SEWERAGE & WATER BOARD OF NEW ORLEANS

AUDIT COMMITTEE MEETING
MONDAY, AUGUST 15, 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. Sanitation Fees Collected by the Sewerage and Water Board: OIG Follow-up Report and Management's Response

INFORMATION ITEMS

3. Any Other Matters

"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

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August 9, 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 *Sanitation Fees Collected by the Sewerage and Water Board – Follow-up Report*

Dear Inspector General Quatrevaux:

Please accept this as Sewerage and Water Board's management's response to your report titled *Sanitation Fees Collected by the Sewerage and Water Board – Follow-up Report*.

Following are the findings, recommendations, and follow-ups for Sewerage and Water Board as well as my ***management's responses marked in bold*** below.

Finding 3: Of the 32 customers with past due balances, 81.3 percent were charged an incorrect penalty rate as outlined in the City Code.11.

Recommendation 3: The S&WB should retroactively adjust the sanitation service charge to reflect the provisions of the City Code.

Follow-Up 3: The City revised City Code Section 138-57(b)(8) and the S&WB applied late fees in accordance with the revised code.

Management's Response: RESOLVED. Sewerage and Water Board has applied the late fees consistently and correctly prior to and subsequent to the referenced changes in the City Code.

Finding 4: The S&WB was unable to produce a listing of payments made from customers between January 1, 2010 and June 30, 2010.

Recommendation 4: All records should be maintained at least three years as required by state law.

Follow-Up 4: The S&WB maintained billing and collection information. However, it took over three months for the S&WB to compile that information.

Management's Response: RESOLVED. Sewerage and Water Board has committed to regular monthly meetings with OIG staff to ensure timely compliance with future information requests.

Finding 5: The S&WB did not maintain or were unable to locate historical documentation.

Recommendation 5: The S&WB should consider replacing its computer system with one that is capable of providing historical data for periods other than the current month or year-end.

Follow-Up 5: S&WB managers expect to replace the CAM system with the CSM system in the fourth quarter of 2016.

Management's Response: TO BE RESOLVED BY OCTOBER 2016. The CAM system is scheduled to be replaced by the CSM system on October 2016. The CSM system will have all necessary documentation.

Following are the observations for Sewerage and Water Board as well as my ***management's responses marked in bold*** below.

Observation 3: Interviews with selected S&WB employees revealed that the S&WB did not require ongoing ethics training.

Follow-Up 3: The S&WB was not in compliance with the state law. Ethics training is required of all employees. Auditors found that only 66 percent of S&WB employees completed the ethics training in 2014.

Management's Response: TO BE RESOLVED BY DECEMBER 2016. Sewerage and Water Board commits to improve compliance with this state law. However, it is important to note that many of the employees referenced as not complying with the state law are water distribution, sewer connection, and drainage system employees that are not involved at all with the sanitation fee collections.

Observation 4: The drop box safe was not locked and customers' payments were not secured.

Follow-Up 4: S&WB employees locked both drop boxes. The key to the drop boxes was also secured, and only authorized individuals were given access. Cameras recorded activity at both drop boxes which provided an additional level of security to ensure that customer payments were not lost or stolen.

Management's Response: RESOLVED. Sewerage and Water Board concurs that this observation has been resolved.

Observation 5: According to S&WB employees, the camera in the cashier area was broken for over two years.

Follow-Up 5: The S&WB replaced the broken camera and there was an operating camera at each of the four cashier windows. The functioning cameras deter theft and also provide security for the cashiers.

Management's Response: RESOLVED. Sewerage and Water Board concurs that this observation has been resolved.

We look forward to working with you and your staff as we implement the new Customer Service Management System.

Sincerely,

Cedric S. Grant
Executive Director

Sanitation Fees Collected by the Sewerage and Water Board

Follow-up Report

Final Report • August 10, 2016

OIG NEW ORLEANS OFFICE OF INSPECTOR GENERAL

E. R. Quatrevaux, Inspector General

OFFICE OF INSPECTOR GENERAL

CITY OF NEW ORLEANS

ED QUATREVAUX
INSPECTOR GENERAL

August 10, 2016

Re: Sanitation Fees Collected by the Sewerage and Water Board Follow-up Report

I certify that the inspector general personnel assigned to this project are free of personal or other external impairments to independence.

E.R. Quatrevaux
Inspector General

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On July 23, 2013, the Office of Inspector General (OIG) issued a performance audit titled *"Sanitation Fees Collected by the Sewerage and Water Board"* (2013 Report).[1] The OIG conducted a follow-up to determine the extent to which the City of New Orleans (City) and the Sewerage and Water Board (S&WB) implemented the OIG's recommendations or implemented its own corrective actions to resolve the findings and observations noted in the 2013 Report.

The 2013 Report found that neither the City nor the S&WB terminated sanitation or water services for those customers who did not pay their sanitation bill. As a result, sanitation billings exceeded collections by $8.5 million in 2011, and $3.1 million in 2010. On behalf of the City, the S&WB billed its customers $41.9 million in sanitation fees during 2014, and approximately $7.0 million was not collected.[2] If the 2014 uncollected sanitation fees are an indication of uncollected sanitation fees in 2012 and 2013, then the City potentially lost in excess of $20 from 2012 through 2014.[3] If collected, these outstanding fees could be used toward paying for or improving City services.

On June 11, 2014, the S&WB and the City entered into a Corporative Endeavor Agreement (CEA) which allowed the S&WB to "terminate water services to any account holder delinquent in the payment of sanitation service charges...." Although the CEA allowed the S&WB to terminate water service at the City's request, water service was not terminated for any delinquent sanitation customer. Before the S&WB terminates water service, the S&WB intends to revise how it applies customer payments to water, sewer, and sanitation charges. Instead of first applying payments to water and sewer charges, the S&WB will apply customer payments to water, sewer, and sanitation charges proportionally. If a customer remits a partial payment, all unpaid water, sewer, and sanitation charges will become past due simultaneously. This policy change will eliminate the customers' incentive to make partial payments with the intent to avoid paying sanitation charges. The City anticipates that this will be effective in the fourth quarter of 2016.

[1] Office of Inspector General City of New Orleans. "A Performance Audit of the Sanitation Fees Collected by the Sewerage & Water Board." July 23, 2013. http://nolaoig.gov/reports/all-reports/sewerage-water-board-collection-of-sanitation-fees.

[2] Sanitation customers paid $34.9 million in 2014.

[3] Auditors did not obtain collection information for 2012 and 2013. The uncollected sanitation fees are an estimate based on 2014 uncollected amounts ($7.0 million per year from 2012-2014).

The 2013 Report also found that the City did not review sanitation adjustments to determine if the adjustments were valid. Auditors noted that the City issued $1.4 million in sanitation adjustments in 2014; however, some adjustments were issued and reviewed by the same individual. This lack of segregation of duties increased the risk that the City issued an erroneous or fraudulent adjustment.

Despite disagreeing with most of the findings and observations in the 2013 Report, auditors found that the City and the S&WB made some changes. The S&WB will replace its Customer Account Management System (CAM System) with a new billing and collection system. The Cogsdale Customer Service Management System (CSM System) is expected to be implemented in the fourth quarter of 2016. Once the CSM System is implemented, S&WB managers expect to be able to generate aging reports, detailed customer payment and billing information, and other reports necessary to ensure that they are pursuing collection efforts on all delinquent sanitation customers. S&WB managers also expect that the CSM System will maintain historical information that can be readily available for review. After the CSM System implementation, the S&WB will initiate collection procedures, including terminating water service on past due customers.

The follow-up also showed that the City revised City Code Section 138-57(b)(8) to decrease the 15 percent penalty assessed on the *outstanding balance* of the sanitation charges to a 15 percent penalty on the *outstanding current balance* of the sanitation charges. Although the S&WB assessed the proper penalty, totaling $117 for the 25 accounts tested, under the previous City Code, the S&WB would have billed $2,412. For the 25 accounts tested, the City lost $2,295 (1,966 percent) in potential revenue. Because this change significantly reduced the penalty assessed to delinquent customers, it may reduce the customers' incentive to pay their bill in a timely manner.

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The OIG conducted a follow-up to its audit of the S&WB's Sanitation Fee Collections.[4] The objective of the 2013 Report was to evaluate the completeness and accuracy of:

- Sanitation charges posted to customers' accounts;
- Payments received by the S&WB from customers; and
- Sanitation payments made to the City from the S&WB.

The objective of this follow-up report was to determine the extent to which the City and the S&WB implemented the OIG's recommendations or implemented its own corrective actions to resolve the findings and observations noted in the 2013 Report.

The scope period for this follow-up was January 1, 2014 through December 31, 2014.

To accomplish the objectives of the follow-up, auditors:

1. Interviewed City and S&WB personnel to gain an understanding of current sanitation billing and collection policies and procedures;
2. Reviewed applicable laws, policies, and procedures;
3. Randomly sampled and tested twenty-five items from each of the following populations:
    a. Sanitation adjustments issued during the scope period; and
    b. Customers with past due accounts as of December 31, 2014;
4. Randomly sampled and tested fifty S&WB employees to confirm the accuracy of the ethics training compliance listing;
5. Randomly sampled and tested five weekly sanitation payments; and
6. Obtained various supporting documentation (i.e. customer billing and payment information, ethics training certificates, etc.).

Auditors deemed these sample sizes large enough to determine if the finding and/or observation was resolved. However, the sample sizes were not statistically generated, and auditors could not project errors to the population.

[4] Office of Inspector General City of New Orleans. "A Performance Audit of the Sanitation Fees Collected by the Sewerage & Water Board." July 23, 2013. http://nolaoig.gov/reports/all-reports/sewerage-water-board-collection-of-sanitation-fees.

The auditors assessed the reliability of computer-processed data by interviewing officials knowledgeable about the data, comparing data to source documents for reliability, and reviewing selected system controls. Auditors determined that the data were sufficiently reliable for the purposes of this report.

Auditors categorized the status of each corrective action as follows:

- Implemented – The S&WB and/or the City implemented actions that resolved the findings noted in the 2013 Report.
- Partially Implemented – The S&WB and/or the City implemented actions, but the actions did not fully resolve the findings noted in the 2013 Report.
- Pending Implementation – The S&WB and/or the City initiated action plans that, if fully implemented, may reasonably be expected to resolve the findings in the 2013 Report. However, the S&WB and/or the City did not complete implementation at the time of testing.
- Not Implemented – The S&WB and/or the City did not initiate or implement any actions in response to the findings noted in the 2013 Report.

FOLLOW-UP STANDARDS

This follow-up was conducted in accordance with the Principles and Standards for Offices of Inspector General (the Green Book).[5]

LEGAL AUTHORITY

The authority to perform this follow-up is established in La. R.S. 33:9613 and in City Code Section §2-1120 of the City of New Orleans.

Note: All responses from the S&WB and the City in the body of this report are direct statements and have not been modified.

[5] "Quality Standards for Audits by Offices of Inspector General," *Principles and Standards for Offices of Inspector General* (Association of Inspectors General, 2014).

II. BACKGROUND

The City is responsible for providing waste collection services to Orleans Parish residents and businesses.[6] The S&WB has the authority to bill and collect for these services on behalf of the City.[7] In addition to the water and sewer charges, each month the S&WB bills its customers a sanitation fee to pay for the cost of waste collection. Residential customers pay $24 each month per collection bin, and commercial customers pay $48 each month per collection bin. S&WB customers have the option of paying the sanitation fee either at the City or at the S&WB. Regardless of where the payment is made, it is recorded in the S&WB's CAM System. If a customer did not pay the entire statement balance, the payment was first applied to water and sewer charges and any remaining amount was applied to the sanitation balance. If the customer did not pay the sanitation fee in full, the S&WB assessed a 15 percent late fee on the current amount outstanding. Each week the S&WB remitted any sanitation fees it collected to the City.

To dispute a sanitation charge, the customer contacted the City to request an adjustment. Adjustments could result from the S&WB billing a customer for a vacant address, the incorrect number of collection bins, or the incorrect rate. After a customer requested an adjustment, the City determined if the adjustment request was valid. For instance, if a residential customer was billed the commercial customer rate, the City would research the account to verify the customer type and adjust the sanitation fee accordingly.

[6] City Code Section 138-1.
[7] City Charter, Section 5-302.

Findings and Recommendations for the City:

Finding 1: The City did not perform a review of the sanitation adjustments to determine if the adjustments were appropriate.

RECOMMENDATION 1: The City should assign an employee that is independent of the adjustment process to review the adjustment listing on a regular basis.

> *Recommendation **Rejected** by the City. "...The supervisor within this small unit has the responsibility of reviewing staff's daily work, and is the employee assigned to review the adjustment listing on a regular basis. Only during peak times does the supervisor assist with processing daily work for waiting customers...."*

FOLLOW-UP 1: THE CITY DID NOT ASSIGN AN INDEPENDENT EMPLOYEE TO REVIEW SANITATION ADJUSTMENTS. AUDITORS NOTED THAT NINE OF THE 25 ADJUSTMENTS TESTED (36 PERCENT) WERE ISSUED AND REVIEWED BY THE SAME EMPLOYEE. THE CITY DID NOT HAVE ADEQUATE CONTROLS OVER THE ADJUSTMENT PROCESS BECAUSE THERE WAS A LACK OF SEGREGATION OF DUTIES.

In 2014, the City issued $1.4 million in sanitation adjustments. The lack of segregation of duties increased the risk that the City issued fraudulent or erroneous sanitation adjustments to its customers. According to Principle 10 of the *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO):

> "The segregation of duties is fundamental to mitigating fraud risks because it reduces, but can't absolutely prevent, the possibility of one person acting alone.... Also, the segregation of duties reduces errors by having more than one person performing or reviewing transactions in a process, increasing the likelihood of an error being found."[8]

[8] *Internal Control – Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission. May 2013. Principle 10.

The City has a responsibility to mitigate fraud risks and errors. The City should assign an independent person to review sanitation adjustments to ensure that all sanitation adjustments are valid and to ensure customers are billed for all services rendered.

Finding 2: The City did not require the S&WB to produce a detailed aging report for sanitation customers.[9]

Recommendation 2: The City should require the S&WB to produce a detailed report by account holder and number of days past due for sanitation customers. The listing could be used by the City to implement additional collection procedures to improve collection efforts prior to sending the account to the collection agency.

> *Recommendation **Rejected** by the City. "...We disagree.... While the S&WB's collection system is not modern enough to produce true aging reports, the current process offers a cost-effective equivalent...."*

FOLLOW-UP 2: THE S&WB EXPECTS TO REPLACE THE CAM SYSTEM WITH THE CSM SYSTEM IN THE FOURTH QUARTER OF 2016. THE CSM SYSTEM WILL HAVE THE CAPABILITIES TO GENERATE A DETAILED AGING REPORT.

The CAM System was a mainframe billing and collections software system developed by the S&WB and used since 1987. The CAM System could not generate a detailed customer aging report as of any historical date. Instead of providing a detailed customer aging report, S&WB managers provided a CAM System report that documented the total aging balance per category.

The CAM System was also unreliable. As identified in a previous OIG audit, the CAM System did not apply late fees on 23 percent of the accounts tested.[10] Without a detailed aging report, City managers relied on information generated from an unreliable system to determine which customers were past due, and managers could not be certain that delinquent account procedures were followed

[9] A detailed customer aging report should include lists of customers by name and the amount each customer owed the City categorized by age.

[10] Office of Inspector General City of New Orleans. "A Performance Audit of the Sanitation Fees Collected by the Sewerage & Water Board." Finding #5. July 23, 2013. http://nolaoig.gov/reports/all-reports/sewerage-water-board-collection-of-sanitation-fees.

for all delinquent customers. As a result, managers were not able to analyze the effectiveness of their collection processes.

Even though the City rejected the auditors' recommendation, S&WB managers ultimately recognized that the CAM System needed to be replaced. With the implementation of the CSM System, S&WB managers asserted that they will have the ability to generate detailed aging reports for the City. The City will be able to use these reports to implement additional collection procedures and to improve collection efforts prior to sending the account to the collection agency.

Findings and Recommendations for the S&WB:

Finding 3: Of the 32 customers with past due balances, 81.3 percent were charged an incorrect penalty rate as outlined in the City Code.[11]

RECOMMENDATION 3: The S&WB should retroactively adjust the sanitation service charge to reflect the provisions of the City Code.

> *Recommendation **Rejected** by the S&WB. "Sewerage and Water Board management disagrees with this finding and believes that the Office of Inspector General has misinterpreted the penalty provision of the ordinance. Sewerage and Water Board charges a 15 percent late fee penalty on the outstanding current balance in accordance with previous direction provided by the City of New Orleans based upon their understanding of the intent of the ordinance...."*

FOLLOW-UP 3: THE CITY REVISED CITY CODE SECTION 138-57(b)(8), AND THE S&WB APPLIED LATE FEES IN ACCORDANCE WITH THE REVISED CODE.

Instead of assessing the late penalty prescribed in the City Code, the City revised City Code Section 138-57(b)(8). Prior to the revision, the Code required a 15 percent penalty to be assessed on the *outstanding balance* of the sanitation charges. The revised Code reduced the penalty and requires "a 15 percent penalty [to] be added to the *outstanding current balance* [emphasis added] of the sanitation service charge."

Although the S&WB assessed the correct late fee for all 25 past due accounts tested, the City reduced the incentive for customers to pay their accounts on a timely basis. The late fees totaled $117 for the 25 accounts tested. Under the previous Code, the assessed late fees would have been $2,412. Although late fees were applied in accordance with the revised Code, the S&WB billed $2,295 (1,966 percent) less than what was required under the previous City Code.

[11] City Code Section 138-57(b)(8).

Finding 4: The S&WB was unable to produce a listing of payments made from customers between January 1, 2010 and June 30, 2010.

RECOMMENDATION 4: All records should be maintained at least three years as required by state law.[12]

> *Recommendation **Rejected** by the S&WB. "Sewerage and Water Board management disagrees with this finding... [D]ocuments related to sanitation fee billings are retained consistent with requirements in state laws and regulations and that the requested reports were available for review...."*

FOLLOW-UP 4: THE S&WB MAINTAINED BILLING AND COLLECTION INFORMATION. HOWEVER, IT TOOK OVER THREE MONTHS FOR THE S&WB TO COMPILE THAT INFORMATION.[13]

S&WB employees uploaded information from the CAM System's tape backups and compiled the information requested by the auditors. However, the time-intensive process took over three months to complete.

S&WB managers need a billing and collection system that produces quality information. According to COSO, the quality of information depends on several factors; it should be "easy to obtain... gathered at the frequency needed... available over an extended period of time to support inquiries and inspections by external parties... [and] available from the information system when needed...."[14]

With the expected implementation of the CSM System in the fourth quarter of 2016, S&WB managers expect that the new system will generate quality information quickly and will eliminate the need to extract information from tapes.

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[12] The S&WB document retention policy, dated September 30, 1987, required that "All departments should retain all records for a period of at least three (3) years as allowed in L.S.A. – R.S. 44:36(A).

[13] Auditors requested the billing and collection information on September 21, 2015 and received the information on December 30, 2015.

[14] *Internal Control – Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission. May 2013. Principle 13.

FINDING 5: The S&WB did not maintain or were unable to locate historical documentation.

RECOMMENDATION 5: The S&WB should consider replacing its computer system with one that is capable of providing historical data for periods other than the current month or year-end.

> *Recommendation **Rejected** by the S&WB. "Sewerage and Water Board Management disagrees with this finding and affirms that the information available is sufficient to meet all applicable records retention, documentation availability, and auditability standards. In addition, Sewerage and Water Board has issued a Request for Statement of Qualifications and in June 2013 for a new system to replace the existing Customer Account Management System."*

FOLLOW-UP 5: S&WB MANAGERS EXPECT TO REPLACE THE CAM SYSTEM WITH THE CSM SYSTEM IN THE FOURTH QUARTER OF 2016.

S&WB managers initially rejected the auditors' recommendation and contended that the CAM System could generate information that was "sufficient to meet all applicable records retention, documentation availability, and auditability standards." However, S&WB managers ultimately chose to adopt the recommendation, and they anticipate implementing the CSM System in the fourth quarter of 2016. S&WB managers assert that the new system will have the capabilities to generate historical and real-time information.

Having the ability to generate historical and real-time information is necessary to maintaining an effective internal control system. An effective internal control system reduces the risk of errors as well as prevents and deters fraud, waste, and abuse.

Observations for the City:

OBSERVATION 1: The City did not terminate sanitation or water services to delinquent sanitation accounts; therefore, there were insufficient consequences for delinquent account holders.

*Observation **Accepted** by the City. "The city agrees that there are currently insufficient consequences for delinquent sanitation account holders. The Landrieu administration proposed measures to strengthen collections... and is currently working with the City Council and S&WB to authorize the S&WB to disconnect water service for non-payment of sanitation charges on a similar basis as is presently undertaken for non-payment of water and sewer charges."*

FOLLOW-UP 1: THE S&WB AND THE CITY ENTERED INTO A CEA ON JUNE 11, 2014 WHICH ALLOWED THE S&WB TO TERMINATE WATER SERVICE FOR DELINQUENT SANITATION CUSTOMERS.[15] HOWEVER, BECAUSE THE CSM SYSTEM WAS NOT IMPLEMENTED, THE CITY DID NOT REQUEST THE S&WB TO TERMINATE WATER SERVICE FOR ANY DELINQUENT CUSTOMERS.

The 2013 Report identified $11.6 million in uncollected sanitation fees ($3.1 million in 2010 and $8.5 million in 2011). On behalf of the City, the S&WB billed customers $41.9 million in sanitation fees during 2014, and approximately $7.0 million was not collected (16.7 percent of the amount billed).[16] If the 2014 uncollected sanitation fees are an indication of uncollected sanitation fees in 2012 and 2013, then the City potentially lost in excess of $20 million from 2012 through 2014.[17] If collected, these outstanding fees could be used toward paying for or improving City services.

The CEA established consequences for delinquent sanitation customers by permitting the S&WB to "terminate water supply services, at the direction of the

[15] On October 24, 2013, the City Council amended City Code Section 138-57(b)(4) which authorized the S&WB to terminate water service for customers with delinquent sanitation fees.
[16] Sanitation customers paid $34.9 million in 2014.
[17] Auditors did not obtain collection information for 2012 and 2013. The uncollected sanitation fees are an estimate based on 2014 uncollected amounts ($7.0 million per year from 2012-2014).

City, to any account holder delinquent in the payment of sanitation charges...." In addition, the S&WB will revise how it applies customers' partial payments to charges. Instead of first applying payments to water and sewer charges, the S&WB will apply customer payments to sewer, water, and sanitation charges proportionally. If a customer remits a partial payment, all unpaid water, sewer, and sanitation charges will become past due simultaneously. This policy change will eliminate the customers' incentive to make partial payments with the intent to avoid paying sanitation charges. The S&WB intends to incorporate this change into the CSM System. The City anticipates that this change will be effective in the fourth quarter of 2016.

OBSERVATION 2: The S&WB remitted sanitation fees to the City by check on a weekly basis, which was an inefficient method of receipt. S&WB had the capability to submit payments by electronic fund transfer (EFT) if requested by the City.

*Observation **Accepted** by the City. "The city agrees that remittances from the S&WB to the City should be by electronic fund transfer rather than by check, and this change has been made."*

FOLLOW-UP 2: THE S&WB REMITTED ALL SANITATION PAYMENTS TO THE CITY THROUGH EFT.

Observations for the S&WB:

OBSERVATION 3: Interviews with selected S&WB employees revealed that the S&WB did not require ongoing ethics training.

> *Observation **Rejected** by the S&WB. "...Sewerage and Water Board affirms substantial compliance with this statute with more than 87 percent of employees received this formal training in 2012...."*

FOLLOW-UP 3: **THE S&WB WAS NOT IN COMPLIANCE WITH STATE LAW. ETHICS TRAINING IS REQUIRED OF ALL EMPLOYEES. AUDITORS FOUND THAT ONLY 66 PERCENT OF S&WB EMPLOYEES COMPLETED THE ETHICS TRAINING IN 2014.**

Pursuant to La. R.S. 42:1170A(3), public servants and elected officials are required to complete one hour of training on the Code of Governmental Ethics each year.[18] S&WB managers appointed an employee in the Personnel Department to notify employees of the annual ethics requirement and to track compliance. However, one designee is required to be licensed to practice law in Louisiana. La. R.S. 42:1170C states,

> "Each agency head... shall designate at least one person who shall, with the assistance of the board, provide all public servants of that agency information and instruction relative to ethics and conflicts of interest... [and] ensure that each public servant... is notified of the current name and contact information of each designee and that the current name and contact information of each designee is posted and maintained in a convenient and conspicuous manner which makes the information easily accessible to each public servant.... The agency head... shall select at least one person licensed to practice law in this state to be a designee."

La. R.S. 42:1101B states,

> "It is essential to the proper operation of democratic government that elected officials and public employees be independent and impartial; that governmental decisions and policy be made in the

[18] The free one-hour training can be accessed at https://eap.ethics.la.gov/EthicsTraining/login.aspx.

proper channel of the governmental structure; that public office and employment not be used for private gain other than the remuneration provided by law; and that there be public confidence in the integrity of government."

Without proper ethics training, S&WB employees may not be aware of the ethical requirements. All employees should complete the ethics training to reduce the risk of violating the ethics code.

Observation 4: The drop box safe was not locked and customers' payments were not secured.

*Observation **Accepted** by the S&WB. "...the drop box has since been replaced and is kept locked."*

FOLLOW-UP 4: S&WB EMPLOYEES LOCKED BOTH DROP BOXES. THE KEY TO THE DROP BOXES WAS ALSO SECURED, AND ONLY AUTHORIZED INDIVIDUALS WERE GIVEN ACCESS. CAMERAS RECORDED ACTIVITY AT BOTH DROP BOXES WHICH PROVIDED AN ADDITIONAL LEVEL OF SECURITY TO ENSURE CUSTOMER PAYMENTS WERE NOT LOST OR STOLEN.

Observation 5: According to S&WB employees, the camera in the cashier area was broken for over two years.

*Observation **Accepted** by the S&WB. "Sewerage and Water Board management agrees with this observation and has initiated a project to replace the camera in the Cashiers area."*

FOLLOW-UP 5: THE S&WB REPLACED THE BROKEN CAMERA AND THERE WAS AN OPERATING CAMERA AT EACH OF THE FOUR CASHIER WINDOWS. THE FUNCTIONING CAMERAS DETER THEFT AND ALSO PROVIDE SECURITY FOR THE CASHIERS.

V. CONCLUSION

The 2013 Report contained five findings and five observations. Although the City and the S&WB rejected all findings from the 2013 Report, both entities implemented actions that resolved or will resolve four of the five findings. The S&WB expects to replace the CAM System with the CSM System in the fourth quarter of 2016. S&WB managers assert that this new system will allow them to generate a detailed aging report and historical data for any point in time. The CSM System will also have more than 18 months of data immediately available on the system.

The 2013 Report identified $11.6 million in uncollected sanitation fees. On behalf of the City, the S&WB billed customers $41.9 million in sanitation fees during 2014, and approximately $7.0 million was not collected. If the 2014 uncollected sanitation fees are an indication of uncollected sanitation fees in 2012 and 2013, then the City potentially lost in excess of $20 million from 2012 through 2014. If collected, these outstanding fees could be used toward paying for or improving City services.

Once the CSM System is implemented, the S&WB will revise how it applies customers' partial payments. Instead of first applying payments to water and sewer charges, the S&WB will apply customer payments to sewer, water, and sanitation charges proportionally. If a customer remits a partial payment, all unpaid water, sewer, and sanitation charges will become past due simultaneously. The new policy will eliminate the customers' incentive to make partial payments with the intent to avoid paying sanitation charges. The S&WB intends to incorporate this change into the CSM System. The City anticipates that this change will be effective in the fourth quarter of 2016.

Although the City and the S&WB ultimately initiated actions to adopt some recommendations, they did not adopt all of the OIG's recommendations. Instead of assessing the late penalty prescribed in the City Code, the City Council revised City Code Section 138-57(b)(8). Prior to the revision, the Code required a 15 percent penalty to be assessed on the outstanding balance of the sanitation charges. The revised Code reduced the penalty and requires "a 15 percent penalty [to] be added to the outstanding current balance of the sanitation service charge." Although the S&WB assessed the correct late fee established in the revised City

Code, the City reduced the incentive for customers to pay their past due accounts on a timely basis.

Other issues were not resolved. The City issued $1.4 million in sanitation adjustments in 2014, but it did not have adequate controls over the adjustment process because the same employees issued and reviewed sanitation adjustments. The City has a responsibility to mitigate fraud risks and errors, to ensure all sanitation adjustments are valid, and to bill customers for all services rendered.

A summary of the follow-up results are shown below in Figure 1 and Figure 2.

FIGURE 1: SUMMARY OF FOLLOW-UP FINDINGS

Recommendation	Accepted	Follow-Up	Status
The City should assign an employee that is independent of the adjustment process to review the adjustment listing on a regular basis.	No	The City issued $1.4 million in sanitation adjustments. It did not have adequate controls over the adjustment process because the same employee issued and reviewed sanitation adjustments.	Not Implemented
The City should require the S&WB to produce a detailed report by account holder and number of days past due for sanitation customers.	No	The S&WB expects to replace the CAM System with the CSM System in the fourth quarter of 2016. The CSM System will have the capabilities to generate a detailed aging report.	Pending Implementation
The S&WB should retroactively adjust the sanitation service charge to reflect the provisions of the City Code.	No	Instead of assessing the late penalty as prescribed in the City Code, the City revised City Code Section 138-57(b)(8). Prior to the revision, the Code required a 15 percent penalty to be assessed on the *outstanding balance* of the sanitation charges. The revised Code reduced the penalty and requires "a 15 percent penalty [to] be added to the outstanding current balance of the sanitation service charge."	Implemented
All records should be maintained for at least three years as required by state law.	No	The S&WB expects to replace the CAM System with the CSM System in the fourth quarter of 2016. S&WB managers expect that the CSM System will maintain information and generate quality information quickly.	Pending Implementation
The S&WB should consider replacing its computer system with one that is capable of providing historical data for periods other than the current month or year-end.	No	The S&WB expects to replace the CAM System with the CSM System in the fourth quarter of 2016. S&WB managers expect that the CSM System will provide historical data.	Pending Implementation

FIGURE 2: SUMMARY OF FOLLOW-UP OBSERVATIONS

Observation	Accepted	Follow-Up	Status
The City did not terminate sanitation or water service to delinquent sanitation accounts; therefore, there were insufficient consequences for delinquent account holders.	Yes	The City potentially lost in excess of $20 million from 2012 through 2014. Once the CSM System is implemented, the S&WB will apply customer payments to sewer, water, and sanitation charges proportionally. If a customer remits a partial payment, all unpaid water, sewer, and sanitation charges will become past due simultaneously. The S&WB intends to incorporate this change into the CSM system. The City anticipates that this change will be effective in the fourth quarter of 2016.	Pending Implementation
The City received sanitation payments via check instead of EFT.	Yes	The City receives sanitation payments through EFT.	Implemented
The S&WB did not require ongoing ethics training.	No	Only 66 percent of S&WB employees completed ethics training in 2014.	Not Implemented
The drop box safe was not locked and customers' payments were not secured.	Yes	The drop boxes were locked, and the keys were secured.	Implemented
The camera in the cashier area was broken for over two years.	Yes	The S&WB replaced the broken camera, and there was an operating camera at each of the four cashier windows.	Implemented