



DATE: 03/12/2024

TIME: 9:00 a.m.

LOCATION: Executive Boardroom

COMMITTEE MEMBERS: Maurice Sholas, M.D., Ph.D., Chair | Tamika Duplessis, Ph.D., Vice Chair
| Robin Barnes | Tyler Antrup |

Audit Committee Meeting Agenda

I. Roll Call

II. Presentation Item

- A. Internal Audit Update and Billing Collections Audit Report– Chief Audit Executive, Ed Sutherland

III. Action Item

- A. Resolution (R-064-2024) Authorizing Performance of Internal Audit Plan

IV. Public Comment

V. Adjournment



Billing and Collections Audit

(Audit Number 2023_02)

January 22, 2024

The following report entails a review of the Sewerage and Water Board of New Orleans' internal control environment surrounding Billing and Collections.

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Executive Summary

The Sewerage & Water of New Orleans (SWBNO) Internal Audit Department (IA) conducted an audit of the utility's Billing and Collection Processes.

Collectively, the Billing and Collections operations are multifaceted processes that integrate multiple SWBNO departments—the Billing process is in place to ensure that customers are billed for their water usage promptly, accurately, and consistently; and the Collections process is in place to ensure that SWBNO collects on its receivables timely. Additionally, the concerted effort of their respective personnel is to consistently provide regular statements of account that include accurate charges, usage information, and assistance to SWBNO's customers.

All departments reviewed have a role in maintaining the efficiency of SWBNO's operations. With the use of the Customer Service Management (CSM) system, customer accounts are created, maintained, and billed in accordance with established policies and procedures.

In general, Internal Audit identified multiple opportunities for improvement, which resulted in seven findings. Those seven findings are as follows:

1. Aged Accounts Receivables
2. Notifications of Delinquency
3. Non-Revenue Water
4. Employee System Access Review
5. Manual Bill Adjustments
6. Hearings
7. Documentation of Directives

A detailed analysis of the Findings and their associated Recommendations are included below.

Objectives & Scope

The objectives of this review were as follows:

- To evaluate the adequacy and effectiveness of the internal controls surrounding the billing and collection process.

The scope of the review included any billing, collections, and associated transactions from January 1, 2022 to June 30, 2023.

Background

At the time of this review, SWBNO had 140,362 active customer accounts (varying in class), billing for water usage, sanitation, and other ready-to-serve essentials:

| Location Class | Number of Active Accounts |
|-----------------------|---------------------------|
| Residential | 122,544 |
| Small Commercial | 9,977 |
| Multi-Family | 4,548 |
| Large Commercial | 2,400 |
| Hydrant | 284 |
| Commercial | 200 |
| School | 192 |
| Master — School Board | 104 |
| Medical | 51 |
| Industrial | 29 |
| Port of New Orleans | 17 |
| SWBNO | 12 |
| Local Government | 3 |
| Master — CAP Accounts | 1 |
| Total —> | 140,362 |

The Customer Service Management (CSM) system is the billing system utilized by all departments associated with billing and collections. Prior to its implementation, the billing operating system in use was the Customer Account Management (CAM) System. The CAM system was primarily replaced due to its age, inability to accept credit card payments, and lack of available updates and capabilities. The transition to the CSM system was prompted by SWBNO's need for an advanced system with greater bill calculating capabilities, electronic billing, customer self-service options, and various other functions.

In June of 2013, SWBNO set out to acquire a new billing system to better meet its needs. SWBNO publicly advertised for a new system and received 10 responses which were narrowed to two qualified respondents through a procurement process. SWBNO then issued a Request for Proposals to the remaining responders; and in 2014, SWBNO awarded the contract for the new billing system to Cogsdale Corporation. However, since its implementation in October 2016, there have been various notable issues, such as: customers receiving inaccurate and/or unusually high bills, duplicated bills, undefined processes, and other system bugs.

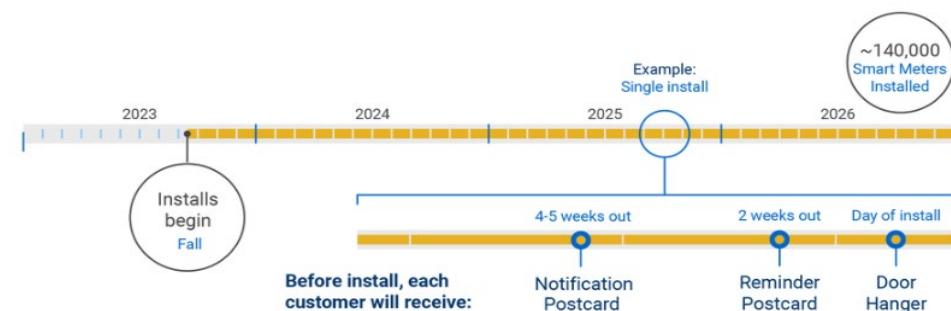
Though some issues were resolved, others continued to persist. To help address the billing issues, SWBNO employed the services of various consultants from September 2017 to October 2018 to help identify problem areas and document current in-force processes and procedures as well. Consultant services also included: Identifying unbilled accounts; Review and advisement of the billing and metering processes (including billing process flow); and Implementation of customer relationship management software.

In 2019, the Louisiana Legislative Auditor (LLA) reviewed SWBNO's procurement of the new CSM system and evaluated its implementation. The review also included SWBNO's billing estimation process, meter reading process, and non-revenue water (NRW) accounts. In March 2020, the LLA issued their resulting audit report, stating that SWBNO continued to have some issues within the areas identified through outside consultancy.

The LLA then issued a status update report in March of 2021, highlighting the status of any corrective actions or recommendations. Of the 11 recommendations, the LLA found that SWBNO had fully resolved three, and eight were in progress.

In January 2023, SWBNO commenced rollout of the Advanced Metering Infrastructure (AMI) project. Also referred to as "Smart Metering" because it utilizes "smart," wireless-fidelity-enabled water meters, this project will be an ongoing, continuous effort until its projected full implementation in 2026. With this AMI effort, nearly 140,000 current meters will be replaced with automated meter reading technology.

Currently, the average residential water meter is 14 years old and must be read manually. This monumental infrastructure update is expected to generate accurate billing information real-time; reduce estimated readings and re-billing costs; reduce billing errors and disputes; prevent tampering and theft; as well as promote energy conservation and customer savings with time-of-use consumption.



Anticipated schedule subject to change.

The frequency with which estimation reads are utilized and the need to prioritize obtaining an actual read for those accounts were addressed in the LLA's report. The LLA also highlighted the limitations imposed using estimation formulas, which can lead to unpredictable bills. The timeline of the Estimation Formula's methodology is as follows:

| Time Period | Estimation Formula |
|-----------------------------|--|
| August 2005 to October 2016 | 3,000 gallons per month (for residential and commercial customers) |
| October 2016 to May 2018 | Customer's prior 12-month consumption |
| May 2018 to September 2019 | 3,000 gallons per month (for residential and commercial customers) |
| September 2019 to Present | Customer's prior four months of consumption |
| Present | Customer's prior ten reads, two are required to be actuals |

Presently, SWBNO's new estimation formula consists of taking 10 previous meter readings—two of which are required to be actual readings—to calculate how many gallons of water was used each day. This value is then multiplied by the number of days in the present billing period (cycle). If the customer has fewer than ten previous reads, SWBNO estimates 170 gallons per day for residential customers and 1,500 gallons per day for industrial/commercial customers.

Findings, Analysis, & Recommendations

As a result of the review performed, IA noted the following:

Finding 1 — Aged Accounts Receivable

Internal Audit noted a lack of controls to corroborate the regular review of accounts with excessive aged receivable balances, and the collection efforts associated with reducing those balances.

Per SWBNO policies and procedures, a customer account is placed into delinquency status if it goes 60 days with an unpaid balance of \$50 or more. Additionally, meters are flagged for removal after 30 days of delinquency, which would be a total of 90 days without payment.

Accounts in delinquency status that have overdue accounts receivable ("A/R") balances are generally grouped into two categories: Active and Inactive. Active accounts are those that are still metering usage; and Inactive accounts are those for which service has been shut off and the meter has been removed from the property. Presently, it is the responsibility of the Credit & Collections Department (C&C) to pursue overdue Active accounts; and it is the responsibility of the Controller (within the Finance Department) to pursue overdue Inactive Accounts.

During the review, IA noted a lack of controls to corroborate the regular review of accounts with aged receivable balances and the collection efforts associated with reducing those balances.

At the time of review, the total amount over 90 days past due—for both Active and Inactive accounts—was \$71,098,177.24:

| Location Class | Number of Locations | Percentage of Total Locations | Amount Over 90 Days Past Due | Percentage of Total Amount Over 90 Days |
|--------------------|---------------------|-------------------------------|------------------------------|---|
| Residential | 35,430 | 91.73% | \$54,417,643.59 | 76.54% |
| Small Commercial | 1,891 | 4.90% | \$6,210,924.71 | 8.74% |
| Large Commercial | 199 | 0.52% | \$4,509,811.45 | 6.34% |
| Multi-Family | 960 | 2.49% | \$3,725,820.02 | 5.24% |
| Hydrant | 99 | 0.26% | \$1,806,119.60 | 2.54% |
| Commercial | 43 | 0.11% | \$362,211.05 | 0.51% |
| Industrial | 4 | 0.01% | \$65,646.82 | 0.09% |
| Grand Total | 38,626 | 100.00% | \$71,098,177.24 | 100.00% |

The large majority of these past due accounts are Residential accounts with the total number of accounts and total dollars comprising 91.73% and 76.54% of the total over 90, respectively.

Regarding individual accounts, the top Active accounts by delinquent balance were as follows:

| Customer Name | Amount Over 90 Days Past Due |
|---------------------------------|------------------------------|
| Guste Homes Resident Management | \$1,115,308.85 |
| Two Oaks Apartments | \$951,816.97 |
| Hillbrook Condominium | \$607,601.02 |
| Skyview Terrace Apartments | \$251,439.84 |
| Faubourg Brewing Company | \$239,864.91 |
| The Lemoine Company | \$229,244.55 |
| On Iberville Phase V, LLC | \$181,097.62 |
| Heritage Lane Condo | \$178,705.66 |
| Metro Wide Apartments, LLC | \$149,423.06 |
| Johnson Bros. | \$140,538.53 |
| Grand Total | \$4,045,041.01 |

(Top 10 Delinquent, Active Customer Accounts on Past Due Report dated August 11, 2023)

And with respect to Inactive accounts, the top 10 Inactive accounts by delinquent balance were as follows:

| Customer Name | Amount Over 90 Days Past Due |
|------------------------------|------------------------------|
| Palmisano Construction | \$351,997.13 |
| Hillbrook Condominium | \$278,715.32 |
| Heritage Lane Condo | \$178,705.66 |
| Sesame LLC | \$155,811.10 |
| Trident Hospitality Inc | \$155,335.03 |
| Garden Oaks LLC | \$120,626.22 |
| Kimberly P Hilson | \$112,784.00 |
| Hard Rock Construction | \$95,437.10 |
| Fite Family Kitchen Nola LLC | \$84,242.10 |
| Circle LLC | \$84,104.13 |
| Grand Total | \$1,617,757.79 |

(Top 10 Delinquent, Inactive Customer Accounts on Past Due Report dated August 11, 2023)

It should be noted that the Finance department hired a Controller in June of 2023 who has undertaken the task of collections for Inactive accounts. In addition, management has weekly Teams meetings in which upper-level management discusses any past-due accounts and what actions are being taken to collect the respective amounts owed.

However, per the Finance staff, no reports are currently being generated and signed off on, and there is no documentation created to specifically evidence pursuit of collections. A lack of a more formalized collection effort with regularly documented steps to resolution ultimately decreases collectability of A/R; and in turn increases the risk of lost revenue.

Recommendation 1 — Quarterly Reporting / Documenting Efforts

It is recommended that SWBNO create a quarterly report outlining progress with aged A/R. This report should include current balances, projections for future reduction of balances, and a history of the steps that have been taken to pursue resolution.

Copies of the report should be signed off on by divisional management and retained to evidence continuity of efforts over time. Regular reports should also be distributed to upper management so that they can stay abreast of the headway being made towards collection and resolution.

Target Timeframe: 6-9 Months

Management Responsible: Chief Financial Officer, Chief Customer Service Officer

Finding 2 — Notifications of Delinquency

Internal Audit noted a lack of notifications to customers in delinquency, and specifically leading up to service shutdown and meter removal.

During the review, IA determined that SWBNO customers only receive one formal, official notification before their service is shut off due to delinquency.

C&C's procedure is to send the customer a "Shut-Off Letter" via postal mail when their account has entered delinquency status. This letter outlines the delinquent amount due, projected disconnect date, projected meter removal date, and any associated fees. At present, this letter serves as the only formalized communication a customer receives prior to service shutdown and subsequent meter removal. Additionally, when the initial letter is mailed, there is no assurance that it was received by the customer. (The "Shut-Off Letter" is not delivered by traceable / certified mail.)

Post-distribution of the "Shut-Off" letter, as the meter removal date approaches, the process is for a courtesy call to be placed to the delinquent customer to notify them that their meter is about to be removed due to unpaid amounts due.

At initial rollout of the CSM system, SWBNO had its delinquency notification chronology designed and configured to perform the following actions:

1. Interactive Voice Response (IVR) call is placed — 65 Days Past Due
2. Shut-Off Letter Sent — 70 Days Past Due
3. IVR Turn Off Call — 72 Days Past Due
4. Shut Off Call from SWBNO; then Shut Off Work Order Initiated — 86 Days Past Due
5. Water Meter Removal Work Order Initiated — 90 Days Past Due

Per C&C management, IVR calls are not currently in use as the IVR system has not consistently been working as intended. In lieu of IVR calls, the C&C staff attempts to contact customers manually via phone (or leave a voicemail) at 72 days past due with corresponding notation being made within CSM to document the outcome of the attempted call. C&C presently has no substitution for IVR calls made 65 days past due.

SWBNO's initial structure—including all IVR calls—would have allowed for more touchpoints with delinquent customers. With only one formal notification being sent to customers before service shutdown, SWBNO increases its risk of unnecessary shut-offs, decreased collectability of A/R, customer dissatisfaction, and reputational loss as a result.

Recommendation 2 — Additional Formalized Notifications

IA recommends that the Billing Department revise its current process to implement a delinquent customer communication system that is more in line with the initial multiple-notification chronology outlined above—specifically regarding instances in which delinquency reaches the unfortunate point of service shut-off and/or meter removal. This new system should include the reinstatement of all IVR calls post-delinquency.

IA also recommends sending at least one more formal notification letter prior to service shut-off—in addition to the one that is currently being distributed. Ideally, this additional official letter would be mailed prior to the sixty-day mark, thereby preventing some accounts from entering into delinquency in the first place.

Finally, those who have established an online account should receive electronic copies of any and all “Shut-Off” letters in addition to the physical copies of the letters that are sent via postal mail. To that end, Customer Service should take steps to ensure that customers using the online portal have current email addresses on file, as these addresses can be used as an alternative method to deploy notifications of delinquency in conjunction with the systems used outside the portal.

Having additional, formal notifications in place can only help to minimize the occurrence of erroneous, premature, and/or unnecessary shut-offs in the future.

Target Timeframe: 6-9 Months

Management Responsible: Chief Customer Service Officer

Finding 3 — Non-Revenue Water

Per Louisiana Revised Statutes (RS 33:4096), there are certain entities that are to be exempt—either partially or fully—from being charged for water by SWBNO. Those accounts are classified as the following:

- The Audubon Park and Zoological Garden: Exempt 240,000,000 gallons/year
- New Orleans City Park: Exempt 235,323,400 gallons/year
- New Orleans Museum of Art: Exempt 2,553,800 gallons/year, but is currently being charged for water usage.
- Orleans Parish School Board and associated school system: Fully exempt—threshold based upon individual schools’ headcount.
- All other functions, offices, departments, etc. under the City of New Orleans and its public institutions are fully exempt.

Any water that is not billed and for which no payment is received is defined by the Environmental Protection Agency (EPA) as “Non-Revenue Water” (NRW). It should be noted that for the purposes of this review and resulting report, NRW will solely encompass authorized consumption—it will not include any losses of revenue resulting from either real or apparent water loss.

3a — Internal Audit noted billing inconsistencies regarding NRW accounts.

During the course of the review, IA identified various inconsistencies in the billing practices regarding NRW accounts. The predominance of these issues can be mainly attributed to three factors: (1) a lack of actual readings to verify consumption; (2) the reliance upon manual calculations outside of the CSM system; and (3) infrequency of billing. Specifically, IA noted the following:

Orleans Parish School Board. Bills for the New Orleans Public School System had yet to be sent out at the time of review due to delays in receiving vital information necessary to calculate the bill. This information ranged from student body and faculty size to meter location and potentially vacant buildings in use on school property.

Audubon Park. IA was unable to reconcile Audubon Park’s 2022 bill to its corresponding NRW spreadsheet calculations, as the latter included unpaid amounts dating back to 2016.

Manual Processes / Calculations. IA noted that NRW bills are not calculated utilizing the CSM system at this time due to the inaccuracy of the embedded system functions used for calculation. As a workaround, the usage readings are pulled from the CSM system manually by the billing staff and are then transferred into an Excel spreadsheet to complete the calculations. It should be noted that these calculations are not regularly verified for accuracy and may contain errors.

Recommendation 3a — Shift all NRW Accounts to Monthly Billing

During the review, IA was informed by management that their plan was to move Audubon Park to monthly billing in 2024. Accordingly, IA recommends that SWBNO send out billing statements on a monthly basis for all NRW accounts moving forward. Additionally, each NRW bill should include running monthly usage readings—just like usual customer bills—which would allow NRW customers to monitor their usage and identify any anomalies or discrepancies. Finally, switching to monthly billing for NRW accounts would increase the frequency of bill reviews, resulting in a heightened level of oversight of “free water.”

Target Timeframe: 3-6 Months

Management Responsible: Chief Customer Service Officer

3b — Internal Audit identified multiple accounts in NRW status that do not fit the definition of exempt accounts as outlined by state law.

At the time of review, the NRW account listing included 104 accounts. Upon review of the list, IA noted 19 that did not fit the definition of an entity that is to be exempt from billing as outlined in RS 33:4096. Those 19 accounts are as follows:

| Bill-To-Cust Number | Customer Name |
|---------------------|----------------------------------|
| 430059 | 3501 St. Claude Apartments |
| 603777 | Blue Flash Sewer Service Inc |
| 603535 | Boh Bros Construction |
| 765238 | Brandi Fortmayer |
| 603790 | CES (Compliance EnviroSystems) |
| 603605 | CES (Compliance EnviroSystems) |
| 603792 | CES (Compliance EnviroSystems) |
| 603619 | Crescent Commercial Construction |
| 603789 | D&O Contractors Inc. |

| | |
|--------|--------------------------------------|
| 429148 | French Market Corporation |
| 603641 | Hebert's Trucking & Equipment |
| 720467 | Huda, LLC |
| 603761 | Insituform Technologies Inc. |
| 603772 | Insituform Technologies Inc. |
| 599863 | Julco M Viteri |
| 603816 | Nola Construction Company |
| 602653 | Spring Lake Neighborhood Association |
| 603450 | Stalling Construction Company |
| 603682 | Wallace C Drennan Inc. |

Of those 19 accounts, 7 were found to have received non-revenue water specifically during the scope of this review. Those accounts are: CES (603605); Crescent Commercial Construction (603619); Huda, LLC (720467); Julco M Viteri (599863); Spring Lake Neighborhood Association (602653); and Stalling Construction Company (603450). The amount of unbilled water distributed to these entities during 2022 totaled 10,802 gallons; and resulted in \$15,061.76 in exempt billing.

Recommendation 3b — NRW Account Review & Billing Correction

For the 19 accounts identified above, Billing Department Management is requested to either (1) cease any billing exemptions and remove them from the NRW account listing accordingly; or (2) provide an explanation as to why they should remain classified as NRW moving forward.

Additionally, directive controls to add new NRW accounts should be strengthened so that (1) each proposed account addition is formally reviewed against the criteria outlined in Louisiana Revised Statutes 33:4096 before being added to the list; and (2) sign-off/approval from Billing Department Management is sought and documented prior to adding a new account.

It should also be noted that while a deeper Root Cause Analysis (RCA) was unable to be performed by IA regarding the 19 accounts outlined above, it does appear that “Hydrant” being erroneously conflated with NRW accounts upon system setup could be a contributing factor to this issue. (A “Hydrant” account is a temporary account that is set up for a construction company to draw water from a nearby fire hydrant for the duration of a construction project.)

Target Timeframe: 3-6 Months

Management Responsible: Chief Customer Service Officer

Finding 4 — Employee System Access Review

Internal Audit noted that employees' system access and capabilities are not regularly reviewed for appropriateness.

When a new employee comes into the Billing Department, management must fill out a Cogsdale / CSM Access Request Form (ARF) to grant that individual system access. However, once that user account is live within the system, there is no regular review of the staff's system access.

At any given time, employees' access to CSM should be restricted only to those tasks or capabilities that are commensurate with their current job function. However, an individual's role within the Billing Department can change over the course of time—either through promotion, demotion, relocation within the department, transfer to/from another SWBNO area, etc.—and at present, there is no control in place to ensure that that employee's system access is reviewed by management and updated accordingly.

Without a regular role review of employee system access, management cannot be assured that employees' capabilities within CSM are appropriate to their specific job function. Excessive or inappropriate user access to CSM increases the likelihood of unauthorized transactions or system misuse, which in turn increases the risk of erroneous entries, incorrect data, and/or malfeasance.

Recommendation 4 —Role Review

At least quarterly, Billing Department Management should review a list of all direct-report employees and their respective roles within the CSM system, affirming that each employee's access is necessary to perform their current job function. Any anomalies or aberrations identified by management as a result of this review should be brought to the attention of SWBNO IT timely so that they can be resolved as soon as possible.

Management should retain copies of the aforementioned employee listings along with the respective manager's signature (either physical signature or e-signature) to corroborate that the review was performed.

Target Timeframe: 6-9 Months

Management Responsible: Chief Customer Service Officer

Finding 5 — Manual Bill Adjustments

Internal Audit noted a lack of management oversight surrounding manual billing adjustments.

IA noted that billing department employees have the ability to manually make edits to an account's bill before distribution to the customer. However, no review nor approval from management is required when manual bill adjustments occur—neither before nor after bill issuance.

Per the Billing & Project Manager, employee adjustments on accounts are monitored for suspicious or irregular activity. However, management was unable to provide any evidence or documentation that any type of formalized review of this kind is actually occurring.

IA was able to confirm that user logging and timestamping functionalities are live within the system and are recorded whenever changes are made to an account within CSM. So the data needed to perform at least a cursory review of manual adjustments is available. Per management, the

reason that manual adjustments are not reviewed in detail is because they are such a routine part of the billing process that reviewing them would entail regularly inspecting transactions numbering in the thousands.

The lack of oversight imposed by the absence of any kind of management review of manual billing adjustments by staff members increases the risk of erroneous adjustments, misstated bills, and employee malfeasance.

Recommendation 5 — Adjustment Review and Updated P&P

Billing Department Management should develop and implement policies and procedures (P&P) to review at least a subset of manual adjustments made within the CSM on a regular schedule. These policies and procedures should include established transaction criteria for review—whether based upon a materiality threshold, volume per user, etc.—to ensure that the resulting subset’s population is manageable and reasonably warrants management’s time and attention.

Also included in the P&P should be a directive requiring the billing staff to include a comment in CSM whenever a manual adjustment is made. Comments entered into the CSM system should provide details on the reasoning for the adjustment; as well as provide enough clarity, context, and concision to ensure that the adjustment was necessary.

Target Timeframe: 3-6 Months

Management Responsible: Chief Customer Service Officer

Finding 6 — Hearings

Internal Audit noted excessive delays in the scheduling of hearings requested by customers.

Per management, SWBNO presently has between 4,000 and 4,500 active customer disputes. Whenever a customer logs a billing dispute, a billing investigation is automatically initiated. When an investigation is initiated, the Hearing Department schedules an inspection for leaks at a customer’s property. Once the investigation is concluded, the customer is sent a postal letter summarizing the results of the investigation; at which point the customer can then request a formal hearing from an Administrative Hearing Officer if they are dissatisfied with the resulting determinations. It should be noted that a customer cannot schedule a hearing until they receive the outcome of the investigation process.

In order to test the celerity of the customer dispute process, IA reviewed a random sample of 100 accounts that had a hearing date that occurred during the scope of review—between January 2022 and June 2023. From initial dispute to scheduled hearing date, the expectation that management has set for the full hearing process is 60 business days. Of the 100 accounts sampled, 23% (23 out of 100) were scheduled within the 60-business-day timeframe specified by the Hearing Department; 76% (76 out of 100) were outside of the 60-business-day timeframe; and the remaining 1% showed an unknown timeframe. Of the 76 that were over the 60-business-day timeframe, 27 took longer than one year and 3 took longer than 3 years.

There were various factors that contributed to the more aged disputes, but one commonly recurring determinant was the prerequisite investigation and the extended follow-up to the investigators from the Hearing Department. Prolonged initial investigations prevent customer disputes from moving to the next phase in the process, and ultimately toward a timely resolution. If left unaddressed, excessive delays in the customer dispute and/or hearings processes can result in increased A/R, decreased collectability of receivables, and reputational loss.

Recommendation 6 — Inspection Follow-Up / Dispute Reporting

As noted above, per the current process, an investigation is automatically initiated upon a customer logging a dispute. However, the Hearing Department does not follow-up with the assigned inspector until 90 days past the initial dispute date. Such an extended period of time before follow-up dramatically increases the likelihood that the hearing process will not be completed within the established 60-business-day timeframe. As such, IA recommends additional follow-up notifications by the Hearing Department at both the 30-day and 60-day intervals.

Additionally, a report should be regularly generated that outlines any unresolved customer disputes that are over 90 days old. This report should be distributed to management on at least a quarterly basis so that proper action can be taken to address any excessively aged items.

If left unaddressed, excessive delays in the customer dispute and/or hearings processes can result in increased A/R, decreased collectability of receivables, and reputational loss.

Target Timeframe: 3-6 Months

Management Responsible: Chief Customer Service Officer

Finding 7 — Documentation of Directives

Internal Audit identified multiple processes that require increased formalization or standardization.

During the audit process, IA noted an absence of well documented P&P for multiple processes within the Billing Department. When formalized procedural documents were requested, IA was provided with multiple drafts across various Billing Department operations, but there was nothing consistent or standardized for each department to adhere to for multiple functions.

Based upon IA's discussions with management, many of the department's staff are performing work using their own self-created forms, Smart Lists, or other informal P&P. "Smart Lists" are filtered task lists created within the CSM system that selectively compartmentalize the billing data to help staff members focus upon only those items that are solely related to their specific department or job function. While Smart Lists do provide some level of systemization, they're unable to be relied upon as a control, since any staff member has the ability to create them.

When IA inquired about the lack of standardization, management's response was that many of the informal processes currently in use are methods that were passed down by predecessors; and that they are trying to move towards having procedures more centralized.

A lack of formalized P&P increases the risk of billing errors, misdirection of delinquency / shut-off, misclassification of location codes, and ultimately customer dissatisfaction, reputational loss, and lost revenue.

With regard to the specific departments and operations, IA noted the following:

Estimation Frequency — SWBNO's objective has been to read as many meters as possible given the number of individuals on staff at that time. In recent years, the billing department has pushed forward an initiative to read 50% of total meters in one month and the other 50% in the next. The intent is to ensure that all meters are read by a technician; however, it could create inconsistencies between bills as 50% of bills in each month would then have to be estimated.

IA performed some testing for a selected sample of bills, and found the Billing Department is generally adhering to this standard. However, the above referenced methodology was not found to be documented in a formalized policy or job aid.

System SOD (Segregation of Duties) — IA noted that there were no ongoing controls to oversee adequate segregation of duties within the CSM system. (See Finding 4 above.)

Timeliness of Account Resolutions — Per the Interim Final Billing Supervisor, the Final Billing Department can complete an estimated 50-70 work orders per day. The workload is determined by the number of work orders submitted by Customer Service (CS). Final Billing also works in conjunction with Meter Reading (MR) to get final reads once CS submits a work order. On a typical account—with no additional investigations required—Final Billing can complete most transfer work orders within a week. However, SWBNO's process for both CS and MR—coupled with account investigations—have the potential to cause delays or lags in account resolution. Additionally, the Final Billing Department has no formal process or documentation to ensure that work orders are completed timely.

Monitoring of Accounts Receivable — IA noted that there were no regular, formal reporting P&P to address outstanding A/R. (See Finding 1 above.)

Notifications of Delinquency — IA noted that there was an absence of formalized P&P to allow for sufficient notifications of delinquency. (See Finding 2 above.)

Non-Revenue Water Accounts — IA noted an absence of directive controls to review accounts for qualification as NRW before being added to the list. (See Finding 3 above.)

Customer Hearings — IA noted an absence of formalized directive controls to address investigation follow-up and aging of customer disputes.

Customer Actions — While service order Smart Lists do exist for some customer actions, IA noted an absence of formalized directive controls for the following situations:

- **Read Only:** Services are open in one customer's name; however, they will be transferred to another customer. In this situation, the services will not be switched on or off. Essentially, a Meter Reading team member will visit the location to obtain a closing read for the current customer and an opening read for the new customer.

- **Hydrant:** Hydrant meters are used by contractors and construction companies in the commission of constructing a new building. The transfer service order can either be for a Hydrant “IN” or Hydrant “OUT”. After the contractor has applied for a plumbing permit, a Hydrant “OUT” transfer service order would issue the meter to them. While a Hydrant “IN” service order would be the return of the meter.
- **Set Meter:** If the property does not have a meter, a member of the Meter Shop team will have to install a meter on the property—this order initiates that action.
- **Turn On:** This designates that meters have been turned off on the property and are now being restored. The services could be going from one person’s account to another, or from a “Mr. Vacant” account to an actual person. In this case, the meter is still on the property, but a meter reader must turn the meter on for the incoming customer.
- **No Final:** This transfer is similar to a “Read Only” service order, but is more utilized as an update for a shared residence—as in a roommate vacating or death of a spouse.

The goal for many of the transfer service orders is to establish who is moving out and into servicing locations (if at all). In this way, SWBNO can better track which meters should and should not be in use to ensure owners are not being billed for vacant accounts.

Unfortunately, aside from closing an account or initially opening a brand new account, customers have no formal guidance on most actions that are “transfer” related. Additionally, Final Billing employees do not have established, written guidance on handling transfer accounts. The current instruction is for employees to close the account, send the final bill, and then transfer the account to “Mr. Vacant” if it will be unoccupied. The “Mr. Vacant” account is then tracked by a separate Smart List to monitor whether these vacant accounts have consumption.

Recommendation 7 — Establish and Implement Formal Directives

Currently, training for new and current employees is primarily based on word of mouth, hands-on learning, and repetition by rote. This has led to some aberrations in the performance of similar tasks. It is recommended that SWBNO’s Billing sections prepare formal, written P&P or job aids for the aforementioned areas in order to streamline the training of employees and effectively minimize billing errors. Additionally, a directive should be created on a sectional level as well to provide more clarity for more consistent methods of performing tasks within each section. This increased level of uniformity will make it easier to identify and rectify errors in processing.

Having clear and transparent P&P for all current processes will only help provide for the smoothest process conversion when it comes to time fully transition to Smart Metering.

IA also recommends that each section become familiarized with all CSM system tasks that are directly related to their job duties. Instances in which a specific task is not signed off on should be tracked and brought to the attention of the manager of that department. Any further discrepancies

with tasks are to be discussed with management and then reassigned to the appropriate department within the CSM system.

Lastly, if the CSM system has the capabilities, alerts should be generated and sent out to the various departments notifying them that a specific task requires completion. This helps to maintain accountability for the section or department responsible for the work to be done.

Target Timeframe: 6-9 Months

Management Responsible: Chief Customer Service Officer

Conclusion

The Internal Audit Department appreciates the cooperation and assistance provided during the review. After reviewing the findings, determinations, and associated recommendations included in this report, Internal Audit is requesting that management provide a response within 30 days of this report's distribution. The attached Issues & Response Matrix has been provided as Exhibit 1 for management's response.



Audit Plan 2024 — SWBNO Internal Audit

- **Warehouse Controls — Brass and Copper**
 - **CAAT's / Data Mining Rollout (GPS / Water Testing will be first area)**
 - **Plumbing Department — Applications & Permitting**
 - **Engineering / Construction Inspections**
-

**RESOLUTION AUTHORIZING PERFORMANCE
OF INTERNAL AUDIT PLAN**

WHEREAS, the Audit Committee of the Sewerage and Water Board of New Orleans reviewed the 2024 Audit Plan presented by the Chief Audit Executive in accordance with the established Charters of the Audit Committee and the Internal Audit Department; and

WHEREAS, the Audit Committee recommends implementation and performance of the Audit Plan presented at the Audit Committee's March 12, 2024, meeting; and

NOW, THEREFORE, BE IT RESOLVED that the Sewerage and Water Board of New Orleans hereby adopts the 2024 Audit Plan approved at the March 12, 2024, meeting of the Audit Committee of the Sewerage and Water Board of New Orleans.

I, Ghassan Korban, Executive Director, Sewerage
and Water Board of New Orleans, do hereby certify
that the above and foregoing is a true and correct
copy of a resolution adopted at the Regular
Monthly Meeting of said Board, duly called and held,
according to law
on March 27, 2024

GHASSAN KORBAN
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS