

SEWERAGE & WATER BOARD OF NEW ORLEANS

AUDIT COMMITTEE MEETING

MONDAY, MARCH 14, 2016

TIME: 9:30AM

**625 ST. JOSEPH STREET
2ND FLOOR BOARD ROOM**

Dr. Tamika Duplessis, Chair • Marion Bracy, Vice-Chair • Robin Barnes • Eric Blue • Scott Jacobs

FINAL AGENDA

ACTION ITEMS

1. Louisiana Systems Survey and Compliance Questionnaire – Audit 2015 (R-030-2016)
2. Audit Committee Charter

PRESENTATION ITEMS

3. Office of Inspector General *Fee Collection and Controls Report* and Sewerage and Water Board *Management's Responses*

EXECUTIVE SESSION

None

INFORMATION ITEMS

4. Review of Previous Report (October 2015)
5. Any Other Matters



SEWERAGE AND WATER BOARD

Inter-Office Memorandum

DATE: March 1, 2016

FROM: Rosita P. Thomas, Finance Administrator

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

RE: Louisiana Compliance Questionnaire – Audit 2015

Attn: Kathleen LaFrance

Please place the above referenced Louisiana Compliance Questionnaire and its resolution on the appropriate Committee agenda and full Board as an action item. This is needed in conjunction with the 2015 Audit.

Certain portions of the questionnaire may not be applicable to your organization, especially those related to federal financial assistance, the requirements of the *Single Audit Act*, and OMB Circular A-133. In such cases, it is appropriate to mark the representation "not applicable." However, you must respond to each applicable representation. A 'yes' answer indicates that you have complied with the applicable law or regulation. A 'no' answer to any representation indicates a possible violation of law or regulation and, as such, should be fully explained. These matters will be reviewed by the auditor during the course of his examination. Please feel free to attach a further explanation of any representation.

Please sign in the appropriate space for that purpose and the office you hold. If further inquiry or discussion is needed, please call Rosita P. Thomas or Minnie Vann at (504) 585-2356.

Thank you.

CC: Sharon Judkins

**LOUISIANA COMPLIANCE QUESTIONNAIRE
(For Audit Engagements of Governments)**

Dear Chief Executive Officer:

Attached is the Louisiana Compliance Questionnaire that is to be completed by you or your staff. This questionnaire is a required part of a financial audit of Louisiana state and local government and quasi-public agencies. Upon completion, the questionnaire must be presented to and adopted by the governing body, if any, of your organization by means of a formal resolution in an open meeting. Independently elected officials should sign the document, in lieu of such a resolution.

The completed questionnaire and a copy of the adoption instrument, if appropriate, must be given to the auditor at the beginning of the audit. The auditor will, during the course of his regular audit, test the accuracy of the responses in the questionnaire. It is not necessary to return the questionnaire to my office.

Certain portions of the questionnaire may not be applicable to your organization, especially those related to federal financial assistance. In such cases, it is appropriate to mark the representation "not applicable." However, you must respond to each applicable representation. A 'yes' answer indicates that you have complied with the applicable law or regulation. A 'no' answer to any representation indicates a possible violation of law or regulation and, as such, should be fully explained. These matters will be reviewed by the auditor during the course of his examination. Please feel free to attach a further explanation of any representation.

Your cooperation in this matter will be greatly appreciated.

Sincerely,

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor

Enclosure

**LOUISIANA COMPLIANCE QUESTIONNAIRE
(For Audit Engagements of Government Agencies)**

March 16, 2016

Postlethwaite & Netterville
One Galleria Blvd – Suite 2100
New Orleans, La. 70001

In connection with your audit of our financial statements as of December 31, 2015 and for January 1, 2016 through March 31, 2016 (period of audit) for the purpose of expressing an opinion as to the fair presentation of our financial statements in accordance with accounting principles generally accepted in the United States of America, to assess our system of internal control as a part of your audit, and to review our compliance with applicable laws and regulations, we confirm, to the best of our knowledge and belief, the following representations. These representations are based on the information available to us as of February 26, 2016.

PART I. AGENCY PROFILE

1. Name and address of the organization.

Sewerage & Water Board of New Orleans
625 St. Joseph Street – Room 331
New Orleans, La. 70165

2. List the population of the municipality or parish based upon the last official United States Census or most recent official census (municipalities and police juries only). Include the source of the information.

Not Applicable

3. List names, addresses, and telephone numbers of entity officials. Include elected/appointed members of the governing board, chief executive and fiscal officer, and legal counsel.

See Attached List A

4. Period of time covered by this questionnaire.
January 1, 2015 through March 31, 2016

5. The entity has been organized under the following provisions of the Louisiana Revised Statute(s) (R.S.) and, if applicable, local resolutions/ordinances.
Act. 6 of the Louisiana Legislature of 1899

6. Briefly describe the public services provided.

Construct, control, maintain and operate the Public Water System, the

Sewerage System and Drainage System for the City of New Orleans.

7. Expiration date of current elected/appointed officials' terms.
See Attached List B

LEGAL COMPLIANCE

PART II. PUBLIC BID LAW

8. The provisions of the public bid law, R.S. Title 38:2211-2296, and, where applicable, the regulations of the Division of Administration, State Purchasing Office have been complied with.
- A) All public works purchases exceeding \$150,000 have been publicly bid.
- B) All material and supply purchases exceeding \$30,000 have been publicly bid.
- Yes [☒] No [☐]

**PART III. CODE OF ETHICS LAW FOR PUBLIC OFFICIALS
AND PUBLIC EMPLOYEES**

9. It is true that no employees or officials have accepted anything of value, whether in the form of a service, loan, or promise, from anyone that would constitute a violation of R.S. 42:1101-1124.
- Yes [☐] No [☐]
10. It is true that no member of the immediate family of any member of the governing authority, or the chief executive of the governmental entity, has been employed by the governmental entity after April 1, 1980, under circumstances that would constitute a violation of R.S. 42:1119.
- Yes [☐] No [☐]

PART IV. LAWS AFFECTING BUDGETING

11. We have complied with the budgeting requirements of the Local Government Budget Act (R.S. 39:1301-15) R.S. 39:33, or R.S. 39:1331-1342, as applicable:

A. Local Budget Act

1. We have adopted a budget for the general fund and all special revenue funds (R.S. 39:1305).
2. The chief executive officer, or equivalent, has prepared a proposed budget that included a budget message, a proposed budget for the general fund and each special revenue fund, and a budget adoption instrument that specified the chief executive's authority to make budgetary amendments without approval of the governing authority. Furthermore, the proposed expenditures did not exceed estimated funds to be available during the period (R.S. 39:1305).
3. The proposed budget was submitted to the governing authority and made available for public inspection at least 15 days prior to the beginning of the budget year (R.S. 39:1306).
4. To the extent that proposed expenditures were greater than \$500,000, we have made the budget available for public inspection and have advertised its availability in our official journal. The advertisement included the date, time, and place of the public hearing on the budget. Notice has also been published certifying that all actions required by the Local Government Budget Act have been completed (R.S. 39:1307).
5. If required, the proposed budget was made available for public inspection at the location required by R.S. 39:1308.
6. All action necessary to adopt and finalize the budget was completed prior to the date required by state law. The adopted budget contained the same information as that required for the proposed budget (R.S.

39:1309).

7. After adoption, a certified copy of the budget has been retained by the chief executive officer or equivalent officer (R.S. 39:1309).

8. To the extent that proposed expenditures were greater than \$500,000, the chief executive officer or equivalent notified the governing authority in writing during the year when actual receipts plus projected revenue collections for the year failed to meet budgeted revenues by five percent or more, or when actual expenditures plus projected expenditures to year end exceeded budgeted expenditures by five percent or more (R.S. 39:1311).

9. The governing authority has amended its budget when notified, as provided by R.S. 39:1311. (Note, general and special revenue fund budgets should be amended, regardless of the amount of expenditures in the fund, when actual receipts plus projected revenue collections for the year fail to meet budgeted revenues by five percent or more; or when actual expenditures plus projected expenditures to year end exceed budgeted expenditures by five percent or more. State law exempts from the amendment requirements special revenue funds with anticipated expenditures of \$500,000 or less, and exempts special revenue funds whose revenues are expenditure-driven - primarily federal funds-from the requirement to amend revenues.)

Not Applicable Yes [] No []

B. State Budget Requirements

1. The state agency has complied with the budgetary requirements of R.S. 39:33.

Not Applicable Yes [] No []

C. Licensing Boards

1. The licensing board has complied with the budgetary requirements of R.S. 39:1331-1342.

Not Applicable Yes [] No []

PART V. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING LAWS

12. We have maintained our accounting records in such a manner as to provide evidence of legal compliance and the preparation of annual financial statements to comply with R.S. 24:513 and 515, and/or 33:463.

Yes [x] No []

13. All non-exempt governmental records are available as a public record and have been retained for at least three years, as required by R.S. 44:1, 44:7, 44:31, and 44:36.

Yes [x] No []

14. We have filed our annual financial statements in accordance with R.S. 24:514, and 33:463 where applicable.

Yes [x] No []

15. We have had our financial statements audited in a timely manner in accordance with R.S. 24:513.

Yes [x] No []

16. We have complied with R.S. 24:513 A. (3) regarding disclosure of compensation, reimbursements, benefits and other payments to the agency head, political subdivision head, or chief executive officer.

Yes [x] No []

PART VI. MEETINGS

17. We have complied with the provisions of the Open Meetings Law, provided in R. S. 42:11 through 42:28.

Yes [x] No []

PART VII. ASSET MANAGEMENT LAWS

18. We have maintained records of our fixed assets and movable property records, as required by R.S. 24:515 and/or 39:321-332, as applicable.

Yes ☒ No ☐

PART VIII. FISCAL AGENCY AND CASH MANAGEMENT LAWS

19. We have complied with the fiscal agency and cash management requirements of R.S. 39:1211-45 and 49:301-327, as applicable.

Not Applicable Yes ☐ No ☐

PART IX. DEBT RESTRICTION LAWS

20. It is true we have not incurred any long-term indebtedness without the approval of the State Bond Commission, as provided by Article VII, Section 8 of the 1974 Louisiana Constitution, Article VI, Section 33 of the 1974 Louisiana Constitution, and R.S. 39:1410.60-1410.65.

Yes ☒ No ☐

21. We have complied with the debt limitation requirements of state law (R.S. 39:562).

Not Applicable Yes ☐ No ☐

22. We have complied with the reporting requirements relating to the Fiscal Review Committee of the State Bond Commission (R.S. 39:1410.62).

Yes ☒ No ☐

PART X. REVENUE AND EXPENDITURE RESTRICTION LAWS

23. We have restricted the collections and expenditures of revenues to those amounts authorized by Louisiana statutes, tax propositions, and budget ordinances.

Not Applicable Yes ☐ No ☐

24. It is true we have not advanced wages or salaries to employees or paid bonuses in violation of Article VII, Section 14 of the 1974 Louisiana Constitution, R.S. 14:138, and AG opinion 79-729.

Yes ☒ No ☐

25. It is true that no property or things of value have been loaned, pledged, or granted to anyone in violation of Article VII, Section 14 of the 1974 Louisiana Constitution.

Yes ☒ No ☐

PART XI. ISSUERS OF MUNICIPAL SECURITIES

26. It is true that we have complied with the requirements of R.S. 39:1438.C.

Not Applicable Yes ☐ No ☐

PART XII. QUESTIONS FOR SPECIFIC GOVERNMENTAL UNITS

Parish Governments

27. We have adopted a system of road administration that provides as follows:

- A. Approval of the governing authority of all expenditures, R.S. 48:755(A).
- B. Development of a capital improvement program on a selective basis, R.S. 48:755.
- C. Centralized purchasing of equipment and supplies, R.S. 48:755.
- D. Centralized accounting, R.S. 48:755.
- E. A construction program based on engineering plans and inspections, R.S. 48:755.
- F. Selective maintenance program, R.S. 48:755.
- G. Annual certification of compliance to the auditor, R.S. 48:758.

Not Applicable Yes ☐ No ☐

School Boards

28. We have complied with the general statutory, constitutional, and regulatory provisions of the Louisiana Department of Education, R.S. 17:51-401.

Not Applicable Yes [] No []

29. We have complied with the regulatory circulars issued by the Louisiana Department of Education that govern the Minimum Foundation Program.

Not Applicable Yes [] No []

30. We have, to the best of our knowledge, accurately compiled the performance measurement data contained in the following schedules and recognize that your agreed-upon procedures will be applied to such schedules and performance measurement data:

Parish school boards are required to report, as part of their annual financial statements, measures of performance. These performance indicators are found in the supplemental schedules:

- Schedule 1, General Fund Instructional and Support Expenditures and Certain Local Revenue Sources
- Schedule 2, Education Levels of Public School Staff
- Schedule 3, Number and Type of Public Schools
- Schedule 4, Experience of Public Principals, Assistant Principals, and Full-time Classroom Teachers
- Schedule 5, Public School Staff Data: Average Salaries
- Schedule 6, Class Size Characteristics
- Schedule 7, Louisiana Educational Assessment Program (LEAP)
- Schedule 8, Graduation Exit Examination (GEE) (Note: this schedule is no longer applicable.)
- Schedule 9, iLEAP Tests

Not Applicable Yes [] No []

Tax Collectors

31. We have complied with the general statutory requirements of R.S. 47.

Not Applicable Yes [] No []

Sheriffs

32. We have complied with the state supplemental pay regulations of R.S. 40:1667.7.

Not Applicable Yes [] No []

33. We have complied with R.S. 13:5535 relating to the feeding and keeping of prisoners.

Yes [] No []

District Attorneys

34. We have complied with the regulations of the DCFS that relate to the Title IV-D Program.

Not Applicable Yes [] No []

Assessors

35. We have complied with the regulatory requirements found in R.S. Title 47.

Not Applicable Yes [] No []

36. We have complied with the regulations of the Louisiana Tax Commission relating to the reassessment of property.

Not Applicable Yes [] No []

Clerks of Court

37. We have complied with R.S. 13:751-917 and applicable sections of R.S. 11:1501-1562.

Not Applicable Yes [] No []

Libraries

38. We have complied with the regulations of the Louisiana State Library.

Not Applicable Yes [] No []

Municipalities

39. Minutes are taken at all meetings of the governing authority (R.S. 42:7.1).

Not Applicable Yes [] No []

40. Minutes, ordinances, resolutions, budgets, and other official proceedings of the municipalities are published in the official journal (R.S. 43:141-146 and A.G. 86-528).

Not Applicable Yes [] No []

41. All official action taken by the municipality is conducted at public meetings (R.S. 42:11 to 42:28).

Not Applicable Yes [] No []

Airports

42. We have submitted our applications for funding airport construction or development to the Department of Transportation and Development as required by R.S. 2:802.

Not Applicable Yes [] No []

43. We have adopted a system of administration that provides for approval by the department for any expenditures of funds appropriated from the Transportation Trust Fund, and no funds have been expended without department approval (R.S. 2:810).

Not Applicable Yes [] No []

44. All project funds have been expended on the project and for no other purpose (R.S. 2:810).

Not Applicable Yes [] No []

45. We have certified to the auditor, on an annual basis, that we have expended project funds in accordance with the standards established by law (R.S. 2:811).

Not Applicable Yes [] No []

Ports

46. We have submitted our applications for funding port construction or development to the Department of Transportation and Development as required by R.S. 34:3452.

Not Applicable Yes [] No []

47. We have adopted a system of administration that provides for approval by the department for any expenditures of funds made out of state and local matching funds, and no funds have been expended without department approval (R.S. 34:3460).

Not Applicable Yes [] No []

48. All project funds have been expended on the project and for no other purpose (R.S. 34:3460).

Not Applicable Yes [] No []

49. We have established a system of administration that provides for the development of a capital improvement program on a selective basis, centralized purchasing of equipment and supplies, centralized accounting, and the selective maintenance and construction of port facilities based upon engineering plans and inspections (R.S. 34:3460).

Not Applicable Yes [] No []

50. We have certified to the auditor, on an annual basis, that we have expended project funds in accordance with the standards established by law (R.S. 34:3461).

Not Applicable Yes [] No []

Sewerage Districts

51. We have complied with the statutory requirements of R.S. 33:3881-4159.10.

Yes [x] No []

Waterworks Districts

52. We have complied with the statutory requirements of R.S. 33:3811-3837.

Yes [x] No []

Utility Districts

53. We have complied with the statutory requirements of R.S. 33:4161-4546.21.

Yes [x] No []

Drainage and Irrigation Districts

54. We have complied with the statutory requirements of R.S. 38:1601-1707 (Drainage Districts); R.S. 38:1751-1921 (Gravity Drainage Districts); R.S. 38:1991-2048 (Levee and Drainage Districts); or R.S. 38:2101-2123 (Irrigation Districts), as appropriate.

Yes [☒] No [☐]

Fire Protection Districts

55. We have complied with the statutory requirements of R.S. 40:1491-1509.

Not Applicable

Yes [☐] No [☐]

Other Special Districts

56. We have complied with those specific statutory requirements of state law applicable to our district.

Not Applicable Yes [☐] No [☐]

The previous responses have been made to the best of our belief and knowledge.

Secretary _____ Date

Treasurer _____ Date

President _____ Date

LOUISIANA SYSTEMS SURVEY AND COMPLIANCE QUESTIONNAIRE

WHEREAS, the Louisiana State Legislative Auditor has oversight authority over Louisiana governmental units and quasi-public corporations; and

WHEREAS, the Louisiana State Legislative Auditor requires a completed systems survey and compliance questionnaire as part of the financial and compliance audits of Louisiana governmental units and quasi-public corporations; and

WHEREAS, upon completion, the Louisiana State Legislative Auditor requires the questionnaire to be presented to and adopted by the governing body of the organization by means of a formal resolution in an open meeting; and

NOW, THEREFORE, BE IT RESOLVED that the Sewerage and Water Board of New Orleans does adopt this resolution, attesting to the completion of the Systems Survey and Compliance Questionnaire.

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 Monthly Meeting of said
Board, duly called and held, according to law
on March 16, 2016

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

Sewerage & Water Board of New Orleans

Audit Committee Charter

2016

Charter Purpose

1. To provide guidance to the Audit Committee members as to best practices in audit governance. It is not intended to supplant board actions or policies.

Committee Role

2. The committee's role is to oversee all material aspects of the company's reporting, control, and audit functions, except those specifically related to the responsibilities of another standing committee of the Board. The audit committee's role includes a particular focus on the qualitative aspects of financial reporting and on company processes for the management of business/financial risk and for compliance with significant applicable legal, ethical, and regulatory requirements as they relate to such business and financial risks.
3. The role also includes coordination with other Board committees and maintenance of strong positive working relationships with management, external and internal auditors, counsel, and other committee advisors.

Committee Operating Principles

The committee should fulfill its responsibilities within the context of the following overriding principles:

4. **Communications** – The chairperson and others on the committee should, to the extent appropriate, have contact throughout the year with senior management, other board members, etc., as applicable, to strengthen the committee's knowledge of relevant current and prospective business issues.
5. **Committee Education/Orientation** – The committee, with management, should develop and participate in a process for review of important financial and reporting topics that present potential significant risk to the company. Additionally, individual committee members are encouraged to participate in relevant and appropriate self-study education to assure understanding of the business environment in which the company operates.
6. **Annual Plan** – The committee, with input from management and other key committee advisors, should develop an annual plan responsive to the "primary committee responsibilities" detailed herein. The annual plan should be reviewed and approved by the full Board.
7. **Meeting Agenda** – Committee meeting agendas should be the responsibility of the committee chairperson, with input from committee members, management, internal audit, and other committee advisors as appropriate.

8. **Committee Expectations and Information Needs** – The committee should communicate committee expectations and the nature, timing, and extent of committee information needs to management, internal audit, and external parties, including external auditors. Written materials, including audit reports, financial reports, and other appropriate management documentation, should be received from management, auditors, and others at least three working days in advance of meeting dates.
9. **External Resources** – The committee should request authorization from the Board of Directors to access internal and external resources, including authority to engage and funding for independent counsel and public accounting firms and other advisors as the committee requires carrying out its responsibilities.
10. **Committee Meeting Attendees** – The committee should request members of management, counsel, internal audit, and external auditors, as applicable, to participate in committee meetings, as necessary, to carry out the committee's responsibilities. It should be understood that either internal or external auditors, or counsel, may, at any time, request a meeting with the audit committee or committee chairperson with or without management attendance. In any case, the committee should consider meeting without management attendance separately with internal and external auditors, at least annually.
11. **Reporting to the Full Board** – The committee, through the committee chairperson, should report periodically, as deemed necessary, but at least semi-annually, to the full Board. In addition, summarized minutes from the committee meetings, separately identifying monitoring activities from approvals, should be available to each board member prior to the subsequent Board Meeting.
12. **Committee Self Assessment** – The committee should review, discuss, and assess its own performance as well as the committee role and responsibilities, seeking input from senior management, the full board, and others. Changes in role and/or responsibilities, if any, should be recommended to the full board for approval.

Meeting Frequency

13. The committee shall meet at least quarterly. Additional meetings should be scheduled as considered necessary by the committee or chairperson.

Committee's Relationship with External and Internal Auditors

14. The external auditors, in their capacity as independent public accountants, should report to the board of directors and the audit committee as representatives of the citizens.

15. The committee should be responsible for pre-approving all audit and non-audit services, including the scope of such work performed by the external auditors.
16. As the external auditors review financial reports, they will be reporting to the audit committee. They should report all relevant issues, including any new information, to the committee responsive to agreed-upon committee expectations. They should immediately notify the committee of any material weakness in internal controls or potential fraud identified during an audit engagement. In executing its oversight role, the board of committee should review the methods, audit techniques, and the basis for any findings of external auditors.
17. The committee should annually review the performance (effectiveness, objectivity, and independence) of the external and internal auditors. The external auditors should conduct their audit engagement under the independence rules of the AICPA. The committee should ensure receipt of a formal written statement from the external auditors consistent with standards set by the Independence Standards Board. Additionally, the committee should discuss with the auditor relationships or services that may affect auditor objectivity or independence. If the committee is not satisfied with the auditor's assurances of independence, it should take or recommend to the full board appropriate action to ensure the independence of the external auditor.
18. If the committee decides to retain an audit firm following review, the committee should, at a minimum, rotate the lead audit partner and audit review partner every five years.
19. The committee should review annually the external auditor's policies and certifications regarding workpaper retention and destruction.
20. If either the internal or the external auditors identify significant issues relative to the overall board responsibility that have been communicated to management but, in their judgment, have not been adequately addressed, they should communicate these issues to the committee chairperson.
21. Changes in the director of internal audit should be subject to committee approval.

Primary Committee Responsibilities

The committee should review and assess:

22. ***Risk Management*** – The Board's business risk management process, including the adequacy of the company's overall control environment and controls in selected areas representing significant financial and business risk.

23. ***Annual Reports and Other Major Regulatory Filings*** – All major financial reports in advance of filing or distribution.
24. ***Internal Controls and Regulatory Compliance*** – Management’s assessment of the system of internal controls for detecting accounting and reporting financial errors, fraud and defalcations, legal violations, and noncompliance with the corporate code of conduct.
25. ***Internal Audit Responsibilities*** – The annual audit plan and the process used to develop the plan. Status of activities, significant findings, recommendations, and management’s response.
26. ***Regulatory Examinations*** – The results of examinations by regulatory authorities in terms of important findings, recommendations, and management’s response.
27. ***External Audit Responsibilities*** – Auditor independence and the overall scope and focus of the annual/interim audit, including the scope and level of involvement with unaudited interim-period information.
28. ***Financial Reporting and Controls*** – Key financial statement issues and risks, their impact or potential effect on reported financial information, the processes used by management to address such matters, related auditor views, and the basis for audit conclusions. Important conclusions on interim and/or year-end audit work in advance of the public release of financials.
29. ***Auditor Recommendations*** – Important internal and external auditor recommendations on financial reporting, controls, other matters, and management’s response. The views of management and auditors on the overall quality of annual and interim financial reporting.
30. ***Complaint Procedures*** – Procedures established for the receipt, retention, and treatment of complaints received regarding accounting, auditing matters, and internal controls.
31. ***Officer Questionnaire Responses*** – Review the Code of Ethics Questionnaire responses and Internal Control Questionnaire responses from Company officers.

The committee should review, assess, and approve:

32. The Code of ethical conduct.
33. The internal audit charter.
34. Changes in important accounting principles and the application thereof in both interim and annual financial reports.

- 35. Significant conflicts of interests and related-party transactions.
- 36. External auditor performance and changes in external audit firm subject to ratification by the full board.
- 37. Internal auditor performance and changes in internal audit leadership and/or key financial management.

Audit Committee Charter 2016

Chair, Audit Committee

Date

Vice Chair

Date

Executive Director

Date



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

Sewerage & Water Board OF NEW ORLEANS

MITCHELL J. LANDRIEU, *President*
SCOTT JACOBS, *President Pro-Tem*

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

February 24, 2016

Mr. E.R. Quatrevaux, Inspector General
City of New Orleans Office of Inspector General
525 St. Charles Avenue Suite 300
New Orleans, LA 70130

Subject: Sewerage and Water Board Management's Response to a Sewerage and Water Board Fee Collection and Controls Report

Dear Inspector General Quatrevaux:

Thank you for the opportunity to provide management's responses to the draft Sewerage and Water Board Fee Collection and Controls Report. Before proceeding to the responses, though, there are three important points that I want to emphasize:

- **Customers Need Flexible Payment Policies to Maintain Water Service.** New Orleans has a significant population of elderly, disabled, and low-income households who struggle to keep current on their bills, including necessities for shelter, food, medicine, and utilities. It is critical for the health and well-being of the community that Sewerage and Water Board management be cognizant of those struggles. When water service is discontinued for failure to pay, there is a domino-effect on the need for social services as families are relocated because their home is no longer suitable for occupancy. With that in mind, we believe that we have achieved an important balance between flexibility in maintaining water service while also collecting the revenues in a manner that is consistent with industry practices. This is accomplished through a combination of fees for late payments, payment contracts to allow catch-up on unanticipated delinquencies, and non-payment turnoffs with the ability for delinquent customers to make payment plans over time.
- **New Customer Service System is being implemented.** The Customer Account Management System has been professionally maintained and continuously improved since it was originally implemented in 1987, but it does not have the functionality or flexibility that we need going forward. We are implementing the Cogsdale Customer Service Management System based on the Microsoft Dynamics software platform later this year.

- **Sewerage and Water Board is effectively collecting its bills.** Sewerage and Water Board collects more than 98.5% of its billed revenues. We believe that the key indicator of success in the collection of billed revenues is relatively straightforward, measured by the ratio of revenues collected after three years and revenues billed for that year. That level of performance noted above, the result of significant improvements over time, represents highly effective performance.

Following are the findings and recommendations as well as my *management's responses marked in bold* below.

CUSTOMER RECEIVABLES AGING

Finding 1. **Approximately \$10.3 million or 47 percent** of the S&WB's accounts receivable were at least 90 days past due as of December 31, 2013. Managers did not have the information needed to know which customers were delinquent and to determine if they were pursuing collection efforts on all delinquent customers effectively.

Recommendation: The S&WB should replace the CAM System with a system that can provide historical and real-time information, including detailed aging reports.

Response: Partially agree. When this audit began, the Board had reached the conclusion that the legacy CAM system was in need of replacement and implementation of a new system is underway for go-live later this year.

Meanwhile, we believe that managers have the information needed to know which customers are delinquent and to determine if they were pursuing collection efforts on all delinquent customers effectively. Starting from the time that we bill an account, we have three years to collect the account after which the balance becomes prescribed; that is, the statute of limitations expires and the debt is considered to be uncollectable and the balance is written off. Each year near the beginning of the year, we review the accounts whose balances have become prescribed; for instance, at the end of 2015, we reviewed the uncollected bills from 2012 and compared that to the total amounts billed. We billed \$136,496,043.64 during 2012 and did not collect \$1,888,202.39 of that amount by the end of 2015, yielding a collection rate of 98.62% and an uncollected rate of 1.38%. Based upon this process, the uncollected amounts in terms of percentage of total amounts billed for the past six years have been:

2015	1.38%
2014	1.15%
2013	1.52%
2012	2.08%
2011	6.60%
2010	10.23%

We believe that you will find that these metrics will compare favorably to similarly situated water utilities. Also, on page 8, your report also states that "S&WB managers did not maintain high quality accounts receivable information". We believe that this statement is unnecessarily broad and factually incorrect. The system has been audited annually without identified weaknesses by the professional certified public accountants charged with performing the annual audits. While we hold your staff in the highest professional regard, we note that similarly qualified auditors have not reached the same conclusion.

DELINQUENT ACCOUNT COLLECTIONS

Finding 2. The S&WB did not consistently follow its written policy for handling delinquent accounts totaling \$10.3 million as of December 31, 2013.

Recommendation: The S&WB should communicate the delinquent collection policies to employees. S&WB managers should monitor collection times and rates to determine if the policies are effective and followed consistently.

Response: Agree. Sewerage and Water Board collections policies are clearly documented. However, the communication of processes and written procedures that support those policies need improvement. Also, comprehensive documentation is being developed as part of the implementation of and training for the new Cogsdale system.

CREDIT BALANCES ON CLOSED ACCOUNTS

Finding 3. The S&WB owed its customers and the City approximately \$189,000 and \$9,000, respectively. These amounts consisted of unreturned deposits, unclaimed sewer and water overpayments, and customer sanitation fee payments that were never applied to the customers' sanitation balance.

Recommendation: The S&WB should follow Louisiana state law and notify customers entitled to a refund. The S&WB should also develop a formal policy regarding how to apply deposits and payments to customers' accounts.

Response: Disagree. Sewerage and Water Board deposits are for water and sewer balances due to Sewerage and Water Board only and are not related to sanitation fee payments due to the City of New Orleans at this time. Unclaimed sewer and water overpayments are handled correctly in compliance with current policy and state law.

We want to point out that on page 15 your report states that "La. R.S. 33:4083.1 required the S&WB to notify the customer by certified mail within 30 days"; this statute was modified in 2015 as follows subsequent to your audit period: "Within thirty to ninety days after termination of services, the board shall notify the customer by electronic mail, regular postage, or certified mail".

MAILED-IN CUSTOMER PAYMENTS

Finding 4. The S&WB could potentially save \$83,000 per year by processing payments through a lockbox.

Recommendation: Management should perform a cost-benefit analysis to determine if using a lockbox would yield savings.

Response: Agree. Sewerage and Water Board could potentially save this amount by outsourcing this work to private sector contractors. Management intends to consider this further by December 31, 2016.

LATE FEES.

Finding 5. The CAM system did not assess late fees on 23 percent of accounts in the OIG sample that were paid after the due date.

Recommendation: The S&WB should replace the CAM System with a reliable billing and collection software system so that late fees are applied properly.

Response: Disagree. Sewerage and Water Board allows a brief "grace period" of four days for customers to make payments before invoking the late fee. The CAM system works reliably in handling this matter. Sewerage and Water Board exercises reasonable management discretion in determining this "grace period".

We look forward to working with you and your staff as we implement recommendations from this report.

Sincerely,



Cedric S. Grant
Executive Director



"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
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October 19, 2015

The Audit Committee met on Monday, October 19, 2015 in the 2nd Floor Board Room, 625 St. Joseph Street, New Orleans, LA. The meeting convened at 2:00 PM.

ATTENDANCE

PRESENT:

Dr. Tamika Duplessis (Vice Chairperson)
Scott Jacobs
Robin Barnes

ABSENT:

Wm. R. Manning, Chair
Marion Bracy

Others:

Cedric S. Grant, Executive Director
Joseph R. Becker, General Superintendent
Nolan P. Lambert, Special Counsel
Robert K. Miller, Deputy Director
Alan Arnold, Board member

ACTION ITEMS:

1. Municipal Water Pollution Prevention Audit East Bank Wastewater Treatment Plant (R-191-2015)

Mr. Becker noted that the Municipal Water Pollution Prevention Audit for the East Bank and West Bank Wastewater Treatment Plants have been completed and that no corrective actions are necessary. Scott Jacobs moved to accept resolution R-191-2015 and to forward to the full Board for approval. The motion was seconded by Robin Barnes and the motion carried.

2. Municipal Water Pollution Prevention Audit West Bank Wastewater Treatment Plant (R-192-2015)

Scott Jacobs moved to accept resolution R-192-2015 and to forward to the full Board for approval. The motion was seconded by Robin Barnes and the motion carried.

PRESENTATION ITEMS:

3. Take Home Vehicle Policy Compliance

Mr. Miller stated that the Internal Audit Department has performed a review for compliance with the Take Home Vehicle Policy. Sewerage and Water Board has reduced the number of

take home vehicles from 105 at the beginning of this year to 89 as of today. There are 16 vehicles that were previously assigned for take home use that have now been garaged. The Internal Audit Manager noted that there are 9 employees who have not been correctly charged for vehicle use. Mr. Miller noted that this will be corrected soon.

4. Audit Committee Charter

Mr. Miller presented an overview of the draft Audit Committee Charter. This draft is based on recommendations by the National Association of Corporate Directors blue ribbon commission on audit committees. The Committee members committed to send their recommended changes to staff with consideration for adoption of the charter at the next Committee meeting.

5. Implementation of Customer Service Management System

Mr. Miller described the risk assessment methodology used for managing the implementation of CAM Replacement Project.

6. Water Audit FY2008 – FY2014

Mr. Miller presented the methodology and results for a Water Audit prepared for 2008-2014. The goal of the water audit is to as accurately as possible document all the places that water is used or lost within the utility. SWBNO has taken the first step required to quantitatively discuss its water loss and related improvements in economic terms.

The following suggestions were made as ways to improve its ILI performance over time:

- Update the Water Audit Annually
- Add and Refine Estimates of Unbilled and Unmetered Water Loss in the audit
- Add and Refine Estimates of Apparent Losses
- Add and Refine Estimates of Real Losses
- Validate the Accuracy of the System Input Volume
- Identify and Implement Processes to reduce Real and Apparent Loss
- Review and Revise the Quantity of Free Water Provided

There being no further business to come before the Committee, the meeting adjourned at 3:00 PM.

Respectfully Submitted,

Dr. Tamika Duplessis
Vice Chairperson