



**"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21<sup>ST</sup> CENTURY"**

# **Sewerage & Water Board OF NEW ORLEANS**

LATOYA CANTRELL, PRESIDENT

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April 10, 2019

The Finance and Administration Committee met on Wednesday, April 10, 2019 in the S&WB's Second Floor Board Room located at 625 St. Joseph Street, New Orleans, LA. The meeting convened at approximately 9:00 A.M.

## **Present:**

Director Lynes Sloss  
Director Ralph Johnson  
Director Alejandra Guzman  
Director Joseph Peychaud  
Director Dr. Duplessis

## **Absent:**

None

## **Other Board Members Present:**

None

## **EXECUTIVE STAFF REPORT**

Executive Director Ghassan Korban felt that it was very important to start the meeting with the billing issue because it had lingered for the last three to four weeks. Mr. Korban wanted to clarify some of the misunderstandings that took place at the recent Public Works Committee meeting where some numbers were used to arrive at a conclusion. The executive team felt that those numbers which SWBNO provided were misrepresented. The label "billing" was the main issue that created the confusion. Mr. Korban stated that all Civil Service wanted was Accounts Receivable, but we gave them much more than that all lumped together in one number without breaking it down for them. Civil Service had no way of knowing that number was inaccurate and so correctly assumed that we gave them what they asked for when in fact we did not.

Mr. Korban stated that we have, therefore, taken responsibility for that in the last two weeks. The executive team has determined, with the help of outside experts, that the most accurate baseline that we currently have is the audited 2017. That becomes the more solid, certain set of numbers that we can rely on. We are currently working on the 2018 audit which is due at the end of June. Once that happens, Mr. Korban stated that we would have two years of solid, certified audited numbers that we can be certain about in terms of what is reasonably expected to be collected at the end of the day.

Mr. Korban stated that this is the path that we will take as we move forward. In addition, on behalf of the Finance and Administration Committee and our customers, Mr. Korban feels that SWBNO will be on more solid, accurate ground in terms of delivering numbers that are more meaningful and more accurate.

Mr. Korban then introduced Ms. Lisa Daniels, our financial counselor with PFM Corporation. Ms. Daniels stated that each month has about 25,000 records in it that BFM examined over an 18-month period to try and make sense of some of the numbers. Ms. Daniels presented a few slides to recap where she thinks we are and where we would like to be moving forward. The Sewerage and Water Board regularly reports billing information, and that is what Ms. Daniels believes was the intent with the confusing slide, as the billings column came from what was referred to as a consumption report – a list of bills. However, the timing is a problem because the list may reflect items outside of the service period and may also reflect bills that were for entities, like the SWBNO office building, that don't get billed and collected.

Ms. Daniels stated that the other issue with the column that was referenced was that it is a rolled forward number. What stood out was that the billing numbers grew year after year even though collected rather constant. Therefore, without context, it is understandable that those numbers were misinterpreted because those numbers were never intended for Accounts Receivable.

Ms. Daniels stated that the Consumption Report is not the best representation because it shows a snapshot in time at the end of every fiscal year. The Consumption Report was also too broad and included too much information. Therefore, to improve accuracy and transparency and to be able to verify the numbers, PFM would like to provide SWBNO with financial data that is eventually going to be audited on an annual basis. The financial statements try to categorize the bills in the service period in which they are delivered, rather than just provide you with a long list. That Consumption Report did not reflect periodic times as it might have been interpreted.

Mr. Korban stated that some of those accounts receivables from previous years are getting paid in the following years and then all accounted for. That is why it is important to go to the end of the next year to assess where we are.

Director Sloss thinks that the report mixes a financial measure, which is collections, and a production measure, which is metered water, which created the problem.

Ms. Daniels proceeded to explain the AFIN Report. The AFIN system is used to produce the financial records. The system will capture the billing at the time of service and reflect. For example, if SWBNO received a collection today for a bill that was captured two years ago, AFIN is going to account and adjust for previous entries. This will tie back to verifiable activity. Ms. Daniels stated that the auditors would have received this information, which should give everybody some comfort. Also, at the end of the year, PFM will be able to show of the accounts receivables what SWBNO expects to collect, what SWBNO is writing off as doubtful accounts, and what this agency will write off the books all together. Ms. Daniels stated that this is the information you would want to see if you were focused on accounts receivables or uncollected bills.

Ms. Daniels stated that at the end of each year, the AFIN Systems Report will also show non-customer revenues, adjustments for write-offs of bad debt and adjustments to reflect reserves for uncollected accounts. The ending 2018 accounts receivables balance is \$73.4 million, which is cash received as a result of bills.

Mr. Korban stated that although the effort was to clarify the \$134 million misinterpreted number, the \$73.4 million is a more real number. While it is still subject to some audit and evaluation by an outside agency, the total will be much closer to \$73.4 million, which is still a large number and will take a large effort on our part to collect that amount.

Ms. Daniels indicated that approximately \$1 million in non-revenue water was not reflected in the detailed breakdown of the \$73.4 million. The variance represents other revenues such as fees, fines and other collections that come into the revenues that are not true bills.

Ms. Daniels stated that the unapplied amount represents cash that was received but SWBNO does not know where to apply it because sometimes people send in money without good records; therefore, that \$4.2 million is in a holding pattern right now.

Director Johnson was seeking an explanation for why there is \$4.2 million in unapplied amounts and was trying to understand the reconciliation process and why that number is so high. Ms. Downs stated that she would have to get back to him when she receives more clarification on the answer to his question.

Mr. Korban stated that he understands that while we may have a customer's money, we are unable to credit the customer's account. However, the customer is still in bad standing even though he or she has paid. This money is only unapplied because it is unclear what we can tie it to. It came unidentified, possibly with no account number or a check without a bill attached.

Director Dr. Duplessis wanted to know if the \$4.2 million is cumulative from 2017 to now. Director Duplessis was concerned as to how long the issue has existed and at what point do we begin calculating this unapplied value.

Ms. Daniels stated that it is her understanding that the unapplied amount could go back and be tied to some of those 121+ Days accounts, which actually could be more than a year old. Ms. Downs stated that they need to look into that and get back to the Committee with the details.

In the 121+ Days column, some of the accounts are active, meaning they are overdue but are still consuming water. The other accounts are inactive, meaning they have moved on. Mr. Korban stated that this would be the group that we will be relying on a collection agency to go after. That requires a greater effort, and we will capture as much money as we can.

Director Dr. Duplessis wanted to know what our plan is for reporting as accurate information as we can to the City Council in terms of resolutions going forward. Mr. Korban stated that this is our first attempt at communicating our new findings and our new approach as we move forward. Mr. Korban stated that we are going to spend time with the Council, especially since they highlighted the issue for us, and for this we are grateful. The executive team is hopeful that the Council is pleased that the number is not as big as they thought. Mr. Korban stated that the executive team will address any concerns the Council may have, and come the end of June 2019, the CAFR will be submitted and certified. The executive team will provide the Finance and Administration Committee with the final numbers that we can be 100% certain about.

Director Dr. Duplessis asked about the regularity in which we are supposed to submit accounts receivables according to the City Council. Ms. Grinstead stated that we report quarterly. Mr. Korban stated that the executive team will make it a practice to come as frequently as possible to get the Finance and Administration Committee acclimated with the new system, the new approach, and to stay current, outside of the obligations that we owe to the Council on a quarterly basis. Mr. Korban believes that this is a more accurate reflection of what we should share. We also must focus on the \$4.2 million and zero that out.

Director Johnson wanted to know how much of the \$45 million in the 121+Days column is our normal percentage of bad debt or uncollectibles. Ms. Downs stated that for most agencies, it is usually about 2%, but it is much higher for this agency. Director Sloss stated that looking back at previous CAFRs, the collection rate has been in the 90th percentile. Thus, non-collectibles would be about 10%.

Director Guzman wanted to get an understanding of why we are in this situation, and do we know what processes from our side we can improve to be in a better situation. Mr. Korban stated that we are in this situation because of a couple of years of inaccurate billings. Transfer accounts were in the 12,000 range where people were not even receiving bills. There were inaccurate as well as untimely bills. Moving forward, everything looks positive in terms of a higher collection rate, more accurate bills, more timely bills, a smaller number in transfer accounts, better accounting and more current numbers. Mr. Korban stated that this approach, compared to the previous approach, is going to get us to a much better place.

Director Sloss felt that the executive team gave a good, clear report that addressed people's concerns about what our accounts receivables situation is right now, errors and misinterpretations in the past. Mr. Korban also mentioned one other point that people may be misunderstanding. The Sewerage and Water Board has two enterprise funds - water and sewer and the drainage account which is a stand-alone. The two funds are separate and distinct. Collecting or not collecting water and sewer does not help or hurt the drainage enterprise because it is 100% reliant on taxes or millages.

### **ACTION ITEMS**

**Resolution (R-058-2019)** Change Order No. 1 for Contract 30205 - New Orleans East Basin - Plum Orchard Neighborhood Sewer Rehabilitation

There were two parts to this Change Order, one that dealt with additional work added to the project and one that reconciled quantities at the end of the work. Mr. Ron Spooner pointed out that there were two typographical errors. The 540 days should be 705 days and the \$935,904 should be added to the first paragraph. The Operations Department will make the corrections.

Director Ralph Johnson moved to accept R-058-2019. Director Guzman seconded. The motion carried.

Director Dr. Duplessis felt that Change Order No. 1 was significant enough to have been a separate entity and maybe should have come before the Board before both were presented at the same time. Director Duplessis explained that the Committee had previously talked about having a threshold so that there are triggers in place when contracts exceed exorbitant amounts. The Procurement Policy that is being developed should address some of these issues.

**Resolution (R-057-2019)** Final Acceptance for Contract 30216- Restoration of Existing Gravity Flow Sewer mains by Point Repair at Various Sites throughout Orleans Parish

**Resolution (R-059-2019)** Final Acceptance for Contract 30205 - New Orleans East Basin - Plum Orchard Neighborhood Sewer Rehabilitation

Director Johnson noted that R-057-2019 adjusts the resolution to the actual amount of work performed, which is \$111,000 less. Also, the date needs to be changed on R-059-2019.

Director Dr. Duplessis moved to accept R-057-2019 and R-059-2019 with the exceptions noted in discussion. Director Johnson seconded. The motion carried.

**Resolution (R-070-2019)** Contract Amendment No. 3 to the Agreement between SWBNO and CH2M Hill Engineers, Inc.

The date should be changed to reflect that this resolution is extending the contract duration to April30, 2019, not 2018.

Director Joseph Peychaud wanted to know why the DBE percentage was so low. Mr. Ron Spooner stated that all the emergency contracts DBE participation was set at 10%.

**Resolution (R-062-2019)** Amendment No. 4 to the Agreement between Sewerage and Water Board of New Orleans and Jacobs for Emergency Program Management and Recovery

Director Duplessis wanted to know why there was a request for a second extension. General Superintendent Robert Turner explained that the extension beyond April 2019 was to complete the new scope of work involving the EMDs which were part of the emergency work. The scope now includes additional work in further developing the requirement to finish the work for the EMDs such as noise mitigation on the site, including construction management of some of the work that is ongoing at Drainage Pumping Station 1 and Drainage Pumping Station 4 as well. Director Duplessis then asked if this would not have been a good candidate for a new contract. Both Mr. Turner and Mr. Spooner stated it would not because this is the continuation of the existing emergency design repairs that were started back in 2017 associated with the EMDs as well as the continuation of the project management scope and construction administration that they are doing at DPS 4. So that contract is still under construction, just delayed. Therefore, this resolution extends the contract for an additional four months through August 30, 2019. Mr. Spooner stated that the emergency work and professional services with Jacobs are projected to be completed by August 30, 2019.

**Resolution (R-065-2019)** Authorization of Third Renewal Agreement with Black & Veatch for Preparation of the Report on Operations for 2018

Mr. Dexter Joseph asked for approval to continue doing their report for 2019 for the Budget Department. This is the third of a four-year renewal process. Director Duplessis stated that Black & Veatch has been extremely helpful to the Board in helping us understand our financials.

Director Joseph Peychaud moved to accept the R-065-2019. Director Alejandra Guzman seconded. The motion carried.

**Resolution (R-067-2019)** Specifications for Furnishing Janitorial Services  
The DBE participation is 30%.

**Resolution (R-069-2019)** Requisition NO. EE 19-0003 - Emergency Letter Bid Specification to Purchase of a Motor and Starter for Pump A

Mr. Robert Turner stated that the Operations Department is recommending the purchase of a motor from Energy Management Corporation in the amount of \$100,305.00.

Director Sloss asked if this purchase would be taking us off of steam power for Pump A. Mr. Turner stated that it would take us off of steam power. Director Sloss thinks that is a big deal. Mr. Spooner gave kudos to the Operations staff because all of this work via facility maintenance and operations is being done in house. The only thing that we're buying is the equipment itself.

Director Dr. Duplessis moved to accept R-067-2019 and R-069-2019. Director Johnson seconded. The motion carried.

**Resolution (R-068-2019)** Contract Extension for Information Systems Facilities  
Management with Avenu Insights Analytics

Ms. Yvette Downs asked for an extension through the end of the year. Ms. Downs stated that we are billed for the number of hours that the contractors work. Ms. Melinda Nelson, the Technology Director, stated that the hourly rates have been stable since 2000. Ms. Nelson also stated that the rates differ based on the job. The DBE goal is 35%.

Director Dr. Duplessis stated that all the former names of Avenu Insights Analytics should be included in the resolution as part of their history.

Director Guzman moved to accept R-068-2019 as amended. Director Dr. Duplessis seconded. The motion carried.

Director Sloss pointed out that we had financial statements last month that left some credit balances in some of the expense accounts. The new financial statement more accurately reflects our state of affairs through January and February 2019. Also, there were some discrepancies between the agenda and the Board sheet presentation that was given. Director Sloss asked that the Board gets what it needs because things were a little confusing for the members.

**PRESENTATION ITEMS** – None

## **INFORMATION ITEMS**

The information items were received.

## **EXECUTIVE SESSION** - None

## **PUBLIC COMMENT**- None

There being no further business to come before the Finance and Administration Committee, the meeting adjourned at approximately 10:11 AM.

Respectfully submitted,

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Lynes Sloss, Chair