applicable grant terms.		

Finding #10	Agency Financial Position and Future Sustainability	Unresolved

JPOIG Recommendation

The JPFA Board, based upon its authority as set out in the Trust Indenture:

(1) Develop and adopt a comprehensive annual budget for the JPFA to include all funds under its purview.
(2) Develop and adopt a long-term strategic plan for the JPFA's management which includes fiscal stability and operational programs.
(3) Implement a monitoring plan to track budget to actual expenditures, and inform the JPFA Board.

JPFA's Response

The former Executive Director provided a description of the JPFA goals, an explanation of lower productivity, and future marketing plan to increase loan volume. The current Executive Director Ruth Walker stated that as she settles into her role with the JPFA, she may revisit the development of a strategic plan in the future.

Validation Results

After review of relevant documents including budget drafts, variance reports, trial balance, and investment statements for 2018 and 2019the JPOIG observed that the JPFA Board:

(1) Did develop and adopt a comprehensive annual budget for the JPFA to include all funds under its purview.
(2) Did not develop and adopt a long-term strategic plan for the JPFA's management which includes fiscal stability and operational programs. The new Director stated in an email regarding the CAP that the JPFA Board has taken no action on development of a strategic plan this matter.
(3) Did not implement a monitoring plan to track budget to actual expenditures, and inform the JPFA Board.

Finding #11	Questionable Operating Transfers	Resolved

JPOIG Recommendation

The JPFA Board:

(1) Establish a policy and procedure for providing notice to Jefferson Parish, the Trust beneficiary, of any anticipated sale of Trust assets.
(2) Establish a policy and procedure to guide the budget process, to include anticipated operating transfers.
(3) Ensure that all transfers between funds are made upon resolution of the Board.

JPFA's Response

The former Executive Director provided an explanation of how the JPFA sells bond assets in accordance with normal industry practice, including that the JPFA Board conducts a periodic analysis to determine the value of holding mortgages versus income gained from the sale. The current Executive Director indicated that the JPFA requires Board approval via resolution for all funds transferred into the checking account.

Validation Results The JPOIG reviewed the amended JPFA policies and procedures, board resolutions, the current Director's corrective action plan, and the four operating transfers in the residual account during 2018 totaling $436,400. The JPOIG observed that the JPFA Board: (1) Established a policy and procedure for providing notice to Jefferson Parish, the Trust beneficiary, of any anticipated sale of Trust assets. (2) Established a policy and procedure to guide the budget process, to include anticipated operating transfers. (3) Current Executive Director assured that all proposed transfers between funds are first approved by resolution of the Board.

Finding #12	Lack of Self-Governance.	**Resolved**
JPOIG Recommendation That the JPFA Board sever its inappropriate dependency upon Jefferson Parish government and engage in its own governance structure.		
JPFA's Response The former Executive Director presented an updated and comprehensive policies and procedures manual to the Board, and entered into an Intergovernmental Agreement with the Parish that clarified payment for each service, benefit, and the reimbursement to the Parish for paymaster services, office space, security, internet, IT server support, access to group health benefits. Current Executive Director committed to continue work on the resolved items, and to notify the JPOIG when the JPFA Board is ready to consider action on unresolved items.		
Validation Results Out of the total 12 recommendations, the JPOIG considers 9 recommendations resolved, 1 recommendation resolved-in-part, and 2 recommendation unresolved. The JPFA has made significant improvements with regard to its independence as an entity from the parish, transparency of its policies and procedures, and controls on internal expenses. However, as noted in Finding 10, and demonstrated in Figures 1 through 3, the JPFA must consider strategic changes in operations to ensure continued viability and to fulfill its mission.		

Conclusion

It is clear that loan volumes do vary and the cost of operations do not fluctuate accordingly. The JPOIG recognizes that the Parish Council may need to intervene through the JPFA Board to effect substantial positive changes in the strategic direction of the JPFA.