

Sewerage and Water Board of New Orleans

Fee Collection and Controls

Final Report • March 9, 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

March 9, 2016

Re: Sewerage and Water Board of New Orleans Fee Collection and Controls

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

A handwritten signature in blue ink, appearing to read "E.R. Quatrevaux", positioned above the printed name.

E.R. Quatrevaux
Inspector General

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The Office of Inspector General (OIG) conducted a performance audit of the Sewerage and Water Board of New Orleans (S&WB) fee collection internal controls for the period January 1, 2014 through March 31, 2014. The objectives of the audit were to:

- Evaluate the efficiency and effectiveness of the S&WB fee collection and billing processes; and
- Test the operating effectiveness of the internal controls over the fee collection and billing processes.

Since 1987, the S&WB has used the Customer Account Management (CAM) System to process customer bills and payments. The CAM System could not generate the information needed to allow managers to collect accounts receivable effectively. The audit includes the following findings that resulted from the CAM System limitations:

- As of December 31, 2013, 47 percent of the S&WB's \$21.8 million accounts receivable balance was delinquent (at least \$60 and over 90 days past due). The CAM System could not produce detailed aging reports. Without an aging report, managers could not be certain that they were pursuing collection efforts on all delinquent accounts.
- The CAM System did not assess late fees on 23 percent of the accounts tested that were paid more than four days after the due date. Managers did not know why the late fees were not charged.

The S&WB did not consistently follow its collections policy for handling delinquent accounts (totaling \$10.3 million) because S&WB employees and managers were not aware of this policy. Employees' inconsistent application of the collections policies delayed the collection of some past due accounts. For instance, one account was not sent to the collection agency until 104 days after the policy required that it be sent.

Auditors recommended that the S&WB implement a new billing and collection system. The S&WB expects to implement a new billing and collection system in the third quarter of 2016, and it anticipates that this system will resolve these

audit findings. S&WB managers should also take an inventory of all policies and communicate those policies to their employees.

The audit also includes the following findings:

- The S&WB owed customers approximately \$189,000 from customers' unclaimed deposits and overpayments. Managers did not notify these customers via certified mail as required by the law in place during the scope of the audit.
- S&WB managers could potentially save \$83,000 per year by switching to a lockbox system to process mailed in payments.

Based on these findings, auditors also made the following recommendations to the S&WB:

- S&WB managers should develop a policy regarding how to apply deposits and payments to customers' accounts.
- S&WB managers should perform a cost-benefit analysis to determine if using a lockbox would yield savings.

Given charges for service of approximately \$158 million in 2014 and the annual 10 percent rate increases through 2020, it is essential that the S&WB establish adequate internal controls to collect and use its resources in the most cost effective way. Effectively designed and implemented internal controls will help management achieve its mission to provide services and information at a reasonable cost.

I. OBJECTIVES, SCOPE, AND METHODOLOGY

The OIG conducted a performance audit of the S&WB fee collection process. The objectives of the audit were to:

1. Evaluate the efficiency and effectiveness of the S&WB fee collection and billing process; and
2. Test the operating effectiveness of the internal controls over the fee collection and billing processes.

The scope period for the audit was January 1, 2014 through March 31, 2014.

To accomplish the objectives, auditors:

1. Conducted interviews and walkthroughs with S&WB billing and collection personnel to obtain an understanding of billing and collection processes and controls.
2. Selected a random sample of 96 accounts from the population with a confidence level of 95 percent and a margin of error of 10 percent. For each account, auditors:
 - a. Recalculated the customer's bill to determine accuracy;
 - b. Obtained payment support (e.g. cancelled check) to confirm that the payment was applied timely and to the correct account;
 - c. Inspected each selected billing statement and verified that any applicable late fee was applied properly; and
 - d. Inspected various documentation (e.g. billing statements, collection letters, etc.) to determine if the S&WB followed its collection procedures.
3. Inquired of S&WB managers and requested documentation to determine if customers were notified of any applicable refund and to determine if S&WB employees remitted sanitation fees to the City of New Orleans (City).
4. Compared the costs of processing payments received via mail versus using a lock box processing system provided by a bank.

Auditors used three populations to achieve the audit objectives. The first population consisted of all open accounts during the scope period and all closed accounts with an outstanding balance as of July 31, 2014.¹ To test for the effectiveness of the collections process, auditors selected a random sample of 96 accounts from the population.² The S&WB was unable to provide account balances for the population of March 31, 2014; therefore, auditors cannot project errors to the population.

The second population consisted of all closed accounts with a credit balance due to the customer as of July 31, 2014. Auditors tested 100 percent of the 3,398 items in this population.

The third population consisted of all closed accounts with a credit balance as of July 31, 2014, in the sewer and water account and a debit balance in the sanitation account. Auditors tested 100 percent of the 414 items in this population.

Since 1987, the S&WB has used the CAM System, a mainframe billing and collection software system. Due to CAM System limitations, the auditors could not isolate delinquent customer accounts for testing.³ Therefore, the auditors cannot express an opinion on the completeness, existence, and accuracy of the individual customer aging balances or the total group aging balances.

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.

¹ The CAM System could generate data as of the current date, but it did not have the capability to generate a listing of all customer accounts and respective balances as of a specific past date. As a matter of practice, S&WB managers permanently maintained a listing of all customer accounts as of December 31 each year. A list for March 31 – the end of the scope period – was not available because the S&WB did not retain the lists from previous months; the July 31 list was the first month-end list generated by the CAM System following auditors' document request to the S&WB. Auditors extracted all closed accounts with a balance from the December 31, 2013 listing; extracted all open accounts during the scope period from the July 31, 2014 listing and merged both listings. The population consisted of 192,723 accounts.

² The sample included accounts that were delinquent as of December 31, 2013 or that became delinquent during the scope period, January 1 through March 31, 2014 as well as accounts that were paid timely.

³ Refer to Finding 1 for additional discussion of these limitations.

Auditors used the following criteria for this performance audit:

- Louisiana Revised Statutes;
- New Orleans City Charter;
- Louisiana Legislative Auditor Checklist of Best Practices in Government;
- Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control – Integrated Framework; and
- S&WB policies governing billing and collection.

AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.⁴

This performance audit was also conducted in accordance with the *Principles and Standards for Offices of Inspector General*.⁵

ADDITIONAL COMMUNICATIONS

In accordance with GAGAS, auditors reported three observations to S&WB managers in a written letter dated January 25, 2016.⁶ Observations are deficiencies in internal controls; noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse which were not significant to the objectives of the engagement but warranted the attention of the S&WB.

LEGAL AUTHORITY

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

⁴ *Government Auditing Standards, Chapter 7.30*; U.S. Government Accountability Office, 2011.

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

⁶ *Government Auditing Standards, Chapter 7.19*; U.S. Government Accountability Office, 2011.

II. INTRODUCTION

Louisiana Revised Statute 33:4071 provides for the creation and organization of the Sewerage and Water Board, making it responsible for constructing, controlling, maintaining, and operating the public water, sewerage, and public drainage systems in Orleans Parish. The powers, duties and functions of the S&WB are set forth in applicable state and municipal laws.⁷

The S&WB established a mission to provide safe drinking water, to remove waste water for safe return to the environment, to drain away storm water, to provide water for fire protection, to provide information about products and services, and to do all of this continuously at a reasonable cost to the community.

The S&WB has the authority to establish the water and sewerage rates charged to its customers. On January 1, 2013, sewer and water rates increased 10 percent and will continue to increase 10 percent each year until 2020. These rate increases are funded by ratepayers and are expected to generate an additional \$583 million by 2020.⁸ The additional revenues were based on the need to repair the aging infrastructure and to fund S&WB day-to-day operations.

The S&WB had 132,091 open accounts in 2014 and revenue from charges for services totaled \$158.0 million.⁹ During 2014 the net accounts receivable from customers increased by \$2.5 million from \$13.9 million to \$16.4 million.¹⁰

S&WB ORGANIZATIONAL STRUCTURE

The S&WB Board of Directors consists of:

- The Mayor of New Orleans,
- Two members of the Board of Liquidation, City Debt (appointed by the mayor), and
- Eight citizens appointed by the mayor with the consent of the New Orleans City Council.

⁷ La. R.S. 33:4071 and City Charter Sec. 5-302.

⁸ Bureau of Governmental Research, *Sewerage Board details plan to double bills over 8 years*, (New Orleans, LA: January, 2014).

⁹ Customers may have multiple accounts because each meter is a separate account.

¹⁰ Net of the allowance for doubtful accounts. The allowance for doubtful accounts is the S&WB's estimate of uncollectable receivables.

The initial terms of office are staggered from one year to four years, and board members cannot serve more than two consecutive terms in office.¹¹

METER READING AND INITIAL BILLING PROCESS

S&WB meter readers manually read customers' meters every month and enter the information into a handheld processor. Meter readers did not have access to the prior month's reading. The information from the handheld processors was uploaded into the CAM System. Sewer and water charges were calculated using a flat rate determined by the meter size and a volume charge determined by the number of water gallons used.¹²

If the customer's water usage was greater than three times or less than one-third of the customer's normal usage, the account was sent to the Bill Review Department. The Bill Review Department determined if the meter should be reread, if the meter reading should be accepted as valid, or if the customer's usage should be estimated for that period.¹³ Billing statements for each account were mailed approximately every 30 days. For accounts that were not paid by the due date, S&WB's policy was to add a 10 percent late charge to the current charges.¹⁴

Accounts with balances of at least \$60 on the third billing statement (at least 90 days past due) were delinquent. In addition to the third billing statement, the S&WB's policy was to mail a letter to delinquent account customers informing them that their water would be turned off if the account was not paid. If the customer contacted the S&WB to dispute their bill, the S&WB investigated the complaint, adjusted the bill if necessary, and notified the customer of the results of the investigation. During the investigation, the delinquent collection process was suspended for the account.¹⁵

¹¹ La. R.S. 33:4071.

¹² Refer to Appendix A for the 2014 general service rates.

¹³ Estimated accounts were charged a rate of 3,000 gallons for the month.

¹⁴ The CAM System was programmed to allow for an additional four day grace period before automatically applying late charges. The S&WB established this grace period to allow for mail transit time.

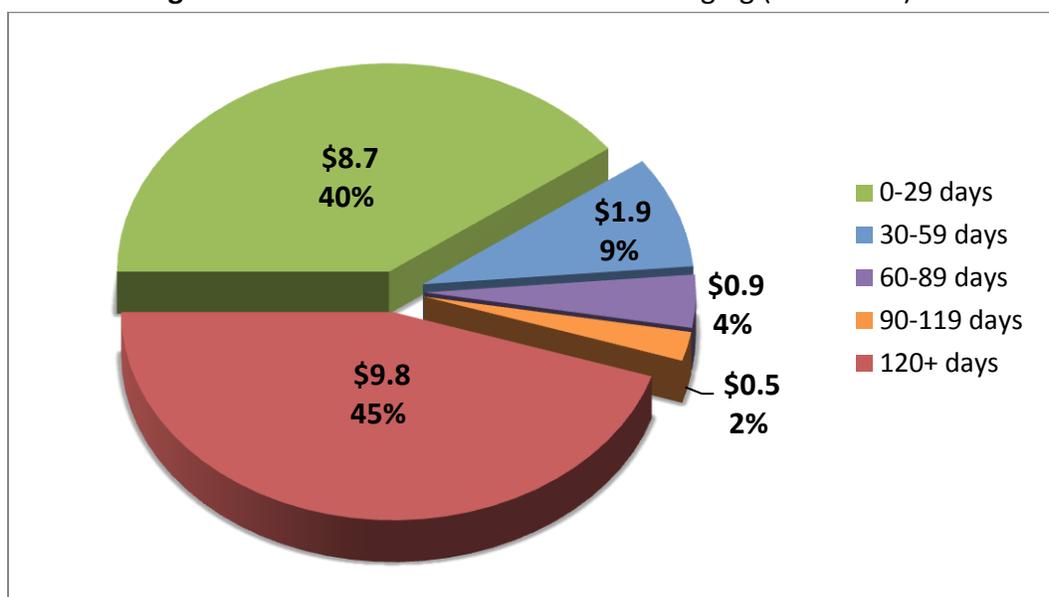
¹⁵ Refer to Appendices B and C for the fee collection and delinquent collection processes, respectively.

III. CUSTOMER RECEIVABLES AGING

S&WB customers owed approximately \$21.8 million in outstanding sewer and water charges as of December 31, 2013. According to the year-end customer aging report, 47 percent (\$10.3 million) of the S&WB's accounts receivable were delinquent (at least \$60 and at least 90 days past due).¹⁶ Furthermore, the S&WB estimated it would not collect \$7.1 million (33.8 percent) of its accounts receivable.¹⁷

Figure 1 shows the balances and percent of accounts in each aging category.

Figure 1. Sewer and Water Account Aging (in millions).



¹⁶ Accounts receivable are monies owed by customers to the S&WB. For example, S&WB customers use water, and in return the S&WB bills the customer for the water. Until the bill is paid, the water charges are included in accounts receivable. A customer aging report categorizes an organization's accounts receivable according to the length of time a bill has been outstanding (e.g. 30-59 days, 60-89 days, etc.).

¹⁷ The S&WB recorded \$7,115,071 in allowance for doubtful accounts, which reflected the amount of accounts receivable the S&WB did not expect to collect.

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.

The CAM System was a mainframe billing and customer software system developed and used by the S&WB since 1987. (See photo 1) The age and limited capabilities of the CAM System reduced the availability of information the S&WB needed to pursue delinquent collections and maintain effective internal controls. The CAM System's limitations also made it difficult for auditors to test the effectiveness of collections and billing processes.



Screen shot of the CAM System

Auditors requested a customer aging report for the final day of the engagement's scope period (March 31, 2014) that included detailed information for all accounts included in each aging category. A detailed customer aging report should include lists of customers by name and the amount each customer owed the S&WB categorized by age.

The CAM System could not generate a detailed customer aging report as of any historical date. So instead of providing a detailed customer aging report, S&WB managers provided a CAM System report that documented the total aging balance per category as of December 31, 2013 (e.g. total amount due per category) as shown in Figure 1.

Without a detailed aging report, S&WB managers did not know which customers were past due, and managers could not determine whether delinquent account procedures were followed for all delinquent customers. As a result, managers were not able to analyze the effectiveness of their collection processes. In addition, auditors could not test the completeness, existence, and accuracy of the S&WB's customer aging report.¹⁸

¹⁸ Testing for completeness ensures that all customer balances and transactions that should have been recorded were recorded and included in the detailed customer aging report. Testing for existence ensures that all customer balances exist and transactions were recorded, disclosed properly, and pertained to the S&WB. Testing for accuracy ensures that all customer balances were recorded at appropriate amounts.

The *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides guidance on internal control.¹⁹ COSO requires the use of “relevant, quality information to support the functioning of internal control.”²⁰ COSO also emphasizes that:

Maintaining quality of information is necessary to an effective internal control system, particularly with today’s volume of data and dependence on sophisticated, automated information systems... . Inaccurate or incomplete data, and the information derived from such data, could result in potentially erroneous judgments, estimates, or other management decisions.²¹

Furthermore, the quality of information depends on several factors; it should be:

[E]asy to obtain ... gathered at the frequency needed ... available over an extended period of time to support inquiries and inspections by external parties ... at the right level of detail relevant to information requirements ... [and] available from the information system when needed.²²

S&WB managers did not maintain high quality accounts receivable information because this information was not easy to obtain, able to be readily generated, available over an extended period of time at significant level of detail, and available to be reviewed and tested for completeness, existence, and accuracy. Without high quality information, S&WB managers could not implement effective internal controls.

RECOMMENDATION 1. THE S&WB SHOULD REPLACE THE CAM SYSTEM WITH A SYSTEM THAT CAN PROVIDE HISTORICAL AND REAL-TIME INFORMATION, INCLUDING DETAILED AGING REPORTS.

¹⁹ *Government Auditing Standards, Supplemental Guidance A.03*; U.S. Government Accountability Office, 2011.

²⁰ *Internal Control – Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission, May 2013. Principle 13.

²¹ *Ibid.*

²² *Ibid.*

The CAM System did not provide reliable, relevant information to managers. Without timely and quality information, S&WB managers cannot effectively manage and analyze accounts receivable.

The S&WB expects to implement a new billing and collection system in the third quarter of 2016. The S&WB should ensure the new system has the capabilities to allow managers and other individuals to extract and analyze reliable, detailed, historical, and real-time information. New billing and collection software should also enable more efficient and effective billing and collection methods.

IV. DELINQUENT ACCOUNT COLLECTIONS

Approximately \$10.3 million or 47 percent of the S&WB's accounts receivable were delinquent. An account was delinquent if the customer's balance was at least \$60 and remained outstanding on the third monthly billing statement (at least 90 days past due).

During the audit, auditors requested the S&WB's policy for collecting delinquent accounts. S&WB employees stated that the S&WB did not have a written policy. Therefore, a S&WB Management Development Analyst documented an informal policy based on his understanding of the process. During fieldwork, auditors used the informal policy as criteria. During a preliminary findings meeting,²³ S&WB managers asserted that the delinquent account collection process was not formally documented as part of the S&WB's Service Rules and Regulations,²⁴ which were last updated in 1994. However, during the Exit Conference, the same S&WB managers provided the auditors with a copy of its written policy for collecting delinquent accounts. This policy was dated May 20, 2011.²⁵ S&WB managers and the employees responsible for following the policy were unaware of the written policy. The auditors updated related testing to reflect the written delinquent account collection process.

The written delinquent collection process was as follows:

Procedure 1: Once the account became delinquent, a DD1 letter was mailed on the same day as the third monthly billing statement.²⁶ The DD1 letter informed the customer that their account was past due and issued a 10-day deadline to pay the balance before the water was turned off.

Procedure 2: If the account was not paid within 10 days of the DD1 letter, a work order was issued on the 14th day to turn off the water.²⁷

²³ The preliminary findings meeting allows S&WB managers the opportunity to discuss potential findings and to offer reasons why the findings occurred.

²⁴ The Service Rules and Regulations served as a guide for customer related processes such as applying for service, billing, fees, etc.

²⁵ S&WB managers documented these procedures in an inter-office memorandum and did not assign a policy number.

²⁶ The meaning of DD1 is unknown because the acronym was established in the 1980s.

²⁷ The S&WB gave the customer 14 days to allow for mail transit time.

Procedure 3: A DD5 letter was mailed within five days after turning off the water.²⁸ The DD5 letter issued a five-day deadline to pay the balance before the water meter was removed.²⁹

Procedure 4: A delinquent removal work order was issued to remove the water meter on the 5th day after the DD5 letter was mailed if the balance was not paid.

Procedure 5: The customer's account was closed, and a final bill was mailed to the customer 30 days after the meter was removed if the balance was not paid. The final bill was due immediately.

Procedure 6: The customer's deposit was applied to the water and sewer charges when the account was closed.

Procedure 7: The customer's account was sent to the collection agency when it was closed.

For the 96 random accounts selected, auditors performed the procedures described above, and the results are documented below.

Seventy-eight of the 96 accounts tested were less than \$60 and less than 90 days past due; therefore delinquent collection procedures were not applicable. The remaining 18 accounts were delinquent as of July 31, 2014.

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.

Because customers closed accounts and/or paid their bill during different phases of the collection process, not all procedures were applicable to all delinquent accounts.³⁰

When applicable, S&WB employees followed the first four procedures as described in the collections process. No exceptions were noted.

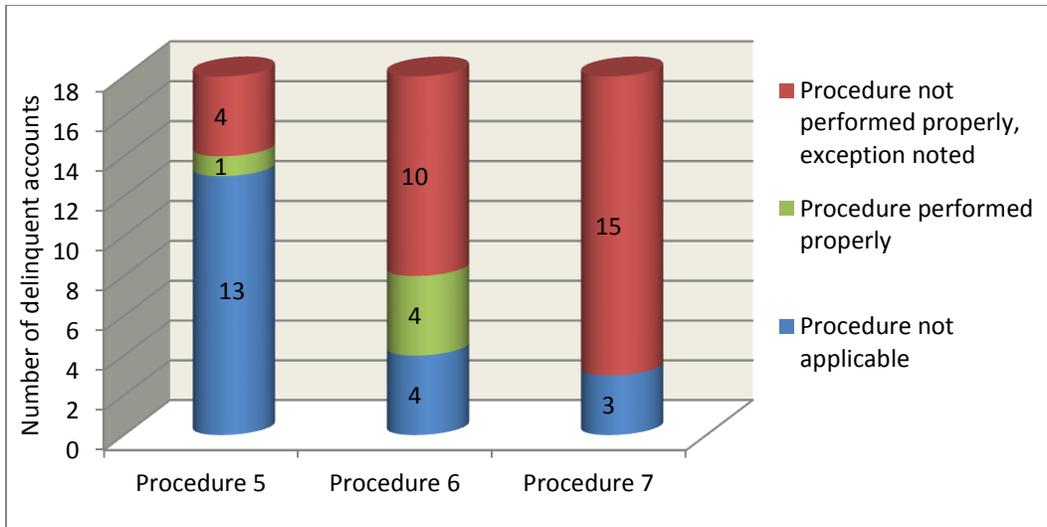
²⁸ The meaning of DD5 is unknown because this acronym was established in the 1980s.

²⁹ Despite the five-day deadline, the S&WB did not issue the delinquent removal work order until 10 days after the letter was mailed, to allow for mail transit time.

³⁰ Refer to Appendix D for details of the procedures that were not applicable for each delinquent account tested.

The details of the testing results of the final three procedures are shown in Figure 2 below.

Figure 2. Testing Results for Procedures Five through Seven.³¹



Of the 18 delinquent accounts depicted in Figure 2, the S&WB sent 14 accounts with a total of \$6,988 past due to the collection agency as early as April 25, 2010; a total of \$6,249 from 13 of those accounts remained outstanding as of July 31, 2014. Of the \$6,988 sent to the collection agency, the S&WB only received \$739 as of July 31, 2014. Figure 3 shows the outstanding amount and the date each account was sent to the collection agency compared to the balance outstanding for that account as of July 31, 2014.

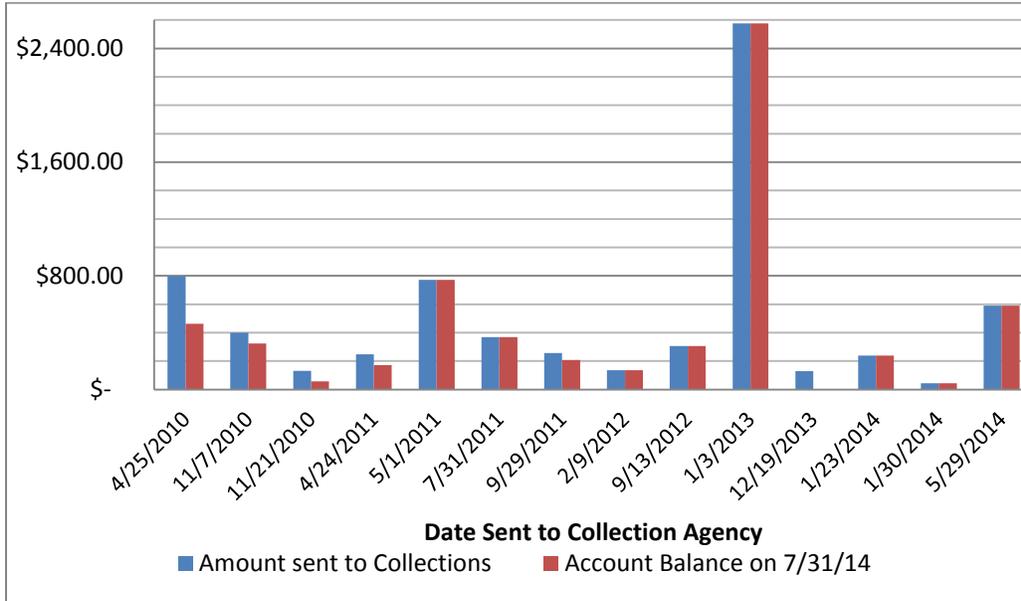
³¹ Exceptions noted during testing of delinquent accounts:

Procedure 5 – Four customer accounts were closed and a bill was issued between 34 and 58 days.

Procedure 6 – Nine deposits were applied between 18 and 38 days after the account was closed. One account did not have record of any actions after the account was closed.

Procedure 7 – Fourteen accounts were sent to collections between 43 and 104 days after the account was closed. One account did not have record of any actions after the account was closed.

Figure 3. Fourteen Accounts Sent to Collections and Balances as of July 31, 2014.



Some customers had substantial balances. For example, the auditors noted a hydrant account was delinquent since 2008.³² The meter could not be located when the work order was issued to remove the meter, and the account was never closed or turned over to collections. As of July 31, 2014, the account was open with a balance of \$18,113.

RECOMMENDATION 2. 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.

Managers should take an inventory of all S&WB policies and communicate those policies to their employees. COSO Principle 14 requires that the organization “internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.” COSO also emphasizes that, “A process [should be] in place to communicate required information to enable all personnel to understand and carry out their

³² A hydrant account is a nonresidential account issued to customers who have a need to access water from a hydrant (e.g. contractors, firefighters, etc.). The customer is given a meter that tracks the water usage and a wrench that is used to access water from the hydrant. The customer may be permitted to relocate the meter to other hydrants.

internal control responsibilities.”³³ Managers and employees did not know what policies were in place; and therefore, the policies were not followed.

Without clearly communicating policies, the delinquent collection process can be delayed. According to survey results from the Commercial Collection Agency Association, “the probability of full collection on a delinquent account drops dramatically with the length of delinquency.” Therefore, the S&WB can increase the likelihood of collecting delinquent accounts by enforcing its formal written collection procedures and performing all collection procedures timely.

³³ *Internal Control – Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission, May 2013. Principle 14.

V. CREDIT BALANCES ON CLOSED ACCOUNTS

Each month the S&WB mailed a bill to the customer that consisted of a sewer and water charge. The bill also included a sanitation fee that the S&WB collected on behalf of the City to cover the cost of garbage collection.³⁴ The S&WB was given the authority to collect sanitation fees on behalf of the City and was responsible for remitting those fees to the City weekly.³⁵

If a customer closed an account and was entitled to a refund for any overpayments of sewer and water fees, La. R.S. 33:4083.1 required the S&WB to notify the customer by certified mail within 30 days to inform them that they were entitled to a refund, and if the refund was not claimed within 18 months, the overpayment would be applied to the Water Help/Plumbing Assistance Program (Water Help Program). The S&WB approved the Water Help Program to “assist elderly, disabled and economically disadvantaged customers in paying their water bills and making minor plumbing repairs.”³⁶ Customers could still request a refund, even after the money was transferred to the Water Help Program.

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.

Refunds owed to customers totaled \$189,119. The S&WB did not mail certified letters to 3,398 customer accounts to notify them that any unclaimed refund would be applied to the Water Help Program in 18 months.

The S&WB was unaware of the statutory requirement to mail certified letters to customers with unclaimed refunds, and auditors noted customers were owed refunds that dated back to 1972. S&WB managers asserted that they were notifying customers of their credit balance through regular postage. However, managers could not provide documentation of those notifications. Without documentation, the auditors could not conclude that customers were actually notified of their credit balances or were aware they were entitled to a refund.

³⁴ The sanitation fee was \$24 for residential accounts and \$48 for commercial accounts.

³⁵ City Code Sec. 138-57.

³⁶ “Water Help Program,” Sewerage and Water Board website, accessed October 13, 2014, http://www.swbno.org/custserv_information_waterhelp.asp.

On June 29, 2015, more than a year after the audit scope period, La. R.S. 33:4083.1 was amended to also permit notification by electronic mail and regular postage.

The S&WB did not remit to the City \$9,034 in sanitation fees for 414 accounts.

Customer bills included sewer and water charges and sanitation fees. The S&WB's unwritten policy was to first apply partial payments to the sewer and water charges and any remaining payment to the sanitation fee. If a customer closed an account and owed outstanding charges, the deposit was only applied to the sewer and water charges which resulted in an overpayment on the customer's sewer and water account and left an outstanding sanitation fee balance.³⁷ The auditors noted one account dated back to 1972, but the deposit was never applied to the sanitation bill nor remitted to the City.

RECOMMENDATION 3. THE S&WB SHOULD FOLLOW ALL LOUISIANA STATE LAWS IN EFFECT AT THE TIME. THE S&WB SHOULD ALSO DEVELOP A FORMAL POLICY REGARDING HOW TO APPLY DEPOSITS AND PAYMENTS TO CUSTOMERS' ACCOUNTS.

The S&WB was not in compliance with La. R.S. 33:4083.1 during the scope period of the audit. Because La. R.S. 33:4083.1 was amended on June 29, 2015 to also permit notification by electronic mail and regular postage, S&WB asserts it was in compliance with the law.

The practice of first applying payments to sewer and water charges may be confusing to customers because they receive one bill for sewer, water, and sanitation charges. Likewise, customers may not be aware that their partial payments or deposits are not applied to sanitation fees and may assume that the partial payments or deposits will be applied to all outstanding charges proportionally.

S&WB managers could consider applying deposits to outstanding water and sewer charges before applying final payments, which would allow final payments to be applied to all charges.

³⁷ Customers without an established positive payment history with the S&WB may be required to pay a deposit when opening an account.

VI. MAILED-IN CUSTOMER PAYMENTS

Each month, the S&WB received approximately 40,000 customer payments through the mail at S&WB headquarters. The payments were processed by a group of five employees using two remittance processor machines purchased in the 1980s. (See photo 2) Lockbox processing is a service offered by banks to process the payments an entity receives from its customers. The bank receives, processes, and deposits customer payments. The bank transmits the payment information to the entity electronically, and the entity enters the information in its billing software to reflect the payment in the customers' account.



FINDING 4. THE S&WB COULD POTENTIALLY SAVE \$83,000 PER YEAR BY PROCESSING PAYMENTS THROUGH A LOCKBOX.

The Louisiana Legislative Auditor's Checklist of Best Practices in Government recommended performing a cost-benefit analysis to determine if contracted services are more cost-effective than in-house services.³⁸

S&WB managers acknowledged that outsourcing the processing of payments received by mail was not a priority, and therefore they did not perform a cost-benefit analysis. As a result, the S&WB may have paid more processing mailed-in payments than it would cost to process payments through a bank lockbox.

The S&WB paid five employees approximately \$383,500³⁹ per year to process mailed-in payments, and the cost to process payments through a lockbox was approximately \$300,800.⁴⁰ Moving to a lock-box system could yield a total savings of \$82,700 per year. Additionally, those employees could be redeployed to provide other services to the S&WB.

³⁸ "Louisiana Legislative Auditor Checklist of Best Practices in Government," p. 9.

³⁹ \$229,000 in wages and \$154,500 in benefits.

⁴⁰ Based on an estimate from Capital One Bank.

RECOMMENDATION 4. MANAGERS SHOULD PERFORM A COST-BENEFIT ANALYSIS TO DETERMINE IF USING A LOCKBOX WOULD YIELD SAVINGS.

S&WB managers indicated that exploring operational efficiencies was not a priority when they rejected the idea of performing a cost-benefit analysis, a practice included in the LA Legislative Auditor's Checklist of Best Practices in Government. S&WB managers claimed that funds are not sufficient to meet their operational needs, and this is one example where S&WB managers missed an opportunity to make S&WB operations function more efficiently. Seeking operational efficiencies that could potentially save customers money should be a constant focus for S&WB managers.

Accounts were considered late if they were paid after the statement due date.⁴¹ S&WB’s “Rules and Regulations of the Sewerage and Water Board—General Information” required a 10 percent late charge to be assessed on all current amounts for any late account.⁴²

FINDING 5. THE CAM SYSTEM DID NOT ASSESS LATE FEES ON 23 PERCENT OF ACCOUNTS IN THE OIG SAMPLE THAT WERE PAID MORE THAN FOUR DAYS AFTER THE DUE DATE.

During the scope period, the CAM System generated 237 billing statements for the 96 accounts in the auditors’ sample.⁴³ Of those 237 billing statements, 31 billing statements were not paid four days after the due date. Seven of those 31 billing statements (23 percent) were not assessed late fees totaling \$85.⁴⁴

S&WB managers were unable to determine why the CAM System did not assess a late fee to the seven billing statements. Although the known error was insignificant, auditors were unable to determine the total likely error, which could be significant.

RECOMMENDATION 5. THE S&WB SHOULD REPLACE THE CAM SYSTEM WITH A RELIABLE BILLING AND COLLECTION SOFTWARE SYSTEM SO THAT LATE FEES ARE APPLIED PROPERLY.

The CAM System was supposed to add late fees automatically, and the unbilled late fees are another example of the CAM System’s unreliability.

⁴¹ The CAM System was programmed to allow for an additional four day grace period before automatically applying late charges. The S&WB established this grace period to allow for mail transit time.

⁴² *The Rules and Regulations of the Sewerage and Water Board of New Orleans – General Information*. September 14, 1994.

⁴³ Not all customers received three bills during the scope period because some customers opened and/or closed their accounts.

⁴⁴ Five of the customers made payments between five to seven days after the due date. Two of the customers did not make payments that month.

VIII. CONCLUSION

As of December 31, 2013, \$10.3 million of the S&WB's \$21.8 million in accounts receivable (47 percent) were delinquent. S&WB managers did not know which customers were included in those delinquent accounts because the CAM System could not provide a detailed aging report for any historical date. Its inability to generate a detailed aging report prevented managers from obtaining the information necessary to monitor and track the success of collection efforts on delinquent accounts effectively.

The CAM System also did not apply late fees to 23 percent of the past due billing statements tested, further demonstrating its unreliability. The S&WB should obtain a system that can provide historical and real-time detailed information to assist managers in decision-making and to improve receivables collection efforts.

S&WB employees were not aware of and did not adhere to their written delinquent collections policy, and the lack of their awareness of the policy likely contributed to an inefficient delinquent collections process. According to survey results from the Commercial Collection Agency Association, "the probability of full collection on a delinquent account drops dramatically with the length of delinquency." Given those results, S&WB's Service Rules and Regulations, last revised in 1994, should be updated to include procedures for delinquent accounts that reflect the fact that S&WB's ability to collect on delinquent accounts will diminish significantly over time. Written and updated policies should increase the likelihood that past due accounts are collected by ensuring the process moves as expeditiously as possible.

Inefficient payment processing practices led to potential unnecessary costs of more than \$80,000 per year. Instead of using employees to process payments on equipment from the 1980s, the S&WB should consider using a lockbox system and reassigning those employees to other areas within the S&WB.

The S&WB owed its customers approximately \$189,000, but the S&WB did not follow state law and notify its customers of their refund through certified mail. The S&WB should develop policies and procedures to ensure that customers are notified properly and given the option of claiming any potential refund.

Given charges for service of approximately \$158 million in 2014 and the annual 10 percent rate increases through 2020, it is essential that the S&WB establish adequate internal controls to collect and use its resources in the most cost effective way. Effectively designed and implemented internal controls will help managers achieve its mission to provide services and information at a reasonable cost.

APPENDIX A. 2014 GENERAL SERVICE RATES

Water Rates - Sewerage and Water Board of New Orleans

Water Rates

Effective Date: January 2014 ▼

Water Service Charge

The Water Service charge on your bill is calculated from your connection size. As long as the meter is installed, you will be billed the monthly service charge bill based on the billing chart shown. The charge is based on the costs the S&WB must pay even if you don't use any water. These costs include reading your meter each month, replacing your meter if it needs repair, maintaining adequate water pressure, etc. Since the S&WB must always be prepared to deliver water whenever a meter is installed, this part of your bill is sometimes called the "Ready to Serve" charge.

Service Type: General Service ▼

Meter Size (Inches)	Jan 2014
5/8	\$4.91
3/4	\$6.00
1	\$7.62
1 1/2	\$12.58
2	\$16.58
3	\$37.51
4	\$65.34
6	\$128.26
8	\$189.97
10	\$257.73
12	\$302.50
16	\$402.93

Water Quantity Charge

The Water Quantity charge on your bill is calculated on the amount of water you use each month. The volume of water used is listed on your bill along with the meter reading. Usage information is also shown for the previous month and last year at this time. This lets you see if your use of water is increasing or decreasing. The rates are based on the cost of treating the water that you use.

Usage	Jan 2014
First 3,000 gallons	\$3.26
Next 17,000 gallons	\$5.57
Next 980,000 gallons	\$4.38
Over 1,000,000 gallons	\$3.67

Wholesale Customers	Jan 2014
All Usage	\$3.50

Water quantity rates are billed per 1000 gallons of usage.

Water for Building, Paving, or Other Temporary Uses

The quantity charge for water delivered through temporary meters for use in building, paving, or other temporary processes is the same as our general service quantity charge. However, a minimum charge of \$199.21 per month is imposed which covers the use of up to 51, 200 gallons of water, and this must be paid in advance.

Sewer Rates

Effective Date: January 2014 ▼

Sewerage Service Charge

The Sewerage Service Charge on your bill is calculated from the size of your meter. As long as the meter is installed, you will be billed the service charge. The charge is based on the costs the S&WB must pay even if you don't use any sewer services. These costs include maintaining sewerage pipes, treatment plants, etc. Since the S&WB must always be prepared to treat wastes whenever a meter is installed, this part of your bill is sometimes called the "Ready to Serve" charge.

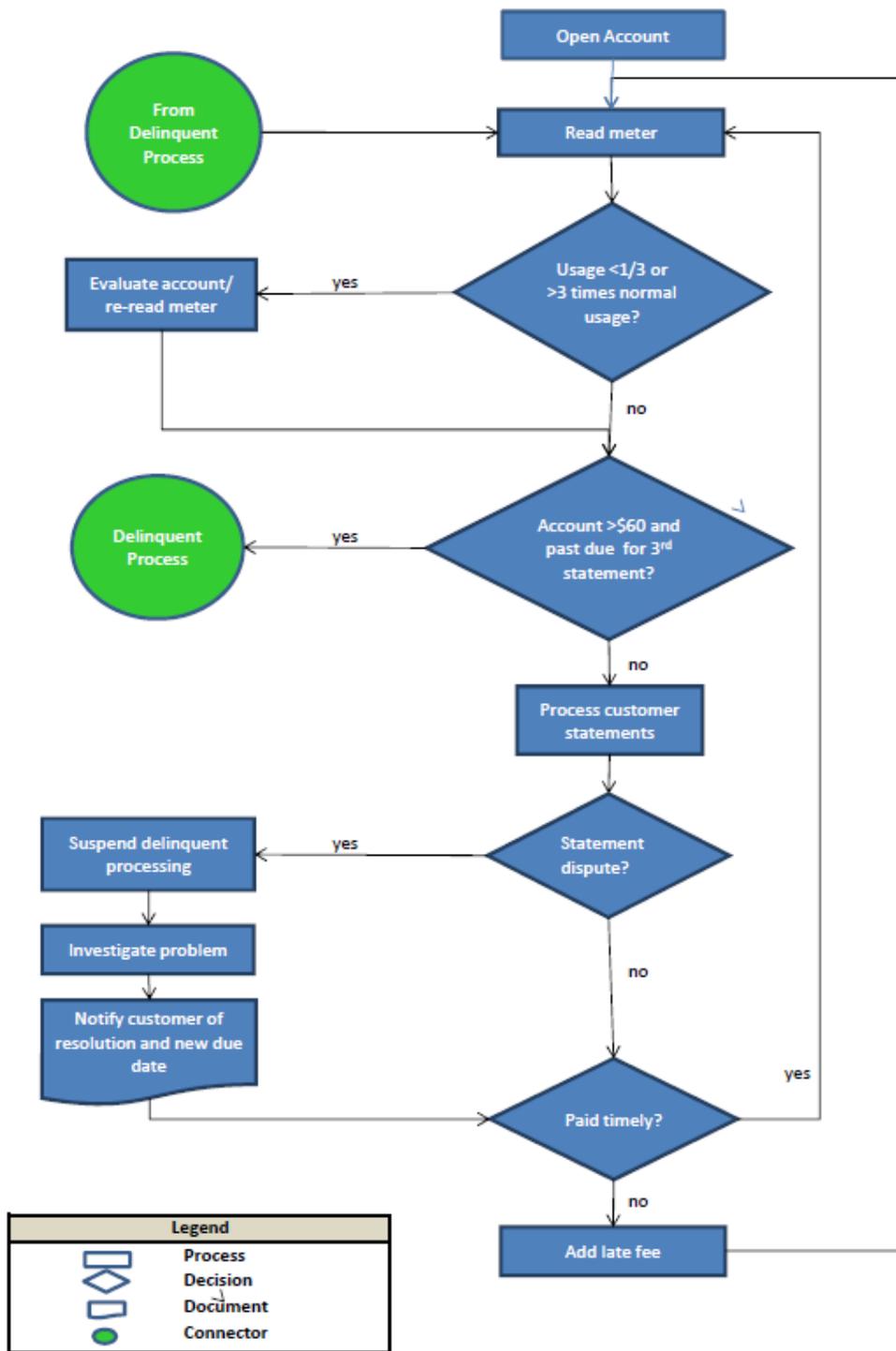
Meter Size (Inches)	Jan 2014
5/8	\$14.04
3/4	\$19.97
1	\$28.44
1 1/2	\$52.34
2	\$76.54
3	\$181.50
4	\$302.50
6	\$605.00
8	\$907.50
10	\$1,210.00
12	\$1,391.50
16	\$1,875.50

Sewerage Volume Charge

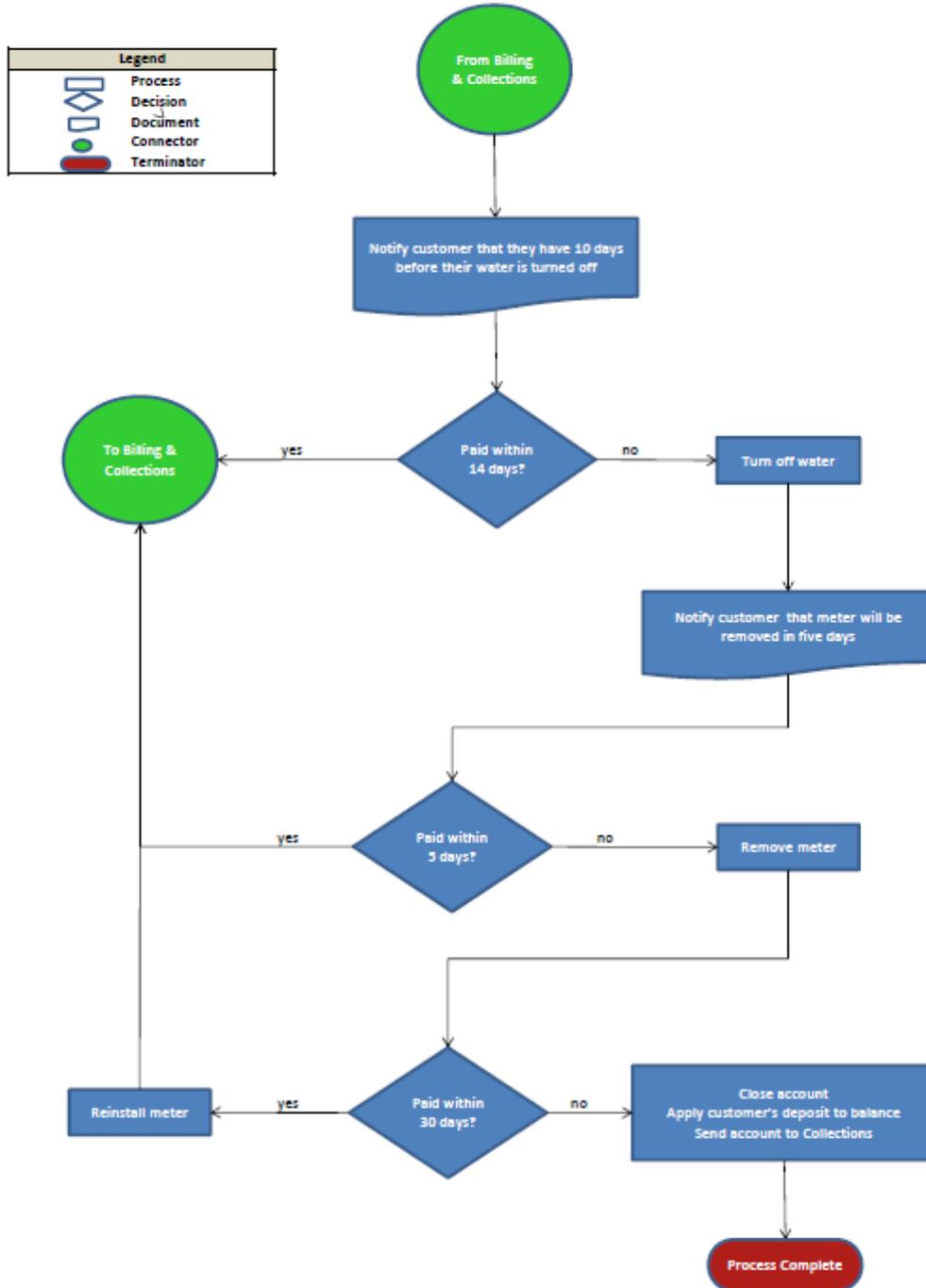
All Residential and Public Housing Class volume charges are applied to 85 percent of the metered consumption, allowing 15 percent of water use for lawn watering and other uses which contribute no flow to the sanitary sewer. Quantity charges for Commercial and Industrial Classes of Customers are based on 100% of metered water consumption. Water used from private wells or non-board sources and discharged to the sanitary sewer system will be metered and the consumption included in computing sewerage volume charges. Any customer who proves only a portion of the metered water usage is discharged to the sanitary sewer system is charged for only that portion of the total water quantity.

Volume	Jan 2014
Per 1,000 Gallons	\$4.88

APPENDIX B. FLOWCHART OF FEE COLLECTIONS PROCESS



APPENDIX C. FLOWCHART OF DELINQUENT ACCOUNT PROCESS



**APPENDIX D. EXPLANATIONS OF NOT APPLICABLE PROCEDURES BY
DELINQUENT ACCOUNT AS SHOWN IN FIGURE 2**

Customer #	Procedure # ⁴⁵							Explanations for N/A procedures
	1	2	3	4	5	6	7	
1	✓	✓	✓	✓	X	✓	X	
2	N/A	N/A	N/A	N/A	N/A	X	X	Customer closed the account before it was delinquent and began the delinquent process at Procedure 6 when the account remained unpaid.
3	✓	✓	N/A	N/A	N/A	N/A	N/A	Customer made payment; delinquency cancelled.
4	N/A	N/A	N/A	N/A	N/A	X	X	Customer closed the account before it was delinquent and began the delinquent process at Procedure 6 when the account remained unpaid.
5	N/A	N/A	N/A	N/A	N/A	X	X	Customer closed the account before it was delinquent and began the delinquent process at Procedure 6 when the account remained unpaid.
6	✓	✓	✓	✓	X	✓	X	
7	✓	✓	N/A	N/A	N/A	X	X	Customer closed the account before Procedure 3 and re-entered the delinquent process at Procedure 6 when the account remained unpaid.
8	✓	✓	✓	N/A	N/A	X	X	Customer closed the account before Procedure 3 and re-entered the delinquent process at Procedure 6 when the account remained unpaid.
9	✓	✓	N/A	N/A	N/A	X	X	Customer closed the account before Procedure 3 and re-entered the delinquent process at Procedure 6 when the account remained unpaid.
10	✓	✓	✓	✓	N/A	N/A	X	Customer closed the account before Procedure 5; customer did not have a deposit to apply to balance in Procedure 6; re-entered delinquent process at Procedure 7.
11	✓	✓	N/A	N/A	N/A	X	X	Customer closed the account before Procedure 3 and re-entered the delinquent process at Procedure 6 when the account remained unpaid.

Note: This table is continued on page 27.

⁴⁵ Refer to pages 10 and 11 for details of the procedures performed.

Customer #	Procedure # ⁴⁶							Explanations for N/A procedures
	1	2	3	4	5	6	7	
12	✓	✓	N/A	N/A	N/A	X	X	Customer closed the account before Procedure 3 and re-entered the delinquent process at Procedure 6 when the account remained unpaid.
13	✓	✓	✓	✓	X	✓	X	
14	✓	✓	N/A	N/A	N/A	N/A	N/A	Customer made payment; delinquency cancelled.
15	✓	✓	✓	✓	X	✓	X	
16	✓	N/A	N/A	N/A	N/A	N/A	N/A	Hydrant account - Procedures 2-5 do not apply to hydrant accounts; Procedures 6-8 are N/A and documented within Finding 2.
17	✓	✓	N/A	N/A	✓	X	X	Customer entered into a payment plan prior to Procedure 3; re-entered the delinquent process at Procedure 5 when a payment was missed.
18	✓	✓	N/A	N/A	N/A	X	X	Customer closed the account before Procedure 3 and re-entered the delinquent process at Procedure 6 when the account remained unpaid.
Total	0	0	0	0	4	10	15	X = Procedure not performed properly, exception noted.
Total	15	14	6	5	1	4	0	✓ = Procedure performed properly
Total	3	4	12	13	13	4	3	N/A = Procedure not applicable
Total	18	18	18	18	18	18	18	

⁴⁶ Refer to pages 10 and 11 for details of the procedures performed.

City Code section 2-1120(8)(b) provides that a person or entity who is the subject of a report shall have 30 days to submit a written explanation or rebuttal of the findings before the report is finalized, and that such timely submitted written explanation or rebuttal shall be attached to the finalized report.

An Internal Review Copy of this report was distributed on January 25, 2016, to the entities who were the subject of the audit in order that they would have an opportunity to comment on the report prior to the public release of this Final Report. Comments were received from the S&WB on February 24, 2016; these comments are attached.

OIG Comment on S&WB Response:

S&WB managers stated that they collect “more than 98.5% of its billed revenues... [which is] measured by the ratio of revenues collected after three years and revenues billed for that year.” However, their computational methods appear to be flawed. The Deputy Director informed auditors that “revenues billed” included water and sewer charges. However, “revenues collected” included water and sewer charges, late fees, and disconnection and reconnection fees. This method inflates the collection rate and could result in a collection rate in excess of 100%. The OIG requested the documentation to support the collection rate, but the Deputy Director did not provide the information. To accurately measure the collection rate, billings and collections should include the same components. After the S&WB implements its new billing system, the OIG will conduct a full year audit to determine the efficiency and effectiveness of the new system and to determine the collection rate.

S&WB managers also stated, “...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... .” However, when asked, the Deputy Director and two employees could not tell auditors which customers were included in the past due aging categories. The OIG contends that if managers and employees do not readily know which customers are delinquent, then they cannot know if they are pursuing collections efforts on all delinquent customers.

Finally, S&WB managers stated, "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." Auditors factored in the "grace period" during fieldwork. As disclosed in finding five, "the CAM System did not assess late fees on 23 percent of accounts in the OIG sample that were paid **more than four days** after the due date." The OIG emailed the exceptions to the Deputy Director, but he still disputed the finding.



"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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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