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POSITION PAPER
JEFFERSON PARISH VOLUNTEER FIRE DEPARTMENTS

This position paper is offered by the Jefferson Parish Office of Inspector General (“JPOIG”) regarding for which it contracted.

David N. McClintock
Inspector General

cc: Keith Conley, Chief Operating Officer
Michael J. Power, Parish Attorney
Members Ethics and Compliance Commission

Attachments



OFFICE OF INSPECTOR GENERAL JEFFERSON PARISH



DAVID N. McCLINTOCK
INSPECTOR GENERAL

INTRODUCTION

This position paper addresses the ongoing need for corrective actions regarding the 13 volunteer fire companies (VFCs) in Jefferson Parish that are engaged to perform fire services.

The Jefferson Parish Office of Inspector General (JPOIG) previously completed three audits of VFCs that demonstrated persistent fiscal waste and abuse of public funds. The Parish allowed all 13 VFC contracts to expire without remedying the lack of fiscal oversight and management. Although the Parish committed to certain changes in response to previous audits; it has thus far, failed to fulfill those commitments or exercise control over public funds dedicated to fire services. Those public funds were budgeted at \$25.4 million in Fiscal Year 2016.

In accordance with JPCO §2-155.10 (11) (h), the JPOIG has completed a position paper on the fiscal controls of all VFCs funded through taxpayer revenues which are collected and paid through Jefferson Parish (the Parish).

Objectives

The objective of this position paper is to present and review cumulative data previously reported in separate JPOIG audits. This review further demonstrates the need for increased Parish oversight of the public millage revenues that the Parish utilizes to support the VFCs. Specifically, this report focuses on the following key components:

- The Parish received and transferred property taxes totaling **\$24,428,848** in 2015 to the VFCs. A substantial portion of these funds are at risk of loss due to fiscal mismanagement.
- Lack of controls to prevent fraud, waste and abuse within the Parish's oversight of the VFCs.
- Risk of noncompliance with state law, Parish ordinances and fire protection contracts (or cooperative endeavor agreements) with the Parish.
- Questionable costs ranging between \$1,503,087 and \$5,406,897.^{1, 2}

¹ The basis used for extrapolation is the average percentage of annual questioned costs excluding equipment inventory amounts (6%) that was identified by the JPOIG in the recent audits of three VFCs.

² The basis used for extrapolation is the average percentage of annual questioned costs including equipment inventory amounts (22%) identified by the JPOIG in the recent audits of three VFCs.

Acronyms

The following acronyms or common references are used in this document:

MEVFC	Marrero-Estelle Volunteer Fire Company No. 1
MRVFC	Marrero-Ragusa Volunteer Fire Company No. 3
GIVFC	Grand Isle Volunteer Fire Company No. 1
JPOIG	Jefferson Parish Office of Inspector General
Fire Districts	Jefferson Parish Fire Protection Districts
the Parish	Jefferson Parish Government

Source Documents

Source documents included but were not limited to the following:

- The 2016 Approved Budget document for Jefferson Parish
- MEVFC Public Audit Report
- MRVFC Public Audit Report
- GIVFC Public Audit Report
- Applicable Louisiana Attorney General Opinions
- Louisiana Revised Statutes
- Audited Financial Statements for all VFCs

BACKGROUND

Fire Protection District Property Taxes

The residents of each of the seven Jefferson Parish Fire Districts approved millage propositions to levy annual taxes for the purpose of acquiring, constructing, improving, providing, maintaining or operating each district's fire protection facilities and equipment.

In 2016, the Parish collected approximately \$25 million in property taxes for all fire districts. From these funds, the Parish provided each of the VFCs a monthly allotment pursuant to each fire company's individual contract with the Parish.³

Louisiana Revised Statute 39:704 states: "The proceeds of any special tax shall constitute a trust fund to be used exclusively for the objects and purposes for which the tax was levied." Thus, the funds are restricted to a specific purpose. The Parish's system of oversight must reflect, through fiscal reporting controls, expenditures that are consistent with the millage limitations.

The dedicated purpose of the millage is fire protection services. Table #1 sets forth all Fire Districts and the 13 related VFCs engaged contractually by the Parish. All of the 13 VFC contracts are currently expired.

³ In addition to the \$25 million paid to the fire companies, the Sheriff, Assessor, and the Parish also receive administrative fees for processing these funds. Any remaining funds are then allocated to the appropriate Fire District's fund.

Table # 1: Seven (7) Fire Protection Districts and Thirteen (13) Volunteer Fire Companies				
Fire District	District Name	# of VFCs	Fire Company Name(s)	2016 Annual Budgeted Revenues
No 9	Grand Isle	1	Grand Isle	\$782,665
No 4	Lafitte	1	Lafitte	\$692,273
No 3	River Ridge	1	River Ridge	\$3,671,241
No 5	Terrytown	1	Terrytown	\$3,637,455
No 6	Harvey	1	Harvey	\$4,512,323
No 7	Avondale/Bridge City/Waggaman	5	Avondale, Bridge City, Live Oak Manor Nine Mile Point, Herbert Wallace	\$4,322,620
No 8	Marrero	3	Marrero-Estelle, Marrero-Ragusa, Marrero-Harvey	\$7,858,845
		13	Total	\$25,477,422

A further refinement of detailed fiscal information on each VFC is presented below. See Table #2. As shown, in most cases, each fire company's total assets are significant amounts, composed mainly of specialized and costly fire protection equipment.

Since fiscal misappropriation can occur in many forms, all assets available to each VFC is included when considering maximum risk potential. As such, both liquid assets (Total Revenues) and non-liquid assets (Total Assets) are susceptible to fraud, waste or abuse.

Table # 2: 2015 Audited Financial Statements Review (Total Assets and Total Revenues)			
Fire Company	Fire District No	Total Assets	Total Revenues
Avondale VFC, Inc.	7	\$691,066	\$862,072
Herbert Wallace MVFC	7	\$1,152,485	\$1,180,077
LaFitte-Barataria-Crown Point VFC	4	\$1,224,791	\$732,350
Nine Mile Point VFC # 1	7	\$536,064	\$902,078
Bridge City VFC # 1	7	\$1,462,517	\$871,904
Grand Isle	9	\$551,438	\$1,021,225
Marrero-Estelle VFC #1	8	\$4,175,996	\$2,515,356
Marrero-Harvey VFC #1	8	\$5,291,192	\$2,625,066
Marrero-Ragusa VFC # 3	8	\$2,422,321	\$2,551,378
Harvey VFC # 2	6	\$5,253,438	\$3,573,679
Third District VFD	3	\$6,585,030	\$2,639,815
Terrytown Fifth District, VFD, Inc.	5	\$4,609,957	\$4,074,710
Live Oak Manor VFC, Inc.	7	\$958,600	\$879,138
Totals		\$34,914,895	\$24,428,848

Three Volunteer Fire Company Audits

The JPOIG completed audits⁴ of three VFCs with results that included significant questioned costs and deficiencies in internal fiscal controls.

1. Grand Isle VFC Two-Year Audit Report dated 03/23/2016, with \$458,988 in questioned costs.
2. Marrero-Estelle Two-Year Audit Report dated 11/30/2016, with \$1,489,916 in questioned costs.
3. Marrero-Ragusa Two-Year Audit Report dated 11/30/2016, with \$746,022 in questioned costs.

All three audit reports identified lack of accountability over fixed assets within the VFC's control. Extrapolating the data from the audits listed, it was determined that the annualized questioned costs were:

- 22.13% when equipment inventory was included, and
- 6.15% excluding inventory.

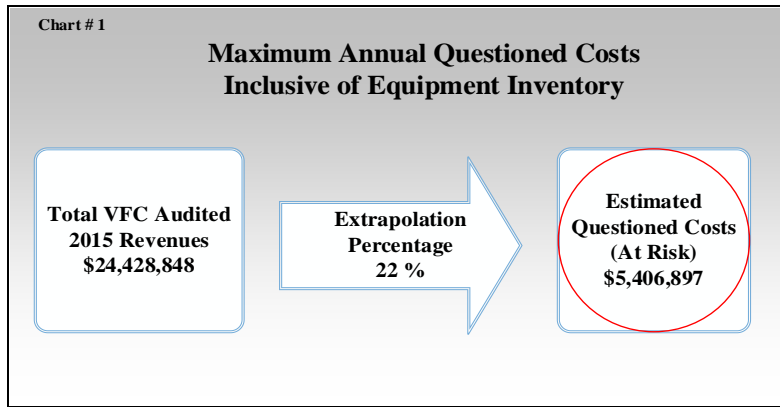
Extrapolation Methodology Introduction

The JPOIG relied upon the results of the above three audits to estimate the full extent of public funds at risk for potential fraud, waste or abuse. The method involved the calculation of two data points (minimum & maximum amounts) in order to determine a range of extrapolated questioned costs over the entire \$25 million in public funds dedicated to VFC operations. Both data points utilized the annualized revenues and questioned costs determined in the previously released audit reports. See [Table #3](#).

Fire Company	2015 Audited Revenues	Questioned Costs	% of Questioned Costs
Grand Isle	\$1,021,225	\$229,449	22.47%
Marrero-Estelle	\$2,515,356	\$744,953	29.62%
Marrero-Ragusa	\$2,551,378	\$373,011	14.62%
Total	\$6,087,959	\$1,347,413	22.13%

The first data point utilizes the percentage of annualized questioned costs inclusive of equipment inventory amounts. The second data point excludes the value/cost of equipment inventory, leaving questioned operational costs. This extrapolation resulted in a maximum potential questioned costs (inclusive of inventory) and minimum potential questioned costs (exclusive of inventory). These results are summarized in Charts 1 through 3, Table #3 above and Table #4 below.

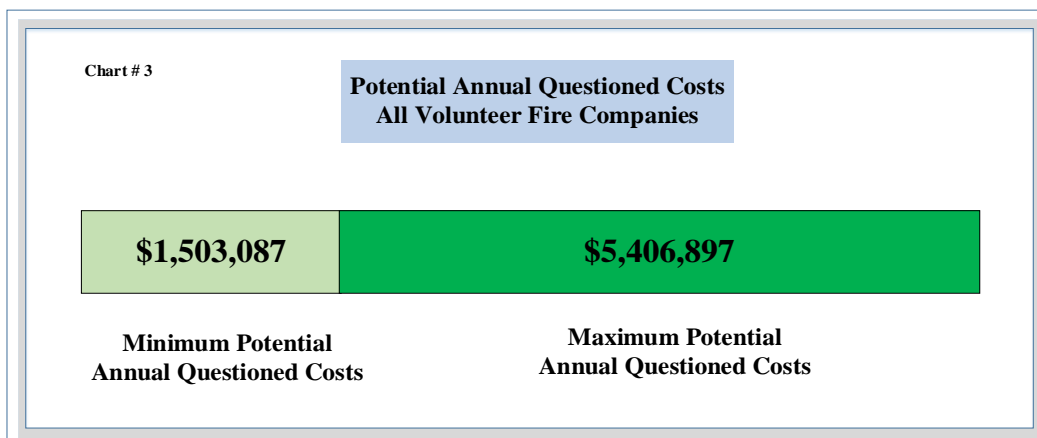
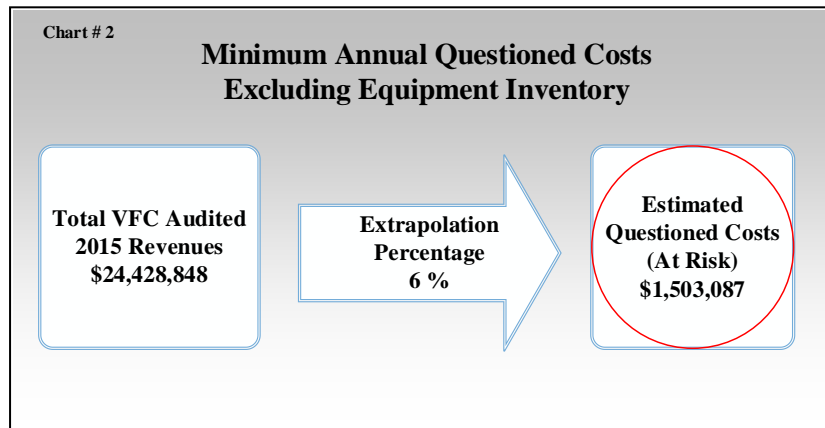
⁴ The JPOIG performed two additional investigations concerning VFCs where similar issues were noted; and in both cases, recommendations were made to improve and strengthen internal controls.



Recent JPOIG Audit Results

Table # 4: Annualized Questioned Excluding Equipment Inventory

Fire Company	2015 Total Annual Audited Revenues	Questioned Costs Annualized	% of Annualized Questioned Costs
Grand Isle	\$1,021,225	\$229,494	22.47%
Marrero-Estelle	\$2,515,356	\$73,842	2.83%
Marrero-Ragusa	\$2,551,378	\$71,251	2.79%
Total	\$6,087,959	\$374,587	6.15%



Significant Deficiencies Noted by VFC External Audit Firms

In addition to the JPOIG audit results, the JPOIG reviewed the results of the 2015 external audits for all of the VFCs within the Parish. The JPOIG noted that 62% of the VFC external audits identified significant deficiencies within internal controls. Additionally, 50% of the deficiencies were repeat issues noted in previous-year reports.

Table # 5: External Audit Internal Control Issues Identified				
VFC	Fire Company	Int. Control Weaknesses	Control Legend	CPA Firm
1	Avondale	2	A,B	Paul C Rivera, CPA
2	Bridge City	3	A,B,C	Uzee, Butler, Arceneaux & Bowes
3	Grand Isle	4	B,C,H,F,R	Paul C Rivera, CPA
4	Lafitte Barataria	2	A,B, R	Paul C Rivera, CPA
5	Marrero-Estelle	2	A,B	Uzee, Butler, Arceneaux & Bowes
6	Marrero-Harvey	1	C	Duplantier Hrapmann Hogan & Maher, LLP
7	Marrero-Ragusa	2	E,G, R	Duplantier Hrapmann Hogan & Maher, LLP
8	Terrytown	2	B,C, R	Paul C Rivera, CPA
9	Harvey	0	None	Duplantier Hrapmann Hogan & Maher, LLP
10	Herbert Wallace Memorial	0	None	Duplantier Hrapmann Hogan & Maher, LLP
11	Live Oak Manor	0	None	Camnetar & Co., CPAs
12	Nine Mile Point	0	None	Duplantier Hrapmann Hogan & Maher, LLP
13	Third Dist.	0	None	Duplantier Hrapmann Hogan & Maher, LLP
Total		18		

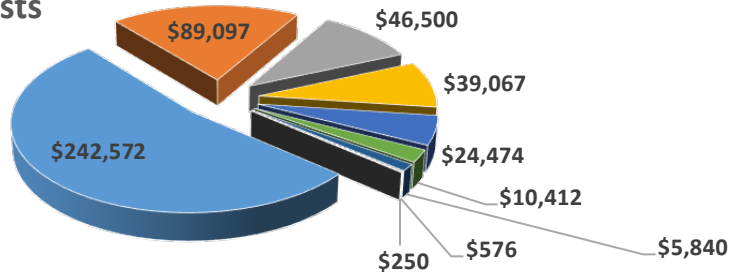
Legend			
A	Compliance with GAAP-Year End Journal Entries	F	Improper Expenditures
B	Lack of Financial Statement Oversight	G	Unsecured Cash
C	Lack of Bank Reconciliation Review/Approval	H	Lack of Accountability over Fixed Assets
D	Lack of Approval for Fixed Asset Purchases/Disposals	I	Lack of Segregation of Duties
E	Lack of Credit Card Purchase Accountability	R	Repeat Issue Noted in Previous Year's Report

Many of the issues identified by the external audits were related to internal controls over cash and liquid assets, which heighten the risk for fraud, waste and abuse to go undetected. The category of repeat issues is also of significant interest as it may be indicative of a failure to correct known weaknesses.

Common themes among both the JPOIG audits and the external audits are found with respect to: (1) a lack of accountability for fixed assets and their supporting records, (2) inadequate review of expenditures and bank reconciliations, and (3) credit card use that was lacking in adequate supporting documentation for amounts expended.

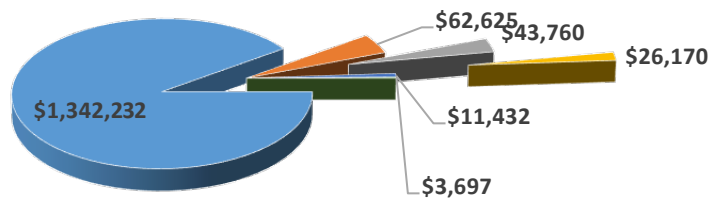
The JPOIG also noted similar issues and reported those as findings in each of the three VFCs audited. Presented on the following page is a summary of total questioned costs for Grand Isle, Marrero-Estelle and Marrero-Ragusa VFCs. These charts depict all types of questioned costs reported for each of the respective VFCs audited.

**Grand Isle VFC
All Questioned Costs**



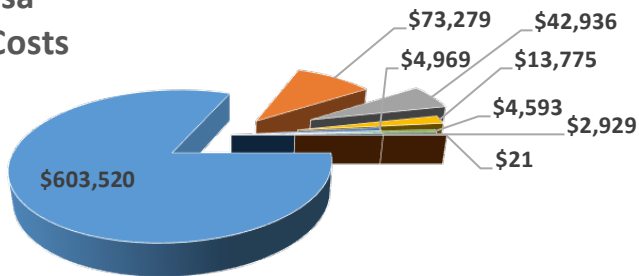
- Improper Disposal of Fixed Assets
- Payments to Board Member
- Expenditures to Other Entities
- Fuel Purchases Accountability
- Travel Per Diems
- Food Expenditures
- Unallowable Cell Phone Expenditures
- Expenditures to Non-Employees
- Falsified Timesheet

**Marrero-Estelle
All Questioned Costs**



- Equipment Inventory Accountability
- Employee Bonuses
- Employee Insurance Deductibles
- Fuel Purchases Accountability
- Food Expenditures
- Flowers, Gifts and Miscellaneous

**Marrero-Ragusa
All Questioned Costs**



- Equipment Inventory Accountability
- Food Expenditures
- Employee Insurance Deductibles
- Late Fees
- Fuel Purchases Accountability
- Restaurant Credit Card Charges
- Flowers, Gifts and Miscellaneous
- Petty Cash Shortage

Volunteer Fire Company Independent Survey

The JPOIG initiated a VFC survey in order to further refine issues and variances among processes and policies employed by the various fire companies. A total of five VFCs responded. The results of this survey indicated that the current internal controls in place are not sufficient to reduce the risk of fraud, waste and abuse of operational funds. For example:

1. Fewer than 50%, or 2 out of 5, of all respondents had policies and procedures that covered standard operational functions.
2. Only one company maintained a surety bond⁵ for its fiscal officer.
3. Eighty percent (80%), or 4 out of 5, of all respondents paid employees bonuses which are prohibited. In most cases, these unlawful bonuses should be quantified and then returned by the recipients to the VFC.
4. Sixty percent (60%), or 3 out of 5, of the respondent companies utilized a third-party accounting service to maintain their accounting records and produce interim fiscal reports.

The survey results and the recent audit findings evidence disparate and ineffective processes, as well as inconsistent and ineffective operational controls among the VFCs.

The VFCs currently manage and expend approximately \$25 million of public funds to perform exactly the same type of service for specific pockets of the Parish community. Despite this common mission, there are no common operational standards or fiscal processes. Table # 6, at right, depicts the listed policies and procedures contained in the survey and the survey results.

Proactive Approach

The JPOIG met with Council and Fire Service officials from Tangipahoa Parish. This parish also contracts with VFCs and has also experienced problems with lack of oversight and accountability for public funds. The officials shared their successful implementation of a comprehensive oversight program for VFCs. Key elements of this program are:

Table #6	JPOIG Survey VFC Policies and Procedures Areas			
	Policies and Procedures	VFC's with Current Policy	Responses Received	%
	Timekeeping	4	5	80.00%
	Payroll	4	5	80.00%
	Expenditure Disbursement	3	5	60.00%
	Procurement	1	5	20.00%
	Interim Financial Reporting	1	5	20.00%
	Vehicle Re-fueling	1	5	20.00%
	Fixed Asset Accountability	2	5	40.00%
	Cash/Bank Management	2	5	40.00%
	Food Purchases	1	5	20.00%
	Credit Card Use	3	5	60.00%
	Training/Travel	4	5	80.00%
	Surplus Property	2	5	40.00%
	Total	28	60	46.67%

⁵ Surety Bond definition: A person or organization that guarantees the action of another. As it relates to surety bonds, the surety (sometimes referred to as the bonding company) is the authorized insurance carrier that guarantees the performance of the surety bond principal.

1. Establishment and appointment of a Fire Services Administrator;
2. Centralized and standardized financial accounting systems;
3. Standardized policies and procedures for all VFCs;
4. Preventative controls such as budgetary oversight and pre-approval of all non-routine expenditures; and
5. Centralized procurement for common goods and services.

This centralized oversight function has been operating successfully for approximately two years. Tangipahoa Parish officials report estimated annual savings in excess of \$300,000, representing 5 % of total budgeted fire services revenues. Jefferson Parish could potentially experience similar savings (estimated at \$1.2 million) through implementation of the measures outlined above.

Observations

The JPOIG noted two opportunities for improving processes that are consistent with the three aforementioned VFC audits.

1. The Parish does not provide adequate fiscal oversight of VFC expenditures to prevent or deter the risk of fraud, waste or abuse. These public funds are designated specifically for fire services and operations.

Although the Parish collects and distributes these tax revenues, to date, the Parish has not taken the necessary steps to control wasteful spending or fiscal abuses within the VFCs.

Based upon the percentage of estimated maximum questioned costs identified in three VFC audits, the JPOIG estimates that more than \$5 million in fire-service funding is at risk.

- a. The Parish should establish a fire services administrator to monitor and correct fiscal deficiencies among the VFCs funded with the Parish citizen's tax dollars.
 - b. Individual VFCs should be required to provide periodic fiscal reports to the fire services administrator, who should have the authority to approve annual budgets, and to disallow expenditures that are wasteful, fraudulent or otherwise not in accordance with the fire services contract or public fire prevention purposes.
 - c. The Parish should implement standardized policies and procedures to ensure consistency and accountability with respect to all fire service expenditures.
 - d. The Parish should implement a process for budgetary oversight that includes preventative fiscal controls over disbursement of public funds.
 - e. Centralized procurement and centralized cash management should be employed to achieve cost savings and economies of scale, and to increase interest earnings.
2. All of the volunteer fire service contracts are expired or otherwise invalid as of this date. Two of the three fire companies audited were operating on a month-to-month contractual basis, and as of this date, all 13 fire companies continue to operate without adequate fiscal oversight. The Parish has allowed these contracts to remain expired for over two years. The Parish administration did not respond to two of the three VFC audit reports issued by the JPOIG.

The JPOIG estimates a maximum amount of \$5,406,897 is at risk, based on audit results applied to the total budgeted revenues for all VFCs within the Parish (\$24,428,848).

The Parish should develop a standardized contract for all VFCs to include:

- a. Terms defining the acceptable uses of public funds for fire service operations.
- b. Periodic fiscal reporting requirements on detailed operations and expenditures.
- c. Penalties and restitution requirements for the misuse of public funds where those funds are expended for unauthorized purposes.