

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://nola.ig.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.