



"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21ST CENTURY"

Sewerage & Water Board OF NEW ORLEANS

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May 8, 2018

The Audit Committee met on Tuesday, May 8, 2018 in the Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at 11:30 A.M.

PRESENT:

Director Dr. Tamika Duplessis, Chairman

Director Robin Barnes

Director Lynes Sloss

Director Lewis Stirling

ABSENT:

None

OTHER BOARD MEMBERS PRESENT:

Director Eileen Gleason

ALSO IN ATTENDANCE:

Marina Kahn, CFO

James Thompson, Office of Special Counsel

Raymond Gable, Internal Audit

Brandy Smith, Audit Director of Postlethwaite & Netterville

Philip Gunn, Managing Director of Postlethwaite & Netterville

Director Dr. Tamika Duplessis began the meeting by stating that there are no action items or executive session on the agenda, so the committee would be moving to the presentation item, which is the Office of Special Counsel Presentation. Robin Barnes then brought up that an item was supposed to be added to the agenda, which was the Legislative Auditor's request for a certification from the board. James informed the committee that to add an item to the agenda would require a unanimous vote. Marina then stated that there was some kind of disconnect on what was to be done with the questionnaire. She found out that she was supposed to fill it out as the current CFO and needs more time to finish doing so. She said she can submit it to the next meeting. James recommended deferring it to the next

meeting. Robin then asked if any deadlines would be missed if the item was deferred. Marina found out that the requested item has a deadline of June 30, 2018. Since the committee will be meeting monthly and there will be another meeting before June 30, 2018, the item will be deferred to next month's agenda.

ACTION ITEMS:

None

PRESENTATION ITEMS:

James Thompson introduced the Office of Special Counsel Presentation. In his presentation, he provided an overview of the role of the audit committee, its structure, functions, responsibilities, etc. James stated that these roles are taken from the bylaws of the board. He then informed the committee that the first meeting's priorities are speaking to external auditors on the financial integrity of the CAFR, discussing the need for a RFP for an external audit of internal controls and audit/legal resources, introducing the Audit Committee Charter, and prioritizing the audit plan. Additionally, he also informed the committee just to make them aware that a few external audits are being conducted on Sewerage & Water Board. These audits are being conducted by the Legislative Auditor and the New Orleans Office of Inspector General.

James then introduced Brandy Smith and Philip Gunn of Postlethwaite & Netterville to discuss the progress on the CAFR. Brandy Smith informed the committee that the audit is an annual audit that has to be submitted to the Legislative Auditor by June 30, 2018. There are a few pressing items needed from Sewerage & Water Board to complete the CAFR in the coming weeks and finish on time. Additionally, the Sewerage & Water Board's financial statements are included in the city's financial report. So, the timeliness of Sewerage & Water Board's audit can impact the timeliness of the city's audit. Director Lynes Sloss asked if the board could be given a list of the items that are still needed to complete the audit. Brandy Smith said she could do so. Director Tamika Duplessis asked what the challenges were that the auditors are facing in trying to retrieve the needed items for the audit. Brandy Smith stated that the first big item they are waiting on is the AR Report and billing support. The auditors have requested a complete list of all of the AR issues with the new billing system, but haven't received it yet. Also, the auditors have requested a list of all of the customer receivables by the year end of 2017 and have not received that list. Plus, they have requested a listing of Accounts Payable, but have not been able to get a detailed listing. So, the auditors do not know when they are getting the AR and AP information, which are big areas that need to be tested. In addition, AP information has to be finalized before the auditors can work on property reconciliation and the grant schedule. The auditors originally requested to have all of this information by May 15, 2018 in order to process the paperwork by the June 30, 2018 deadline. Philip Gunn then informed the committee that they are normally much further along the process with Sewerage & Water Board at this time in previous years than they currently are this year.

Director Lynes Sloss then asked what would happen if the CAFR is not submitted on time. Brandy said that if it's not done on time, then the board would have a late reporting finding by the Legislative Auditor. The city would also have to determine if they would want to then submit their report without our financial paperwork. Director Lewis Stirling asked if the board would receive a fine. Philip Gunn said he can't answer that question, but the implication is that the late reporting finding would affect the bond rating given by other agencies. He cannot answer what the bond rating agencies would actually do in result to the late reporting finding. Brandy then stated that the late reporting finding could prevent funding from the state. In addition, the board would be listed on the Legislative Auditor's website as noncompliant.

Director Eileen Gleason asked if Sewerage & Water Board would be able to submit the information by May 15, 2018. Marina said a team from Cogsdale is working with staffing on the billing issues. She said there are issues with getting the information needed and containing it. And when an organization is working with a new billing system, problems arise with getting the information into a CAFR. Director Tamika Duplessis asked if Marina thinks there will be an issue with meeting the May 15, 2018 deadline. Marina said it is touch and go. Brandy Smith said that even if they do not receive the information from the board by May 15, 2018, they may still be able to complete the audit on time. But, completing the audit on time gets more difficult as the financial reports are turned in later than requested. Marina said they are trying to get all information to Brandy that has nothing to do with the billing system as soon as they can to help expedite the audit.

Director Lynes Sloss asked if the auditors would be opining on the efficacy of the new billing system. Philip Gunn said they would not be. Director Sloss then asked if a management letter/report is given as a result of the audit. Brandy said one would be given if any issues of material weaknesses are found. He also asked that if the information was given by the May 15, 2018 deadline, then could the board review the results of the audit in June 2018. Brandy said they may not have the notes ready from the audit in time for June 2018, but they could probably have the financial statements ready for the board's review.

Director Lewis Stirling expressed his dismay and shock that Sewerage & Water Board is not prepared to deliver the information to the auditors in a timely manner despite knowing it is something done annually. Director Eileen Gleason said she feels this is an issue that needs to be followed closely and get periodic updates on the progress. The committee requested that the auditors maybe give weekly updates to the Finance Committee. Director Stirling also stated he is bothered that problems the board was informed of from last year's audit still seem to be occurring.

James then introduced the next topic of the meeting, which is the need for an RFP for an external auditor to review our internal controls, resourcing, etc. The RFP would be introduced at the next committee meeting. James stated that after speaking to Raymond Gable it seems that Internal Audit has been only able to achieve 40% of their goals. The RFP would help determine what additional resources may be needed to increase efficiency. Director Eileen Gleason asked if Internal Audit has the staffing needed to complete their goals. Chante Powell replied that in her opinion she believes the office is about 80% for staffing needs. James said the RFP would help determine if Internal Audit is staffed fully and correctly.

Next, James introduced the Audit Committee Charter and the topic of prioritizing the audit plan to the committee. He discussed briefly the charter and related documents which was given in each director's packet as an information item for them to read and review. He asked the committee to review the charter when they have time so they may be ready to approve and sign it in at the next meeting.

And finally, he presented his recommendation on topics to discuss over the next twelve months and goals for the committee to achieve on a three year plan. He stated that he would like the committee to review the proposed goals in case they have any input on what they would like to see the committee achieving in the future. He also introduced the concept of the risk management matrix to show how the committee can prioritize risks in an organization.

Robin Barnes expressed concerns of not knowing for sure what information audit committees should be reviewing for a water utility. She felt that the information given in the packets was kind of general in regards to audit committees. She asked if we had gotten information from outside sources on what other water utility audit committees generally review. James said that he had not gotten information from other water utilities, but it will be considered as the Audit Committee is developed. He also told

them that the bylaws do have organizational specific roles for the Audit Committee. Additionally, Director Eileen Gleason and James pointed out that the bylaws do provide for the Audit Committee to review contracts. At the moment, the Finance Committee reviews contracts.

INFORMATION ITEMS:

Information item(s) 4 through 6 were received, which were:

4. Draft Audit Committee Charter
5. Audit Committee Responsibilities Questionnaire
6. Multiyear Audit Plan

The following questions and requests were raised for follow-up:

1. Mr. Sloss requested from Postlethwaite & Netterville a list of items that firm was waiting to receive from S&WB staff.
2. Mr. Sloss asked whether the Audit Committee could review the audit by the second week of June if the external auditors received their required information by May 15th
3. Ms. Gleason and Mr. Sloss requested weekly updates on the status of the external audit review of the CAFR.
4. Dr. Duplessis requested that Postlethwaite & Netterville send their last year report on internal controls for distribution to the Audit Committee.
5. Ms. Barnes requested that staff identify whether there were water utility standards for an Audit Committee.
6. Staff will assist the Finance and Administration Committee and Audit Committee in timing the transfer of contract reviews and the form of those reviews.

ADJOURNMENT:

There being no further business to come before the Audit Committee, the meeting adjourned at approximately 12:10 P.M.

Respectfully submitted,

Dr. Tamika Duplessis, Audit Committee Chair