Sewerage & Water Board of New Orleans

Audit Committee June 2018

June 13, 2018

Agenda

- Update on external audit, issuance of CAFR, reviews by Raftelis and PFM
- Office of Special Counsel update on external audits and RFP
- Role of Internal Audit
- Update on shifting change orders from Finance and Administration Committee to Audit Committee

Interim CFO Update

Office of Special Counsel Update

RFP for study to help Audit Committee determine:

- Whether internal controls exist where needed.
- If controls exist, can their design, based upon its written description, reasonably be counted on to work.
- If controls do not exist where they should, provide recommendations for controls and training.
- Determine adequate resourcing of Internal Audit and Office of Special Counsel to assist Audit Committee in its oversight role of internal controls, integrity of financial statements and compliance with laws and regulations.

Internal Audit Department Overview

Mission of the Internal Audit Department

- To provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. We help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Major Roles and Responsibilities of the Internal Audit Function

- Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the organization's goal and objectives to be met.

- Reports risk management issues and internal controls deficiencies identified directly to the audit committee and provides recommendations for improving the organization's operations, in terms of both efficient and effective performance.

- Assists with fraud prevention and detection.

Dual Reporting Relationship

- The internal audit activity must be independent, and internal auditors must be objective in performing their work.

- The audit manager must have direct assess to the Board of Directors through the Audit Committee
- Administratively internal audit reports to senior management (typically the CFO).

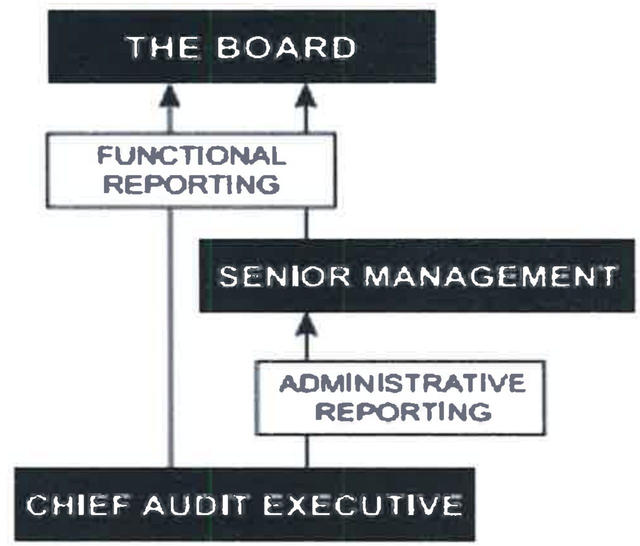

Figure 2-1

Audit Committee Role & Responsibilities

- The Audit Committee assists the Board of Directors by:
  - Overseeing the internal audit function.
  - Engaging in an open, transparent relationship with the Internal Audit Manager.
  - Reviewing and approving the internal audit charter annually.
  - Having a clear understanding of the strengths and weaknesses of the SWBNO internal controls and risk management system.
  - Ensuring that ~~the~~ SWBNO is in compliance with local, state, and federal laws.
  - Ensuring that the internal audit department is resourced with a reasonable budget and staffing to carry out the internal audit plan.
  - Addressing all conflicts of interest and internal audit independence and objectivity concerns.

Board of Directors' Role

- Set policy
- Delegate implementation
- Ensure compliance
- Enforce accountability

Audit Committee Charter

- Establishes the purpose, role, and responsibilities of the SWBNO Audit Committee.
- Provide guidance to the Audit Committee members as to best practices in audit and governance.
- Final approval of the Audit Committee charter resides with the Audit Committee.

Internal Audit Charter

- The internal audit charter is a formal document that defines the SWBNO internal audit activity's purpose, authority, and responsibility. It establishes the internal audit activity's position within the organization, including the nature of the reporting relationship (functionally to the Board/Audit Committee and administratively to the Executive Director or CFO); authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

- Final approval of the internal audit charter resides with the Audit Committee

Old Business

- Mr. Sloss requested from Postlethwaite & Netterville a list of items that firm was waiting to receive from S&WB staff.
- Mr. Sloss asked whether the Audit Committee could review the audit by the second week of June if the external auditors received their required information by May 15^{th}
- Ms. Gleason and Mr. Sloss requested weekly updates on the status of the external audit review of the CAFR.
- Dr. Duplessis requested that Postlethwaite & Netterville send their last year report on internal controls for distribution to the Audit Committee.
- Ms. Barnes requested that staff identify whether there were water utility standards for an Audit Committee.
- Staff will assist the Finance and Administration Committee and Audit Committee in timing the transfer of contract reviews and the form of those reviews.

New Business

- Question: would a 15 minute PowerPoint presentation on hurricane preparation and emergency response in the event of a hurricane be useful for the Audit Committee's role in risk oversight?
- Other questions, comments, requests?

Sewerage & Water Board of New Orleans

Re-Building the City's Water Systems for the 21st Century

SEWERAGE & WATER BOARD OF NEW ORLEANS

Inter- Office Memorandum

POLICY MEMORANDUM
NO. 35
REVISED JULY 19, 2013

DATE: July 19, 2013

FROM: Marcia A. St. Martin, Executive Director

TO: ALL DIVISIONS, DEPARTMENTS AND BOARD

RE: INTERNAL AUDIT POLICY

I. PURPOSE

This memorandum is to establish the supervision, responsibilities, and procedures of the Internal Audit Department in support of the Internal Audit Charter.

II. SUPERVISION

The Internal Audit manager is responsible to the Finance Committee directly via the Deputy Director. Administrative control is invested in the Deputy Director during the review process of audit reports, daily supervision, and work evaluation.

III. RESPONSIBILITIES

A. The Internal Audit Department is responsible to ensure to the Sewerage & Water Board's Finance Committee that:

1. Departments within the Board are reviewed at appropriate intervals to determine whether they are effectively, efficiently and consistently carrying out their function of planning, accounting, directing and controlling, in accordance with management policies and instruction, and legislative authority by:

    a. Auditing or examining at appropriate intervals the department and divisions of the Sewerage & Water Board.

    b. Evaluating the information gathered and documented to form appropriate findings, opinions, and recommendations.

    c. Reporting to management the findings, opinions, and recommendations of an audit or examination so that appropriate action can be taken.

    d. Providing consultation in the implementation of recommendations proposed as a result of an audit or examination.

2. Recommendations, plans and actions from audit findings are discussed and evaluated for satisfaction both prior to and after disposition is taken; and where applicable to see that further discussions are held to achieve satisfactory disposition.

3. The Internal Audit Manager shall make an annual report to the Finance Committee setting forth the accomplishments of the prior calendar year, and the plans and goals for the coming year. Special reports to the Finance Committee may also be required from time to time.

B. In order for the Internal Audit Department to perform its functions, Management of the Sewerage & Water Board is responsible for the following:

1. Providing full, free and unrestricted access to Sewerage & Water Board's records, property and personnel, subject to the limitations mandated by policy 57.

2. Insuring full cooperation of personnel during the course of an audit or examination.

C. The Deputy Director, General Superintendent, Management Services Director are responsible to take corrective action on all audit reports. (See Section IV. D)

D. The Executive Director will publish appropriate directives assigning responsibilities to ensure compliance with the requirements for reporting on corrective action taken.

IV. PROCEDURES

The following represents a summary of the procedures the Internal Audit Department will follow during the performance of an audit or examination. The exceptions to these procedures are in the cases of a surprise and/or special audit in which fraud, theft or misappropriations are suspected. When such situations occur, the flow of information will be at the discretion of the Internal Audit Manager.

A. Pre- Audit Procedures

1. The Internal Audit Department will notify in writing the Division Head, Department Head and Supervisor to be audited or examined as to the time, date, and location of the Pre-Audit Conference.

   The Internal Audit Department will also request certain specific items including but not limited to:

   a. Procedural Manuals
   b. A list of documents produced, used, or maintained by the auditee.

c. A list of reports produced by or used by the auditee.
d. A list of personnel by classification and assignment employed.
e. Copies of the Financial Statements where applicable.
f. A list of the Journals and Ledgers being maintained.
g. Copies of office procedures not located in the procedural manuals.

2. At the Pre-Audit Conference, those in attendance will discuss general information. The Internal Audit Department will give a tentative date for the beginning of field work.

3. Immediately after the Pre-Audit Conference, the auditors will conduct an internal control questionnaire with the audited supervisor. The auditors will use the internal control questionnaire along with other information gathered to determine the amount of testing of documentation.

B. Audit Procedures

1. The internal Audit Department will be auditing or examining to determine effectiveness, efficiency, uniformity and accuracy and internal controls being employed. The Internal Audit Department will also determine if the audited entity is adhering to policies and procedures established by management, generally accepted accounting principles, and/or legislative authority.
2. In order to accomplish the above cited tasks, the Internal Audit Department must examine, verify and analyze the source and secondary documents and interview and observe employees.
3. An interim report will be issued to communicate information that requires immediate attention, changes in the audit scope and to keep management informed of audit progress during a lengthy audit. The interim report will not diminish or eliminate the need for a final report.

   a. Disclosure and corrective actions must be discussed with the auditee during an interim conference. The auditee's written response including corrective action must be submitted to Internal Audit within seven working days.
   b. If the internal auditor and the auditee are in disagreement, the written response from the auditee must delineate why they disagree within seven working days.

c. During the internal review process, the Internal Audit Manager will review those critical findings and the auditee's response in detail for objectivity and cause. Only those findings that are not substantiated will be deleted from the report. Otherwise all findings will be cited and the auditee's response attached.

C. Post Audit Procedures

1. Upon completion of the audit, the auditors will conduct an exit conference. Notice of the exit conference and a draft audit report will be distributed to the individuals outlined in Section IV. A. 1.
2. At the exit conference, the findings and recommendations will be discussed.
3. Written response from the auditee must be made to the Audit Department within seven (7) working days from the exit conference. All responses will be attached to the final report.

   Within ten working days of the response period, the final report will be issued to the Internal Audit Manager. If a second draft copy is necessary, all persons that responded to the original draft copy will be notified.

4. All final reports must be approved by the Internal Audit Manager and Deputy Director. All final reports are addressed to the Executive Director for transmittal to the Finance Committee. The Internal Audit Department will distribute copies of the final report to the audited supervisor and to management in the Chain of Command above the supervisor.

D. Corrective Action

1. Within thirty working days of the issuance of the final report, the Deputy Director or General Superintendent will take corrective action and submit a follow-up report to the Executive Director The Internal Audit Department should receive a copy of the follow-up report. This report will include but not be limited to:

   a. A clear and concise explanation of what corrective actions are planned and implemented.
   b. If no corrective actions have been taken and nor are scheduled to be taken, a clear and concise explanation of this decision must be given

2. The Internal Audit Department will evaluate the follow-up report. This evaluation marks the end of the Auditing Process.

V. INQUIRIES

Any questions concerning the intent of this memorandum may be addressed to the Supervisor of Internal Audit.

X Marcia A. St. Martin

MARCIA A. ST. MARTIN
EXECUTIVE DIRECTOR

Benchmarking Performance Indicators
Sewerage and Water Board of New Orleans

as of May 4, 2017

Premise of Exercise

Enclosed is a snapshot of the Sewerage and Water Board's operational status as of the 1st Quarter of 2017 based on the American Water Works Association (AWWA) Utility Benchmarking Program whose primary objective is "to provide objective performance measures for decision makers. Performance measurement is an essential management tool to help decision makers to set course to improve their organizations."

Balanced Scorecard Basis

- The Sewerage and Water Board of New Orleans (SWBNO) is striving to be "Best in Class". The organization has made progress and ***has successfully benchmarked SWBNO operations*** to the American Water Works Association national standard.
- An ***Effectively Managed Utility*** has the following attributes:
  - Product Quality
  - Customer Satisfaction
  - Employee and Leadership Development
  - Operational Optimization
  - Financial Viability
  - Infrastructure Strategy and Performance
  - Enterprise Resiliency
  - Community Sustainability
  - Water Resource Sustainability
  - Stakeholder Understanding and Support

The **Balanced Scorecard** is derived from **SWBNO Performance Indicators** as seen in the back up section of this presentation.

The proposed **Balanced Scorecard** is a **strategic planning and management system** to be used to align SWBNO technical and business activities to the vision and strategy of the organization by **monitoring performance** against strategic goals.

Sewerage and Water Board Balanced Scorecard

as of July 2017

STRATEGY MAP			BALANCED SCORECARD		
EFFECTIVELY MANAGED UTILITY ATTRIBUTES	PROCESS: UTILITY RESILIENCY AND EXCELLENCE THEME: ROA >= 1.9%, VOLUME (MG/month) = 4.75	OBJECTIVES	MEASUREMENT	TARGET (AWWA Median)	SWBNO Numerical Values
•Operational Optimization	FINANCIAL PERSPECTIVE Long-Term Shareholder Value ROA > 3.6%	•Operating Cost & Efficiency	• Cost/Unit, Efficiency	MGD produced per employee =0.21	MGD produced per employee =0.13
•Financial Viability	Improve Productivity	•Capacity Utilization	•% Utilization	Total Water Sales/Total Water Produced = 0.4	Total Water Sales/Total Water Produced = 0.25
•Operational Optimization	Grow Revenue	•Capability Utilization	•O&M Cost Efficiency	O&M Cost of Potable Water/acct = $410	O&M Cost of Potable Water/acct = $714
•Operational Optimization		•Production Utilization	•O&M Production Efficiency	O&M Cost of Potable Water/MG = $2,305	O&M Cost of Potable Water/MG = $1,869
•Operational Optimization	CUSTOMER PERSPECTIVE OFFER PRODUCTS & SERVCES THAT ARE CONSISTENT, TIMELY and LOW-COST	•Low Cost Maintenance	• Work Order Backlog	Total Work Order Backlog <= 1,200	Total Work Order Backlog = 3,701
•Customer Understanding and Support	Low Cost	•Best-in-Class Quality Standards	• Customer Service Complaints per 1K customers	Customer Complaint Indicator = 1.9	Customer Complaint Indicator = 37.1
•Enterprise Resiliency	Best-in-Class	•Best-in-Class Delivery Timing	• Sales Delivery	Total per Capita Consumption (gal/person/day) =115.5	Total per Capita Consumption (gal/person/day) = 362.7
•Enterprise Resiliency	Customer Satisfaction	•Best-in-Class Delivery Timing per Population Served	• Sales Volume	Domestic per Capita Cons. (gal/person/day) =64.2	Domestic per Capita Cons. (gal/person/day) = 54.4
•Customer Satisfaction	Enhance Brand	•High Customer Satisfaction	• Direct Pass Rate	Billing Accuracy (errors/10K billings) = 11.0	Billing Accuracy (errors/10K billings) = 76.9
•Community Sustainability		•Reinforce Brand Image	•Market Feedback	Water Service Affordability = 0.66%	Water Service Affordability = 1.13%
•Product Quality	INTERNAL PERSPECTIVE ENSURE OPERATIONAL EXCELLENCE WITH INNOVATION AS WELL BEING SOCIALLY RESPONSIBLE	•Productivity	• Meter Reading Effectiveness	Percent Meters Read Per Month = 99%	Avg Percent Meters Read Per Month (in 2017) = 88%
•Enterprise Resiliency	Operational Excellence	•Delivery	• Workforce Sustainability	Employee Turnover = 8.1%	Employee Turnover = 14.7%
•Enterprise Resiliency	Process Innovation	•Continuous Improvement	• Organizational Best Practices	Organizational Best Practices Index = 76.9%	Organizational Best Practices Index = 53.8%
•Employee Leadership •and Development	Alliances with SBUs	•New Product/Process Introduction (NPI)	• Timely Introduction	Training Hours per Employee = 13.8	Training Hours per Employee = 17.4
•Water Resource Sustainability	Socially Responsible	•Safety & Health	• Compliance - Water	Water Regulatory Compliance Indicator = 100%	Water Regulatory Compliance Indicator = 98.9%
•Product Quality		•Environment	• Compliance – Wastewater	Wastewater Regulatory Compliance = 100%	Wastewater Regulatory Compliance = 99.95%
•Infrastructure and •Performance Management	LEARNING & GROWTH PERSPECTIVE STRATEGIC JOB & SYSTEMS	•Develop the Necessary Skills	• Market & R&D Development	Regional sewer and water sale/operating agreements	• Louisiana laws enacted ability •to sell water/sewer services
•Enterprise Resiliency	Skills	•Information Systems Availability	•Procurement, Financial	Louisiana Bid Law/Federal Contracts Compliance/ GAAP Principles	• 2016 Financial Results 3rd Party Audit complete
•Operational Optimization	Info. System	•Strategic Awareness	• Alignment	Total Quality Management	•Standardized processes and Procedure (Policy Handbook)

Benchmarking Performance Indicators
AWWA Survey Participants
(Combined Operations)

- American Samoa Power Authority
- City of Glendale (AZ)
- Town of Marana Utilities Department (AZ)
- Coachella Valley Water District (CA)
- Mammoth Community Water District (CA)
- Marina Coast Water District (CA)
- Castle Rock Water (CO)
- City of Boulder (CO)
- Colorado Springs Utilities (CO)
- Fort Collins Utilities (CO)
- Gainesville Regional Utilities (FL)
- Columbus Water Works (GA)
- Charlotte Water (NC)
- Kansas City Water Services Department (MO)
- City of Henderson (NV)
- Montgomery County Environmental Services (OH)
- Charleston Water (SC)
- Austin Water (TX)
- City of Corpus Christi (TX)
- City of Fort Worth Water Department (TX)
- San Antonia Water Department (TX)
- Salt Lake City Public Utilities (UT)
- Arlington County Government (VA)
- City of Richmond Water Public Utilities (VA)
- City of Bellevue (WA)