

SEWERAGE & WATER BOARD OF NEW ORLEANS

AUDIT COMMITTEE MEETING

MONDAY, JULY 18, 2016

9:00 AM

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. NONE

PRESENTATION ITEMS

2. Independent Auditors' Report
3. Management Letter
4. Single Audit Report

INFORMATION ITEMS

5. Any Other Matters



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INDEPENDENT AUDITORS' REPORT

Members of the Board
Sewerage and Water Board of New Orleans

Report on the Financial Statements

We have audited the accompanying financial statements of the Sewerage and Water Board of New Orleans (the Board) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Board, as of December 31, 2015 and 2014, and the changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 14 to the financial statements, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* for the year ended December 31, 2015. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*. The Board also implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages II-4 through II-19 and the schedules presented on pages II-65 through II-67 be presented to supplement the 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The Introductory Section, Schedules 1 through 7, the Statistical Information section, and Supplementary Information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1 through 7 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Introductory, Statistical Information, and Supplementary Information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2016, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Postlethwaite & Netterville

New Orleans, Louisiana
June 28, 2016

Members of the Board
Sewerage and Water Board of New Orleans

We have audited the financial statements of the Sewerage and Water Board of New Orleans (the Board) as of and for the year ended December 31, 2015 and have issued our report thereon dated June 28, 2016. In planning and performing our audit of the financial statements of the Board, we considered internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

2015 Comments

2015-1 Preparation of schedule of expenditures of federal awards

- Observation:* While the Board provides the necessary information to prepare the schedule of expenditures of federal awards (SEFA) in accordance with the OMB Uniform Guidance, the Board does not compile the information to create a formal SEFA.
- Recommendation:* The Board should implement processes and procedures to prepare the SEFA in accordance with the OMB Uniform Guidance.
- Management's Response:* Management agrees with this finding and will develop and implement procedures and controls to ensure that the schedule of expenditures of federal awards is prepared in accordance with the OMB Uniform Guidance.

2015-2 Reconciliation of Customer Accounts Receivable

- Observation:* In early 2016, the Board identified an error in two 2015 customer bills. The correction was made to the general ledger and billing systems in 2016, however the correction should have been made to the general ledger in 2015 which resulted in an overstatement of revenues and receivables at December 31, 2015.
- Recommendation:* The Board should implement processes and procedures to ensure that corrections to customer billings are recorded in the proper period.

Members of the Board
Sewerage and Water Board of New Orleans
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June 28, 2016

Management's Response: Management agrees with this finding and will develop and implement procedures and controls to ensure that corrections to customer billings are recorded in the proper period.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Board's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

The Board's written response to our comments and recommendations has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of Board, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Notterville

New Orleans, Louisiana
June 28, 2016



SEWERAGE AND WATER BOARD OF NEW ORLEANS

SINGLE AUDIT REPORTS

DECEMBER 31, 2015



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SINGLE AUDIT REPORTS

DECEMBER 31, 2015

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Single Audit Reports

December 31, 2015

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Members of the Board
Sewerage and Water Board of New Orleans:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sewerage and Water Board of New Orleans (the "Board"), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated June 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

New Orleans, Louisiana
June 28, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Members of the Board
Sewerage and Water Board of New Orleans:

Report on Compliance for Each Major Federal Program

We have audited the Sewerage and Water Board of New Orleans' (the "Board") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended December 31, 2015. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Board as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements. We issued our report thereon dated June 28, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Postlethwaite & Netterville

New Orleans, Louisiana
June 28, 2016

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

December 31, 2015

Federal Grantor/Pass-Through Grantor/ Program Title/Grant Name	Federal CFDA Number	Loan Balance at December 31, 2014	Federal Expenditures in 2015	Loan Balance at December 31, 2015
U.S. Environmental Protection Agency:				
Direct award:				
Urban Waters Small Grants	66.440		\$ 3,496	
U.S. Department of Homeland Security:				
Pass-through program from:				
State of Louisiana, Office of Homeland Security and Emergency Preparedness Disaster Grants - Public Assistance	97.036		24,785,349	
Pass-through program from:				
State of Louisiana, Office of Homeland Security and Emergency Preparedness Hazard Mitigation Grant Program	97.039		7,847,158	
Pass-through program from:				
City of New Orleans Hazard Mitigation Grant Program	97.039		6,450,968	
Total Federal Grant Expenditures			<u>\$ 39,086,971</u>	
U.S. Environmental Protection Agency:				
Pass-through program from:				
Louisiana Department of Environmental Quality Capitalization Grants For Clean Water State Revolving Funds	66.458	\$ 8,174,000	\$ -	\$ 7,755,000
Total Federal Award Loans		<u>\$ 8,174,000</u>	<u>\$ -</u>	<u>\$ 7,755,000</u>
Total Federal Grant Expenditures			<u>\$ 39,086,971</u>	
Loan Balance at December 31, 2014			8,174,000	
Federal Loan Expenditures in 2015			<u>-</u>	
Total Federal Loan Expenditures			<u>8,174,000</u>	
Total Federal Award Expenditures			<u>\$ 47,260,971</u>	

See accompanying notes to the schedule of expenditures of federal awards.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2015

(1) **General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of the federal awards of the Sewerage and Water Board of New Orleans (the "Board"). The Board's reporting entity is defined in note 1 to the financial statements for the year ended December 31, 2015. All federal awards received from federal agencies are included on the schedule.

(2) **Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 to the Board's financial statements for the year ended December 31, 2015.

(3) **De Minimus Cost Rate**

During the year ended December 31, 2015, the Board did not elect to use the 10% de minimus cost rate as covered in §200.414 of the Uniform Guidance.

(4) **Relationship to Basic Financial Statements**

Federal awards are included in the statement of net position and the statement of revenues, expenses and changes in net position as follows:

Bonds payable, at December 31, 2014	\$	8,174,000
Payment made during 2015		(419,000)
Bonds payable, at December 31, 2015	\$	<u>7,755,000</u>
Capital contributions	\$	<u>39,086,971</u>

(5) **Loans Payable to Federal Agency**

The Board entered into an agreement with the Louisiana Department of Environmental Quality (LDEQ) whereby the LDEQ has committed to loan the Board \$9,000,000 to fund sewer main replacements, point repairs, replacement of associated service connections and laterals, sewer line rehabilitation by cured in-place pipe lining and manhole rehabilitation. The loan is to be advanced in incremental amounts as project costs are incurred. The indebtedness to the LDEQ will be evidenced through the Sewerage Service Subordinate Revenue Bonds, Series 2011. Annual principal payments are due beginning November 1, 2013 and continuing through November 1, 2032. Interest on the bonds is incurred at the rate of 0.45%, and the LDEQ administrative fee rate is 0.5%. Interest and administrative fee payments began on May 1, 2012 and are due semi-annually thereafter. As of December 31, 2015, \$7,755,000 is recorded as bonds payable.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Schedule of Findings and Questioned Costs

Year ended December 31, 2015

(1) Summary of Independent Auditors' Results

- (a) The type of report issued on the basic financial statements: **Unmodified Opinion**
- (b) Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: **No**; Material weaknesses: **No**
- (c) Noncompliance which is material to the basic financial statements: **No**
- (d) Significant deficiencies in internal control over major program: **No**;
Material weaknesses: **No**
- (e) The type of report issued on compliance for major program: **Unmodified Opinion**
- (f) Did the audit disclose any audit findings which the independent auditor is required to report in accordance with 2 CFR 200.516(a)? **No**
- (g) Major program:
 - CFDA No. 97.036 – Disaster Grants - Public Assistance
 - CFDA No. 97.039 – Hazard Mitigation Grant Program
 - CFDA No. 66.458 – Capitalization Grants for Clean Water State Revolving Funds
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,417,829**
- (i) Auditee qualified as a low-risk auditee under the Uniform Guidance: **Yes**

(2) Findings relating to the basic financial statements reported in accordance with *Government Auditing Standards*

None noted.

(3) Findings and questioned costs related to federal awards

None noted.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Summary Schedule of Prior Audit Findings

Year ended December 31, 2015

Finding: 2014-001 Reconciliation of FEMA Grants

Criteria: The Board has a significant number of on-going projects with expenditures that are reimbursable under FEMA grants. The Board should have a system of internal accounting control, which provide for proper accounting and financial reporting for amounts due from FEMA in addition to a complete listing of all FEMA-reimbursable expenditures for the year to be reported in the schedule of expenditures of federal awards.

Recommendation: The Board should implement procedures and controls to ensure that FEMA grant balances are properly reported on a timely-basis at year-end, and amounts reported agree to the underlying accounting records. In addition, the Board should compile a list of FEMA reimbursable expenditures by individual CFDA number that excludes known ineligible costs. The total on the expenditure detail should be reconciled to the recorded grant revenue.

Status: Resolved.

Finding: 2014-002 Reconciliation of Construction in Progress

Criteria: The Board has a significant amount of construction projects in progress. The Board should have systems of internal accounting control, which provide for proper accounting and financial reporting of capital assets, including the proper recording of the completion of construction projects.

Recommendation: The Board should improve policies and procedures and related internal controls to ensure that capital assets are properly classified. These controls should include maintaining accurate and complete CIP listings and appropriate review of depreciable asset balances and CIP balances to ensure proper accounting and financial reporting. The Board should also strengthen its reconciliation of its CIP listing and implement a formal review procedure of the capital assets roll forward and projects within the CIP account to ensure that the amounts recorded on the roll forward agree to the amounts recorded on the trial balance by individual capital asset account.

Status: Resolved.

SEWERAGE AND WATER BOARD OF NEW ORLEANS
New Orleans, Louisiana

Summary Schedule of Prior Audit Findings

Year ended December 31, 2015

Finding: 2014-003 Preparation of the Schedule of Expenditures of Federal Awards

See detailed finding for reconciliation of the FEMA grants and management's response at finding 2014-001.

Status: Resolved.