

SEWERAGE & WATER BOARD OF NEW ORLEANS

FINANCE COMMITTEE MEETING

TUESDAY, OCTOBER 7, 2014

8:00 AM

COMMITTEE MEMBERS

Mr. Mark Moody, Chair • Mrs. Robin Barnes • Mr. Scott Jacobs • Mrs. Kerri Kane
• Mr. Wm. Raymond Manning

FINAL AGENDA

ACTION ITEMS

1. Approval of Previous Report
2. General Superintendent's Recommendations
3. Change Orders – NONE
4. 2014 Independent Financial Auditing Services Contract (R-210-2014)
5. Public Officials and Employees Liability Insurance (R-229-2014)
6. 2015 Health Insurance Renewal (R-230-2014)
7. 2015 Health Insurance Employee/Retiree Contribution/Deduction (R-231-2014)

PRESENTATION ITEMS

8. Financial Results through August 2014

INFORMATION ITEMS

9. Change Order Analysis
10. FEMA Project Worksheet Status
11. 2014 Committee/Board Meeting Schedule
12. Response to Questions
13. Any Other Matters

REFERENCE ITEMS (In Binders)

- A. Sewerage & Water Board By-Laws
- B. 2014 Operating & Capital Budget
- C. Strategic Plan
- D. Tracking Tool for Commitments to the City Council
- E. Bond Rating

**FURNISHING GRASS CUTTING AND DEBRIS PICK-UP OF SEWERAGE AND
WATER BOARD EAST BANK CANALS - REQ. NO. Y0140052**

BE IT RESOLVED by the Sewerage and Water Board of New Orleans that three (3) bids were received on August 21, 2014 after advertising according to the Public Bid Law, for Furnishing Grass Cutting and Debris Pick-up of Sewerage and Water Board East Bank Canals. All bidders were non-responsive to the specifications for various reasons. It is recommended that all bids be rejected and the project be rebid.

I, Cedric S. Grant, 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 Meeting of the said Board, duly called and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

**FURNISHING GRASS CUTTING AND DEBRIS PICK-UP OF SEWERAGE AND
WATER BOARD WEST BANK CANALS - REQ. NO. Y0140053**

BE IT RESOLVED by the Sewerage and Water Board of New Orleans that four (4) bids were received on August 21, 2014 after advertising according to the Public Bid Law, for Furnishing Grass Cutting and Debris Pick-up of Sewerage and Water Board East Bank Canals. All bidders were non-responsive to the specifications for various reasons. It is recommended that all bids be rejected and the project be rebid.

I, Cedric S. Grant, 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 Meeting of the said Board, duly called and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

**FURNISHING CHEMICAL CONTROL OF FOLIAGE AT SPECIFIED SEWERAGE AND
WATER BOARD LOCATIONS WITHIN THE CITY OF NEW ORLEANS - REQ. NO.
YO140051**

BE IT RESOLVED by the Sewerage and Water Board of New Orleans that One (1) bid was received on August 28, 2014 after advertising according to the Public Bid Law, for Furnishing Chemical Control of Foliage at Specified Sewerage and Water Board Locations within the city of New Orleans. The bid was hereby accepted and contract awarded therefore to **Louisiana Vegetation Management, Inc.** for the total amount of **\$156,450.00.**

I, Cedric S. Grant, 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 Meeting of the said Board, duly called and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

**FIRST AND FINAL RENEWAL OF CONTRACT FOR FURNISHING SODIUM
CHLORIDE - REQ. NO. AL130026**

WHEREAS, under the provisions of the contract, the Board, with the contractor's concurrence, reserves the right to renew the contract with no increase in the cost of services and no change in terms and conditions; and

WHEREAS, the contractor, **Morton Salt**, desires to exercise its renewal option as allowed under this contract in the total amount of \$103,191.75 (**Items 1 and 2**) for Furnishing Sodium Chloride.

NOW, THEREFORE, BE IT RESOLVED, that the request of **Morton Salt**, for this first and only renewal, effective **November 1, 2014**, is hereby approved.

I, Cedric S. Grant, 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 Meeting of the said Board, duly called and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

FIRST AND FINAL RENEWAL OF CONTRACT FOR FURNISHING PEST & RODENT
CONTROL SERVICES FOR THE SEWERAGE AND WATER BOARD - REQ. NO.
YO130020

WHEREAS, under the provisions of the contract, the Board, with the contractor's concurrence, reserves the right to renew the contract with no increase in the cost of services and no change in terms and conditions; and

WHEREAS, the contractor, **Imperial Exterminating, Inc.**, desires to exercise its renewal option as allowed under this contract with the total being \$28,016.00 for Furnishing Pest & Rodent Control Services for the Sewerage and Water Board.

NOW, THEREFORE, BE IT RESOLVED, that the request of **Imperial Exterminating, Inc.**, for this first and only renewal, effective November 1, 2014, is hereby approved.

I, Cedric S. Grant, 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 Meeting of the said Board, duly called and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

FIRST AND FINAL RENEWAL OF CONTRACT FOR FURNISHING AND
DELIVERING GASOLINE AND DIESEL FUEL - REQ. NOS. YG140001 -
GI140001

WHEREAS, under the provisions of the contract, the Board, with the contractor's concurrence, reserves the right to renew the contract with no increase in the cost of services and no change in terms and conditions; and

WHEREAS, the contractor, **Lard Oil Company**, desires to exercise its renewal option as allowed under this contract with the total being **\$1,960,823.00** for Furnishing and Delivering Gasoline and Diesel Fuel.

NOW, THEREFORE, BE IT RESOLVED, that the request of **Lard Oil Company**, for this first and only renewal, effective **December 1, 2014**, is hereby approved.

I, Cedric S. Grant, 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 Meeting of the said Board, duly called and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

**FIRST AND FINAL RENEWAL OF CONTRACT FOR FURNISHING AND
DELIVERING LUBRICANT PETROLEUM PRODUCTS - REQ. NOS. YG140002 &
GI140002**

WHEREAS, under the provisions of the contract, the Board, with the contractor's concurrence, reserves the right to renew the contract with no increase in the cost of services and no change in terms and conditions; and

WHEREAS, the contractor, **Lard Oil Company**, desires to exercise its renewal option as allowed under this contract with the total being **\$123,916.35** for Furnishing and Delivering Lubricant Petroleum Products.

NOW, THEREFORE, BE IT RESOLVED, that the request of **Lard Oil Company**, for this first and only renewal, effective **December 1, 2014**, is hereby approved.

I, Cedric S. Grant, 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 Meeting of the said Board, duly called and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

FIRST AND FINAL RENEWAL OF EMERGENCY LETTER BIDS FOR 2013 RENTAL AND INSTALLATION OF A TEMPORARY GENERATOR AT CARROLLTON WATER PLANT

WHEREAS, under the provisions of the contract, the Board, with the contractor's concurrence, reserves the right to renew the contract with no increase in the cost of services and no change in terms and conditions; and

WHEREAS, the contractor, **Louisiana CAT - Power Systems**, desires to exercise its renewal option as allowed under this contract with the total being **\$325,485.00** for Emergency Letter Bids for 2013 Rental and Installation of a Temporary Generator at Carrollton Water Plant.

NOW, THEREFORE, BE IT RESOLVED, that the request of **Louisiana CAT - Power Systems**, for this first and only renewal, effective **October 11, 2014**, is hereby approved.

I, Cedric S. Grant, 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 Meeting of the said Board, duly called and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS



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

Sewerage & Water Board of NEW ORLEANS

MITCHELL J. LANDRIEU, President
WM. RAYMOND MANNING, President Pro-Tem

625 ST. JOSEPH STREET
NEW ORLEANS, LA 70165 • 504-529-2837 OR 52W-ATER
www.swbno.org

September 26, 2014

To the Honorable Members, Finance Committee:

Re: Bid Protest - Debris Pickup and Grass Cutting for East Bank Canals,
Y014-0052 and West Bank Canals, Y014-0053

On August 21, 2014 the Sewerage and Water Board of New Orleans opened bids for Debris Pickup and Grass Cutting for East Bank Canals, Y014-0052, and Debris Pickup and Grass Cutting for West Bank Canals, Y014-0053. Metro Service Group bid \$477,789.12 for the East Bank, and \$250,983.84 for the West Bank. The second low bidder, H&O Investments LLC, bid \$486,475.92 for the East Bank, and \$286,110.00 for the West Bank. The third low bidder, Ramelli Janitorial Services, Inc., bid \$670,145.00 for the East Bank, and \$351,135.00 for the West Bank. Little Computer Solutions, Inc. bid \$446,470.00 on the West Bank only. The budget for each contract is \$500,000, and there is a 20% DBE participation requirement for each contract.

	Metro	H&O	Ramelli	Little
East Bank	\$477,789.12	\$486,475.92	\$670,145.00	No bid
West Bank	\$250,983.84	\$286,110.00	\$351,135.00	\$446,470.00

Little Computer Solutions, Inc. protested the award to Metro Service Group, Inc. for both East and West Banks, though Little Computer Solutions did not bid for the East Bank contract. In its protest, Little Computer Solutions claims that Metro Disposal, the current contract holder, should not be allowed to bid because it did not fulfill the current requirements and specifications. Metro Disposal Inc. is not in default of any contract with the Sewerage and Water Board.

Little Computer Solutions also claims that Metro Service Group, Inc. does not have three years' experience as required in the specifications. Little Computer Solutions, Inc. subsequently protested the award of the contract for the West Bank to H&O Enterprise, LLC, as not in good standing with the Louisiana Secretary of State.

On August 26, 2014 and September 8, 2014 the third low bidder on each contract, Ramelli Janitorial Services, Inc., protested the award to Metro Service Group, Inc. and H&O Enterprises, LLC. Ramelli claims, similar to Little Computer Solutions,

To the Honorable Members, Finance Committee
Page 2
September 26, 2014

that Metro does not have the experience required in the specifications and that H&O Enterprises is not in good standing with the Louisiana Secretary of State.

At the September 8, 2014 Sewerage and Water Board Operations Committee meeting it was recommended by staff that the bids of Ramelli Janitorial Service be found non-responsive for failure to provide correspondence from its DBE confirming negotiated terms, as required in the specifications. The recommendation of staff was accepted by the Operations Committee, and the Board on September 17, 2014.

The subsequent protest of Ramelli pointed out that H&O attended the mandatory pre-bid conference as H&O Enterprises. The bid submitted was by H&O Investments, therefore, H&O Investments is non-responsive for not attending the mandatory pre-bid.

Summarizing, the low bidder, Metro was found to be non-responsive for failing to meet the three years' minimum experience and not submitting three references. The second low bidder, H&O Investments, is non-responsive for failing to attend the mandatory pre-bid conference. The third low bidder, Ramelli is non-responsive for failing to submit required information from the DBE. The fourth low bidder for the West Bank, Little Computer Solutions, misidentified the addendum as dated August 19, 2014, rather than August 18, 2014, and was significantly higher than the bids of Metro and H&O.

In conclusion, Louisiana Revised Statute 38:2214 allows a public entity to reject all bids for "just cause". Therefore, it is the recommendation of staff that it has sufficient "just cause" to reject all bids for both the East Bank and West Bank contracts.

This matter was to be heard at the September 9, 2014 Finance Committee meeting; however, the Committee was unable to obtain a quorum, therefore the items on that agenda were referred to the Executive Committee. Inasmuch as the protest of Metro was received only two days before the Committee meeting, the matter was deferred to the October Finance Committee meeting.

Respectfully submitted,



BRIAN A. FERRARA
DEPUTY SPECIAL COUNSEL

BAF:mkt

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June 22, 2010
OPINION 10-0058

Mr. E. Jeffrey Perilloux
P.O. Box 1809
LaPlace, LA 70069-1809

90-A-1 PUBLIC FUNDS & CONTRACTS

La. R.S. 33:2212, et. seq.

A contract for debris removal is a contract for services which is not subject to the advertising and bidding requirements of Louisiana's Public Bid Law as long as the municipality does not violate other applicable local statutes or charter provisions.

Dear Mr. Perilloux:

Your request for an Attorney General's Opinion has been assigned to me for research and reply. On behalf of St. John the Baptist Parish Government ("St. John"), you have asked for our opinion regarding a proposed plan by St. John to remove weeds and debris from existing drainage ditches and canals located throughout St. John the Baptist Parish. It is anticipated that St. John would expend in excess of \$150,000 in connection with the proposed plan. You ask for our opinion as to whether such activities are subject to the competitive bidding requirements of the Louisiana Public Bid Law, La. Rev. Stat. 38:2211, et. seq.

Under Louisiana's Public Bid Law, contracts for public works projects exceeding \$150,000 must be advertised and let to the lowest responsible and responsive bidder. A public works project means the erection, construction, alteration, improvement, or repair of any public facility or immovable property owned, used, or leased by a public entity. La. Rev. Stat. 38:2211. Public works projects that are estimated to cost less than \$150,000 are not subject to the advertising and bidding requirements of the Public Bid Law and may be undertaken by the public entity with its own employees or may be negotiated with one or more contractors.

Based upon the plain language of La. Rev. Stat. 38:2211, it is our opinion that the proposed plan does not fall under the purview of Louisiana's Public Bid Law. Weed eradication and debris removal from ditches and canals do not involve the erection, construction, alteration, improvement, or repair of immovable property. Therefore, such activities do not meet the definition of a public work and accordingly are not subject to the competitive bidding requirements of the Louisiana Public Bid Law.

In accord is the Louisiana Third Circuit Court of Appeal decision in *Regency Construction, Inc. v. Lafayette City-Parish Consolidated Government*, 2003-313 (La. App. 3 Cir. 6/4/03), 847 So.2d 796. There, the Court held that a contract for the removal of hurricane debris was not subject to the Louisiana Public Bid Law. In its

Opinion 10-0058
Syllabus

90-A-1 PUBLIC FUNDS & CONTRACTS

La. R.S. 33:2212, et. seq.

A contract for debris removal is a contract for services which is not subject to the advertising and bidding requirements of Louisiana's Public Bid Law as long as the municipality does not violate other applicable local statutes or charter provisions.

Mr. E. Jeffrey Perilloux
P.O. Box 1809
LaPlace, LA 70069-1809

Date Received:

Date Released: June 22, 2010

Michael J. Vallan
Assistant Attorney General



SEWERAGE AND WATER BOARD OF NEW ORLEANS

Inter-Office Memorandum

Date: October 2, 2014

From: Rosita P. Thomas, Interim Finance Administrator

To: Cedric S. Grant, Executive Director
Robert Miller, Deputy Director

Re: 2014 Independent Financial Auditing Services – 2nd Renewal Option

ATTN: Anita Simmons

Postlethwaite and Netterville APAC desires to exercise its 2nd renewal option, as stated in the response to RFP dated August 24, 2012. This is the second renewal option of a five-year contract. The initial contract was approved at the Board meeting on October 17, 2012, with four (4) one (1) year renewal options – Board's approval is necessary for each option.

Bruno and Tervalon was selected as the DBE from the Boards' DBE list and will serve as DBE joint venture participation of 50%.

Additionally, the cost of this Engagement is \$85,000 as stated in the price submitted at the time of the response under a separate cover, on August 24, 2012. Total funds of \$85,000 are available in the Finance Administration Operating and Maintenance Budget.

See enclosed Engagement letter.

Please place on the Finance Committee agenda as an action item, and forward to full Board for approval.

Thank you.

cc: Nolan Lambert, Special Counsel
Tiffany Carter, Director, DBE

2014 INDEPENDENT FINANCIAL AUDITING SERVICES CONTRACT

WHEREAS, the Sewerage and Water Board of New Orleans must produce and publish financial statements audited by an accounting firm with a favorable national reputation; and

WHEREAS, the Board's staff solicited public bids for independent financial auditing services for one year with four one year renewal options; and

WHEREAS, the independent auditors desire to exercise the execution of the first renewal option for independent financial auditing services for the calendar year 2014, at the terms and conditions set forth in the RFP response to the Board on August 24, 2012; and

WHEREAS, funds for this service are included in the 2014 Budget; and

WHEREAS, the fees shall be \$85,000 for calendar year 2014 financial auditing services, as previously quoted and submitted in a separate sealed envelope to the Board on August 24, 2012; and

WHEREAS, staff recommends the approval and concurs with the engagement letter submitted by Postlethwaite & Netterville for its 2nd renewal option of four (4) one (1) year renewal options with Bruno and Tervalon as DBE/Joint venture of 50% participation, for independent financial auditing services; and

NOW, THEREFORE, BE IT RESOLVED by the Sewerage and Water Board of New Orleans the approval of the 2nd renewal option for independent financial auditing services with Postlethwaite & Netterville and Bruno and Tervalon for the year 2014 for a total amount of \$85,000.

I, Cedric S. Grant, Executive Director, Sewerage and Water Board of New Orleans, do hereby certify that the above and foregoing is true and correct copy of a resolution adopted at the Regular Monthly Meeting of said Board, duly called and held, according to law,
October 15, 2014

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE & WATER BOARD OF NEW ORLEANS

2014 INDEPENDENT FINANCIAL AUDITING SERVICES CONTRACT

WHEREAS, the Sewerage and Water Board of New Orleans must produce and publish financial statements audited by an accounting firm with a favorable national reputation; and

WHEREAS, the Board's staff solicited public bids for independent financial auditing services for one year with four one year renewal options; and

WHEREAS, the independent auditors desire to exercise the execution of the second renewal option for independent financial auditing services for the calendar year 2014, at the terms and conditions set forth in the RFP response to the Board on August 24, 2012; and

WHEREAS, funds for this service are included in the 2014 Budget; and

WHEREAS, the fees shall be \$85,000 for calendar year 2014 financial auditing services, as previously quoted and submitted in a separate sealed envelope to the Board on August 24, 2012; and

WHEREAS, staff recommends the approval and concurs with the engagement letter submitted by Postlethwaite & Netterville for its 2nd renewal option of four (4) one (1) year renewal options with Bruno and Tervalon as DBE/Joint venture of 50% participation, for independent financial auditing services; and

NOW, THEREFORE, BE IT RESOLVED by the Sewerage and Water Board of New Orleans the approval of the 2nd renewal option for independent financial auditing services with Postlethwaite & Netterville and Bruno and Tervalon for the year 2014 for a total amount of \$85,000.

I, Cedric S. Grant, Executive Director, Sewerage and Water Board of New Orleans, do hereby certify that the above and foregoing is true and correct copy of a resolution adopted at the Regular Monthly Meeting of said Board, duly called and held, according to law,
October 15, 2014

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE & WATER BOARD OF NEW ORLEANS



A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

October 1, 2014

Ms. Rosita Thomas
Sewerage & Water Board of New Orleans
625 St. Joseph Street
New Orleans, Louisiana 70165

Dear Ms. Thomas:

As certified public accountants licensed to perform audits in Louisiana, Postlethwaite & Netterville, APAC (P&N) is proud that you have engaged our firm to audit your financial statements as of December 31, 2014, and for the year then ending.

Audit Scope

We will audit the financial statements of the enterprise fund and pension trust fund, including the related notes to the financial statements, which collectively comprise the basic financial statements, of the Board as of and for the year ended December 31, 2014. We understand that the Board has no component units. It is acknowledged that these financial statements and the underlying records and supporting documents are the representations of management; that the Board assumes full responsibility for their integrity and fairness; and that representation letters will be requested. It is understood that you will compile the financial statements with our assistance and that those statements will be available no later than March 15, 2015.

Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Board's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Board's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis
2. Schedule of Funding Progress – Pension
3. Schedule of Funding Progress – Other Postemployment Benefits

We have also been engaged to report on supplementary information other than RSI that accompanies the Board's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditor's report on the financial statements:

1. Schedule of expenditures of federal awards
2. Net Assets by Department
3. Revenues, Expenses, and Changes in Net Assets by Department
4. Schedule of Property, Plant, and Equipment in Service by Department
5. Schedule of Bonds Payable
6. Schedule of Cash Receipts and Disbursements – Debt Service and Debt Service Reserve Required by Bond Resolution
7. Schedule of Changes in Self Insurance Liabilities by Department

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

1. Introductory Section
2. Statistical Information
3. Supplemental Information

Additional information regarding the planned scope and conduct of our audit is attached as Attachment 2 to this letter.

Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on –

- Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The OMB Circular A-133 report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions. Our audit will comply with the provisions of Louisiana Revised Statute 24:513 and the provisions of the Louisiana Governmental Audit Guide, published jointly by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to Members of the Sewerage and Water Board. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or may withdraw from this engagement. Should such situation arise, we will notify you and the Legislative Auditor.

We will use professional judgment in determining the standards that apply to the work to be conducted. If this engagement will not satisfy the requirements of all audit report users, laws, and regulations, we will notify you as soon as this comes to our attention. We will then submit another engagement letter for your approval that complies with the applicable requirements and submit the signed engagement letter to the Legislative Auditor with explanation. We will consider all standards that may apply; in particular, we will determine whether a different type of engagement is needed based on:

- ♦ State of Louisiana's audit law.
- ♦ Audit requirements of *Government Auditing Standards*.
- ♦ Office of Management and Budget Circular A-133 audit requirements for a single audit or program-specific audit when Federal award expenditures exceed \$500,000 for the fiscal year.
- ♦ Bond requirements, either to issue bonds or as a bond indenture provision.
- ♦ Other contractual requirements.

Management Responsibilities

Management is responsible for the financial statements, schedule of expenditures of federal awards, and all accompanying information as well as all representations contained therein. Management is also responsible for identifying all federal awards received and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements, schedule of expenditures of federal awards, and related notes. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. You agree to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal awards, related notes, and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements, schedule of expenditures of federal awards, and related notes and that you have reviewed and approved the financial statements, schedule of expenditures of federal awards, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Management is responsible for (a) establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (b) following laws and regulations; (c) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (d) ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

You are responsible for preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with OMB Circular A-133. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with OMB Circular A-133; (2) you believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with OMB Circular A-133; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

You are also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views

on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures – General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures – Internal Control

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures – Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Board's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Board's major programs. The purpose of these procedures will be to express an opinion on the Board's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Adjustments

As part of our engagement we may propose standard, adjusting, or correcting journal entries to your financial statements. You are responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Changes

The Legislative Auditor will be notified immediately, in writing, if our audit is cancelled or if there are any significant disagreements. The Legislative Auditor will be notified, immediately, in writing if there are any changes in this agreement or if there are any restrictions placed on our staff during the audit that would impact the scope of the audit, which includes the failure to produce required records in a timely manner, or the nature of the tests required under the previously discussed standards. If federally-assisted programs are involved, we are required to notify your cognizant or oversight agency.

Recommendations

During the course of our audit, it is possible that we may observe opportunities for economies of operation and for improved internal administrative and accounting controls, or we may observe variances with applicable laws and regulations or other matters that should be brought to your attention. Our comments and recommendations concerning such matters, if any, will be conveyed to you in writing.

Reporting Package

The reporting package will consist of the data collection form, to be prepared by management, and:

1. An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles and, when applicable, an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole. It is our understanding that these statements will include a schedule of per diem paid to the board members and a schedule of expenditures of federal awards (if applicable). The schedule(s) will be reviewed as part of our audit in an attempt to provide supplemental information assurance on these schedules as part of our audit report.
2. A report on internal control and compliance with laws and regulations material to the financial statements and, when applicable, major federal programs. This report shall describe the scope of testing of internal control and compliance, the results of the tests, and, where applicable, refer to the separate schedule of findings and questioned costs. The state laws and regulations included in this report shall include all of the compliance matters included in the *Louisiana Compliance Questionnaire*.

3. A report on internal control and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on major federal programs. The report will include an opinion (or disclaimer of opinion) as to whether the Board has complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program, and, where applicable, refer to the separate schedule of findings and questioned costs.
4. If applicable, a summary schedule of findings and questioned costs.
5. If applicable, a summary schedule of any prior findings, which you will prepare.
6. If applicable, management's corrective action plans, which you will prepare.
7. If applicable, a management letter to convey suggestions and recommendations not suitable for the foregoing reports. We will ask you to respond to any matters included in the management letter and include your response as a part of the issued management letter, or you may place your response to these matters in your corrective action plan.

We will assist you in the preparation of the state data collection form and sign, or disclaim, the form. In the preparation of the form should there be any material disagreements, we reserve the right to refuse to sign the form and report such matters to the appropriate federal officials and the Legislative Auditor's Office.

At the conclusion of the engagement, we will complete the appropriate sections of the federal Data Collection Form that summarizes our audit findings. It is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

Prior Audit Comments and Recommendations

Our audit will include a review of any prior-year suggestions and recommendations and will indicate the extent to which the summary schedule of prior year audit findings is fairly stated. As to any current-year recommendations and suggestions, we will afford you the opportunity to respond to such matters and will include your response(s) in management's corrective action plan.

Ms. Rosita Thomas
Sewerage & Water Board of New Orleans
October 1, 2014
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Compensation

Our fee for this audit will be our actual costs, but will not exceed \$85,000. This fee is based on the assumption that you will provide the assistance as provided to auditors in prior years and as represented in your request for proposals for auditing services. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

Audit Completion

It is our understanding that the trial balance will be available by February 28, 2015. We anticipate that the audit work will commence no later than March 1, 2015 and that the report will be issued no later than April 30, 2015.

At the completion of our audit, we will send the Board the requested copies of our management letter and other reports. In addition, the Board will send a copy of our reports, with the management letter, if any, to each board member and members of management; we will assist the Board in sending the required copies of the reporting package to the National Clearinghouse for Single Audits and to any federal agencies or state pass-through entities whose programs are mentioned within the schedule of current year findings or summary of prior year findings.

We will assist you in sending or, at your direction, send one .pdf file of our reports, including any management letters and management's corrective action plan, to the Legislative Auditor. If we find events subsequent to the issuance of our audit report(s) that would cause us to reissue the audit report, we shall reissue the audit report(s) in the same fashion and to the same individuals and organizations as the original audit report.

Working Documentation

The audit documentation for this engagement is the property of Postlethwaite & Netterville and constitutes confidential information. However, we will make all working documentation available to the Legislative Auditor, any successor auditor, any federal or state grantor agencies, the cognizant agency, or any organization of the Louisiana Board of Certified Public Accountants authorized to perform quality assurance reviews. Should we become aware of illegal acts, we shall make our working papers available to the local district attorney or any other state or federal enforcement or regulatory agency without liability. We will retain the working documentation for five years.

Personnel

Albert J. Richard III, CPA is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. It is our understanding that you have assigned Ms. Rosita Thomas as your representative during the audit.



Ms. Rosita Thomas
Sewerage & Water Board of New Orleans
October 1, 2014
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External Quality Review

You have requested that we provide you with a copy of our most recent external peer review report and any subsequent reports received during the contract period. Accordingly, our 2013 peer review report accompanies this letter.

Other Services

You may request that we perform additional nonattest services not contemplated by this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

Under the provisions of *Government Auditing Standards*, our ability to provide nonattest services may be result in an impairment of our independence, and therefore may be limited for the duration of this engagement and for the period covered by this engagement. We will consult those standards and the Legislative Auditor's Office to determine whether such an impairment exists prior to the performance of any nonattest services.

These limited procedures may not meet the needs of all users of audit reports, who may require additional information and assurances on internal control and compliance with laws and regulations. In accordance with *Government Auditing Standards*, you should consider whether additional testing of controls and compliance are necessary to supplement the financial statement audit's coverage of these areas and to meet the reasonable needs of report users. These additional needs are quite often met in the following two ways:

- Supplemental (or agreed-upon) procedures or
- An examination resulting in an opinion.

We are available to discuss the expanded needs of report users, the nature of this expanded work, and the degree to which these type examinations, or other examinations, will meet the needs of the parish and its report users.

Ms. Rosita Thomas
Sewerage & Water Board of New Orleans
October 1, 2014
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Approval

In accordance with the provisions of state law, this engagement agreement must be approved by the Legislative Auditor prior to commencement of our audit. Upon your signature and approval, we will seek approval of this engagement from the Legislative Auditor.

If these comments and arrangements meet with your approval, please sign below and return the agreement to us. We look forward to a pleasant association and the opportunity to provide the services included in this engagement.

Very truly yours,

POSTLETHWAITE & NETTERVILLE, APAC



Albert J. Richard III, CPA, CGAP
Director

Enclosure

Accepted by:

SEWERAGE & WATER BOARD OF NEW ORLEANS

Board Member

By _____

Title _____

Date _____

Management

By _____

Title _____

Date _____



System Review Report

October 10, 2013

To the Directors of Postlethwaite & Netterville
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Postlethwaite & Netterville (the firm) applicable to non-SEC issuers in effect for the year ended May 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of Service Organizations Control (SOC) 2 engagements.

In our opinion, the system of quality control for the accounting and auditing practice applicable to the non-SEC issuers of Postlethwaite & Netterville in effect for the year ended May 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Postlethwaite & Netterville has received a peer review rating of *pass*.

Fitts, Robert & Co., P.C.

Fitts, Roberts & Co., P.C.

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P&N

This attachment is intended to communicate certain matters related to the planned scope and conduct of our audit of the financial statements described in the accompanying engagement agreement.

Communication

Effective two-way communication between our audit team and those charged with governance (herein referred to as “you” or “your”) is important to understanding matters related to the audit and in developing a constructive working relationship.

We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate with us any matters you consider relevant to the audit. Such matters might include information that may significantly affect the nature, timing, and extent of audit procedures, your suspicion or detection of fraud, or any concerns you may have about the integrity or competence of your senior management.

We will timely communicate to you any fraud involving senior management and other fraud that causes a material misstatement of the financial statements, illegal acts that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We will also communicate to you (and to management) any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. We are not aware of any circumstances that have impaired our independence with respect to our engagement as described in the accompanying engagement agreement.

The Audit Planning Process

Our audit approach places a strong emphasis on obtaining an understanding of how your business functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your business. The development of a specific audit plan will begin by meeting with you (and with management) to obtain an understanding of business objectives, strategies, risks, and performance.

We will obtain an understanding of internal control to assess the impact of internal control on determining the nature, timing and extent of audit procedures, and we will establish an overall materiality limit for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error.

We will use this knowledge and understanding, together with other factors, to first assess the risk that errors or fraud might cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides us with parameters within

which to design the audit procedures for specific account balances and classes of transactions. Our risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the entity's internal control).

We will then determine the nature, timing and extent of test of controls and substantive procedures necessary given the risks identified and the controls as we understand them.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Our review and understanding of the entity's internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control. Management is responsible for designing and maintaining an effective internal control environment.

The Concept of Materiality in Planning and Executing the Audit

In planning the audit, the materiality limit is viewed as the maximum aggregate amount of misstatements, which if detected and not corrected, would cause us to modify our opinion on the financial statements. The materiality limit is an allowance not only for misstatements that will be detected and not corrected but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. At the end of the audit, we will inform you of all individual unrecorded misstatements aggregated by us in connection with our evaluation of our audit test results.

Nonaudit Services

The Government Accountability Office's *Government Auditing Standards* (the Yellow Book) is restrictive with respect to the provision of nonaudit services that impair the independence of auditors of entities that are subject to the Yellow Book. The 2011 Yellow Book identifies specific nonaudit services that always impair independence and that auditors are prohibited from providing to audited entities. If a nonaudit service is not specifically prohibited, the auditor is required to assess its impact on independence using the conceptual framework. Activities such as preparing financial statements, converting cash basis financial statements to accrual basis, and preparing reconciliations are nonaudit services that are to be evaluated using the conceptual framework. The Yellow Book requires the auditor to document threats to independence that require the application of safeguards and the safeguards applied (i.e., the auditor's application of the conceptual framework), the auditor's consideration of management's ability to effectively oversee nonaudit services, the understanding with the entity about the nonaudit service to be provided, the objectives of the service, any limitations of the service, the entity's acceptance of its responsibilities, and the auditor's responsibilities.



SEWERAGE AND WATER BOARD

Inter-Office Memorandum

Date: October 7, 2014

To: Cedric S. Grant, Executive Director
Robert Miller, Executive Deputy Director

From: Steven Klepeis, Risk Manager

Re: Purchase of Public Officials and Employees Liability Insurance
Recommendation to Finance Committee

Policy name: Public Officials and Employees Liability Insurance

Policy period: 11/20/2014 to 11/20/2015

Who is an insured: Public officials and employees of the Sewerage and Water Board of New Orleans, along with persons elected or appointed, commissions, boards or other units and their members and employees, and volunteers, all of whom act for or on behalf of the Sewerage and Water Board of New Orleans.

Main Coverages: Wrongful Acts; Defense Costs.

Main Coverage Limit: \$10,000,000.00

Main coverage Deductible: \$250,000.00

Typical claims to which coverage may apply: Wrongful dismissal; breach of employment contract; harassment; discrimination; retaliation; employment-related misrepresentations; wrongful failure to employ or promote; wrongful deprivation of career opportunity; wrongful demotion; negligent evaluation; issuing derogatory statements; wrongful discipline; failure to grant tenure; failure to provide or enforce adequate or consistent policies or procedures relating to employment; violation of civil rights.

New Additional Coverage: Crisis management, \$50,000 limit; Privacy Protection against cyber breach, \$1,000,000.00 limit; Crisis Fund Insurance, \$50,000 limit; Regulatory Proceedings Insurance, \$250,000.

Annual Premium: \$78,723.75.

Premium Decrease from Prior Year: 25%

Recommended Carrier: ACE,USA. **Reason:** More coverage, less cost.

**PUBLIC OFFICIALS AND EMPLOYEE LIABILITY
INSURANCE POLICY FOR OPERATIONS**

WHEREAS, The Sewerage and Water Board of New Orleans desires to renew its Public Officials and Employees Liability policy for its operations for the period November 20, 2014 through November 20, 2015. Commencing 12:01 A.M.; and

WHEREAS, the Board has maintained Public Officials and Employees Liability since 1987; and

WHEREAS, the Board requested its insurance broker, Eagan Insurance, Inc., to secure price quotations for renewal of Public Officials and Employees Liability Insurance; and

WHEREAS, Eagan Insurance, Inc. obtained ACE, USA a quote of \$78,723.75 for Public Officials and Employees Liability Insurance with a \$10 Million limit in basic coverage, and which includes several additional related areas of coverage, including a \$1 Million sub-limit on cyber-related Privacy Protection and Network Liability coverage, which the Board had not previously been offered; and

WHEREAS, said recommended premium quotation from ACE, USA is \$26,356.25 less than the AIG premium of \$105,080 for the expiring policy, representing a 25 % decrease from last year; and

WHEREAS the quotation from ACE, USA offers substantially more coverage at a cost which is \$579.25 less than the current renewal quotation from AIG;

NOW THEREFORE, BE IT RESOLVED that the Executive Director of the Sewerage and Water Board of New Orleans, is hereby authorized and directed to purchase Public Officials and Employees Liability insurance coverage for its operations with ACE, USA through the Board's insurance broker, Eagan Insurance, Inc. for a total of \$78,723.75.

I, Cedric S. Grant, 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 Meeting of the said Board, duly called
and held, according to law, on October 15, 2014.

CEDRIC S. GRANT
EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS



SEWERAGE AND WATER BOARD OF NEW ORLEANS

October 7, 2014

Finance Committee
Sewerage and Water Board of New Orleans
New Orleans, Louisiana

Dear Directors:

Subject: Selection of Healthcare Administrator for 2015

Sewerage and Water Board provides health and dental benefits through a plan currently administered by Blue Cross / Blue Shield of Louisiana. This plan is self-insured with umbrella coverage for individual claims over \$125,000. Sewerage and Water Board currently pays an annual premium in monthly installments composed of the estimated cost of claims, plus administrative costs, plus re-insurance costs, plus an additional funding amount equal to \$1,200,000 to cover claims in excess of the estimated cost of claims; however, if the cost of claims comes in at or below the estimated cost, then the additional funding amount is refunded back to Sewerage and Water Board in quarterly installments. The umbrella coverage pays for individual claims over \$125,000 that are incurred and paid during the twelve-month period. For perspective, the cost of claims, which would not vary by provider, was \$14,647,153 in 2013 while administrative and reinsurance cost was \$1,402,828.

Last month, the Executive Committee was presented information regarding the solicitation process for the Sewerage & Water Board's Group Healthcare Plan. Management authorized USI Insurance Services to solicit proposals for the current plan design. Four companies submitted qualified proposals: the incumbent, BlueCross / BlueShield of LA; Health Smart using the CIGNA National Provider Network; Humana, and United Health. The proposals were evaluated on the following criteria:

- 1) Quality, size, and geographic coverage of the provider network.
- 2) Claim discounts available to reduce Plan payments to providers.
- 3) Administrative Costs to use the provider network and pay claims according to the Water Board Plan design. (Pharmacy Benefit Manager Services included.)
- 4) Stop-Loss Insurance which caps the Water Board exposure to catastrophic medical claim expenses incurred by any individual in one calendar year, currently set at \$125,000 per covered member.

The proposals were reviewed by an evaluation team composed of Rosita Thomas, Audrey Lee, Michael Laporte, Brian Ferrara, and me. The team was comfortable with the experience and ability of the two most favorable proposals, Health Smart/CIGNA and Blue Cross, to fulfill the requirements of our Group Healthcare Plan Administration. The companies each have extensive and high quality Provider Networks. Both companies have solid discount provider contracts to control plan expenses.

The next step in the evaluation compared quoted prices for the Administrative Service Fee and the Stop-Loss Insurance. The Health Smart/CIGNA quote offers a combined savings of \$172,913 on the combined cost of the Administrative Fee and the Stop-Loss Insurance. The savings represents about 1% of the total premiums that will be required to cover the Healthcare Plan expenses in 2015.

There are four key recommendations:

- Switch providers from Blue Cross/Blue Shield of Louisiana to Health Smart/Cigna in order to capture the annual savings of \$172,913 while maintaining the existing level of healthcare benefits.

The population of healthcare providers is nearly identical between Blue Cross/Blue Shield of Louisiana and Health Smart/Cigna according to USI Insurance Services. While the change may be somewhat disruptive in the form of a more complex open-enrollment period for employees, the size of the savings is compelling and will allow us to fund other key employee health initiatives.

- Change the umbrella policy from coverage that pays for excess claims that are incurred and paid during the twelve-month period to coverage that pays for excess claims that are incurred in a twelve-month period and paid during a twenty-four month period of an additional cost of \$99,460, included in the savings noted above.

During the past two years, this additional coverage would have paid for itself more than four times over.

- Discontinue the practice of paying the additional \$1,200,000 to cover claims in excess of the estimated cost of claims with the expectation that the additional amount would be refunded if the cost of claims comes in at or below the estimated cost.

This practice was intended to prevent negative financial "surprises" each month; however, on average, it ties up that amount of working capital each year. We will manage this risk with budgeting of an appropriate contingency amount.

- Maintain the existing level of employee contribution towards the cost of medical insurance.

The savings achieved with the change in administration of the healthcare plan adequately offsets the anticipated increase in the cost of claims. Management recommends maintain the existing level of employee contributions.

Management recommends adoption of the attached resolution to accept the proposal for Health Smart for the administrative fee and specific stop-loss coverage and the attached resolution to maintain employee and retiree contribution rates.



Robert K. Miller
Deputy Director

SEWERAGE & WATER BOARD OF NEW ORLEANS

BENEFITS MARKETING SUMMARY ¹

	BCBSLA	Health Smart
Administrative Cost	\$ 833,320	\$ 618,554
Specific Stop Loss 12/12	\$ 735,443	\$ 798,300
Total Annual Costs	\$1,568,763	\$1,416,835
Annual Savings Projected	\$151,928	

	BCBSLA	Health Smart
Administrative Cost	\$ 833,320	\$ 618,554
Specific Stop Loss 24/12	\$ 855,907	\$ 897,760
Total Annual Costs	\$1,689,227	\$1,516,314
Annual Savings Projected	\$172,913	

¹ Calculations based on 1,824 employees administration and 1,287 employees for specific stop loss insurance.

Admin cost include Mental Health & Substance Abuse and COBRA administration
(if Conexis COBRA Administration is elected by S&WB)

SEWERAGE AND WATER BOARD OF NEW ORLEANS
2015 HEALTH CARE PLAN RATE AND CONTRIBUTION EXHIBIT - 24/12 CONTRACT

HEALTH AND DENTAL (1) 2015 HEALTH SMART RATES (\$/MO.) (2)			
		Total Rate	Employee Share
Actives:	511 Single	492.83	75.47
	317 Two Person	1034.94	166.81
	167 Family	1527.77	190.97
	995 Annual Cost	10,020,596	1,480,011
Retired:	187 Single	711.55	140.15
-65	111 w/Deps.	1992.32	275.51
	298 Annual Cost	4,250,488	681,476
Retired:	535 Each Retiree	330.51	59.30
+65			
	Annual Cost	2,121,874	380,697
Actives:		10,020,596	1,480,011
Retired -65:		4,250,488	681,476
Retired +65:		2,121,874	380,697
	Annual Cost	16,392,959	2,542,184
			13,850,775

(1). Dental Coverage is not provided to retirees.

(2). HEALTH SMART Rates include fixed costs: Administration (\$27.76 PEPM) and Stop loss (\$58.13 PEPM).
 Note: Stop loss rates do not apply to retirees 65+.

(4). Number of Participants Listed Is Per September 2014 Invoice

Prepared 10/01/14

2015 Health Insurance Renewal

WHEREAS, the Sewerage and Water Board of New Orleans provides Health Insurance for its Employees and Retirees; and,

WHEREAS, it is now time to renew the Health Insurance for calendar year 2015; and,

WHEREAS, Health Smart is proposing an Administrative Fee of \$27.76 per contract per month for 2015, in accordance with its bid contract submittal for the Health, Dental, Prescription Drug, and Mental Health benefits of the self-insured plan; and,

WHEREAS, Health Smart is proposing a fee of \$58.13 per contract per month (employees and retirees under age 65) for the \$125,000 specific stop-loss coverage on 24/12 basis; and,

WHEREAS, coverage for mental health and substance abuse benefits will be included in the Health Smart/ CIGNA Network of providers, no additional per employee per month fee will be required,

WHEREAS, Vision Service Plan has proposed no increase in their rates for the vision benefits for 2015;

NOW THEREFORE, BE IT RESOLVED that the Health, Dental, Prescription Drug, Mental Health and Substance Abuse, Vision, benefits and providers be approved for Calendar Year 2015 as described above, in accordance with the 2014-2015 Health Care Plan Rate and Contribution Exhibit attached hereto.

I, Cedric S. Grant, Executive Director, of the 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 Wednesday, October 15, 2014.

CEDRIC S. GRANT, EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

2015 Health Insurance Employee/Retiree Contribution/Deduction

WHEREAS, the Sewerage and Water Board of New Orleans provides Health Insurance for its Employees and Retirees; and,

WHEREAS, it is now time to renew the Health Insurance for calendar year 2015; and,

WHEREAS, the Sewerage and Water Board of New Orleans desires to maintain the Employee and Retiree contribution and deduction rates at current levels;

NOW THEREFORE, BE IT RESOLVED that the Employee and Retiree bi-weekly contribution/deduction is established as follows for the appropriate groups, effective January 1, 2015:

GROUP

(effective January 1, 2015)

Employees

Employee only	\$34.84
Employee & Spouse or Child(ren)	\$76.99
Employee, Spouse, & Child(ren)	\$88.14

Retirees under age 65

Retiree only	\$64.69
Retiree & Spouse or Child(ren)	\$127.16
Retiree, Spouse, & Child(ren)	\$127.16

Retirees age 65 and older

Retiree only	\$27.38
Retiree & Spouse	\$54.75

I, Cedric S. Grant, Executive Director, of the 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 Wednesday, October 15, 2014.

CEDRIC S. GRANT, EXECUTIVE DIRECTOR
SEWERAGE AND WATER BOARD OF NEW ORLEANS

SEWERAGE AND WATER BOARD OF NEW ORLEANS

CHANGE ORDER ANALYSIS SUMMARY FOR FISCAL YEAR 2014

As of October 1, 2014

	<u>Total Active Contracts (\$)</u>	<u>Total Change Orders (\$)</u>	<u>Percentage Contract</u>
WATER			
Construction	\$ 261,211,848	\$ 4,446,789	1.7%
Design	\$ 22,453,793	\$ 19,392,711	86.4%
Total Water	\$ 283,665,641	\$ 23,839,500	8.4%
SEWERAGE			
Construction	\$ 182,211,890	\$ 4,753,078	2.6%
Design	\$ 14,327,111	\$ 7,530,817	52.6%
Total Sewerage	\$ 196,539,001	\$ 12,283,895	6.3%
DRAINAGE			
Construction	\$ 54,871,451	\$ 2,251,977	4.1%
Design	\$ 28,729,500	\$ 2,074,469	7.2%
Total Drainage	\$ 83,600,951	\$ 4,326,446	5.2%
Total Program	\$ 563,805,593	\$ 40,449,842	7.2%

