



# **Office of Inspector General**

**City of New Orleans**

## **A Performance Audit of the Sanitation Fees Collected by the Sewerage & Water Board**

**AR11PAU001**

**E.R. Quatrevaux  
Inspector General**

**Issued July 23, 2013**

**A Performance Audit of the Sanitation Fees Collected by the Sewerage & Water Board  
AR11PAU001**

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## EXECUTIVE SUMMARY

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Sanitation fees billed by the Sewerage and Water Board (S&WB) on behalf of the City of New Orleans (City) were \$20 million in 2010 and \$39.8 million in 2011. Sanitation customers of New Orleans paid \$16.9 million in 2010 and \$31.3 million in 2011, and left uncollected amounts of \$3.1 million in 2010 and \$8.5 million in 2011. The increase in billings and outstanding receivables was a result of a sanitation fee increase in January 2011. The sanitation fees collected by the S&WB were audited to verify the accuracy and completeness of sanitation charges and payments.

The audit revealed that the S&WB could not reproduce or locate billing records for the first six months of the audit period and that summary information of historical data could not be produced. Additionally, 35.6% of the sanitation customers had delinquent sanitation fees and the late fees applied to those accounts were under-billed 81.3% of the time for the sample tested.

As a matter of policy, the City could not terminate sanitation service to delinquent sanitation account holders; therefore, there were insufficient consequences for failing to make timely sanitation fee payments. The audit also found that the City did not receive the payments from the S&WB in the most efficient manner. Furthermore, the City did not perform an independent review of sanitation adjustments to determine if the adjustments were appropriate.

The current system is ineffective and should be changed or the City will fail to collect many millions of dollars in the coming years.

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

## I.OBJECTIVES, SCOPE, AND METHODOLOGY

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The objective of the audit was to evaluate the completeness and accuracy of the sanitation charges, payments received by the S&WB from customers, and sanitation payments made to the City from the S&WB.

This performance audit was conducted in accordance with the *Principles and Standards for Offices of Inspector General* (the Green Book<sup>1</sup>) and *Generally Accepted Governmental Auditing Standards* (GAGAS or the “Yellow Book”<sup>2</sup>).

To accomplish the audit’s objectives, the auditors:

1. Conducted interviews with S&WB personnel responsible for preparing bills and collecting payments from customers;
2. Conducted interviews with treasury personnel from the City who were responsible for making adjustments to sanitation customer accounts and receiving the payments from S&WB;
3. Obtained a listing of all S&WB customers from January 2010 through September 2011;
4. Selected customers from the listing (mentioned in # 3) and performed the following:
  - a. Obtained the customer’s activity for the audit period;
  - b. Determined if the proper sanitation rate was applied for each customer;<sup>3</sup>
  - c. Determined if the customer’s payments were properly applied to the customer’s account; and
  - d. Determined if S&WB remitted the proper amount to the City for sanitation fees collected.

A finding indicates a material or significant<sup>4</sup> weakness in controls or compliance that was not detected or corrected by the City of New Orleans in the normal course of performing its duties. Findings in a performance audit can be any one or a combination of the following:<sup>5</sup>

1. Significant deficiencies in internal control,
2. Fraud and illegal acts,
3. Violations of contract and grant agreements, and/or
4. Abuse.

This audit includes findings, observations, recommendations, and conclusions relating to the controls in place over sanitation billings and payment processing.

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<sup>1</sup> Published by the Association of Inspectors General, July 2007.

<sup>2</sup> Published by the General Accounting Office (GAO), July 2007 Revision.

<sup>3</sup> In January 2011, the sanitation rate per container changed from \$12 to \$24 for residential customers and from \$24 to \$48 for commercial customers.

<sup>4</sup> Significance is a “judgment call” by the auditor and is usually based upon the frequency and magnitude of the deficiency.

<sup>5</sup> General Accounting Office. (July 2007 Revision).Government Auditing Standards United States Government Accountability Office by the Comptroller General of the United States.

Computer-processed data was provided and relied on during testing which provided information on sanitation fees for the period of the report. Although a formal reliability assessment of the computer-processed data was not performed, the auditors determined that hard copy documents reviewed were reasonable and generally agreed with the information contained in the computer-processed data. No errors were found that would preclude us from using the computer-processed data to meet the report's objectives or that would change the conclusions in this report.

## II. FINDINGS FOR THE CITY

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### Finding #1

**Background:** Customers with complaints about their bills contacted the City's Bureau of Treasury to seek an adjustment. If the complaint was determined to be valid, the Bureau of Treasury posted an adjustment directly into the S&WB's billing system. The S&WB then sent the City a daily listing of the adjustments posted by each sanitation employee from the previous day. The employee assigned to review the adjustments was one of the three employees allowed to enter adjustments.

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

**Criteria:** "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."<sup>6</sup>

**Cause:** The City did not require a review of the sanitation adjustments.

**Effect:** The City's sanitation adjustments may not have been complete or accurate.

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

**City Comment:** *"... the Sanitation Unit within the Bureau of Treasury consists of a supervisor and two staff members. 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.*

*For adjustments which result in a refund to the customer, the refund is first reviewed by the supervisor, but then, in addition, is currently also reviewed in writing by management within the Bureau of Treasury, the Director of Finance, a member of the City Attorney's office and the Chief Administrative Officer.*

**OIG Comment:** *Every adjustment did not result in a refund to the customer; therefore, an employee who is independent of the adjustment process should review the adjustment listing.*

### Finding #2

**Background:** The S&WB sent billing statements to sanitation customers each month. Once the account became 120 days past due, the customer's sanitation account was sent to a collection agency for additional collection procedures.

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<sup>6</sup> Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999.

**Condition:** The City did not require the S&WB to produce a report by account holder identifying past due amounts by days overdue (an aging report) for sanitation customers.<sup>7</sup>

**Criteria:** Without sufficient detailed documentation of delinquent accounts, the City could not timely pursue delinquent sanitation fee customers. Insufficient effort to collect accounts receivable, as cited by the Louisiana Legislative Auditor, was a possible violation of Article VII, Section 14 of the Louisiana Constitution of 1974.<sup>8</sup>

Section 14 of Article VII of the Constitution provides that “funds, credit, property, or things of value of the State or of any political subdivision shall not be loaned, pledged, or donation to or for any person...” Providing services to customers and not requiring prompt payment for those services constituted a loan/ donation to the customer.

**Cause:** The S&WB’s software did not identify past due accounts by account holder and number of days overdue.<sup>9</sup>

**Effect:** The City was unable to collect efficiently for accounts that were less than 120 days past due.<sup>10</sup>

**Recommendation:** 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.

**City Comment:** *“...We disagree. In fact, we aggressively pursue delinquent sanitation fees with the tools at our disposal and have collected significant amounts from past due accounts. For example, during the period of audit, the City collected \$4.4 million in delinquent sanitation fees in 2010 and \$7 million in 2011.*

*To collect the delinquent sanitation fees, the City has an arrangement with S&WB to bill the sanitation fee monthly and when the account becomes 30 days delinquent, S&WB adds 15% to the bill. If the account reaches 60 and 90 days delinquent, S&WB mails to the customer a notice of past due amount. Finally at 120, days delinquent, the delinquent account is referred City's outside collection agency. Our outside collection agency regularly reports delinquencies to the credit reporting agencies, which is a significant collections tool... While the S&WB's collection system is not modern enough to produce true aging reports, the current process offers a cost-effective equivalent.*

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<sup>7</sup> A customer aging report shows each customer and the total balance owed, grouped by number of days past due. It also shows how much of the company’s overall receivables were contained in each of the groupings. These reports are used to determine what accounts to turn over to collection agencies as well as the magnitude of the uncollectable accounts.

<sup>8</sup> Louisiana Legislative Auditor’s Best Practices Checklist, pg.10.

<sup>9</sup> The City relied on the S&WB’s computer system for all sanitation fee related data.

<sup>10</sup> Past due accounts were turned over to a collection agency after 120 days.

*...We fully support the OIG's endorsement of the Mayor's proposal to have the S&WB, at some point in time, disconnect water services for those customers who do not pay. The city agrees that this additional legal authority is necessary as further improvements from the current collection level are unlikely without additional measures being available.*

**OIG Comment:** Audits report facts supported by corroborating evidence. This OIG report is not an endorsement of the Mayor's proposal.



### III.FINDINGS FOR THE S&WB

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#### **Finding #3**

**Background:** Of the 90 customer accounts tested, 32 (35.6%) customers had past due balances. The auditors examined the penalty amount for those past due accounts to determine whether the customers were charged the correct rate of 15% per month of the outstanding balance of the sanitation service charge.

**Condition:** Eighty-one percent (81.3%) of the 32 customers with past due balances were charged an incorrect penalty rate as outlined in the City Code.<sup>11</sup>

**Criteria:** “The sanitation service charge will become due on the due date of the water and/or sewerage bill. If not paid on or before due date, a 15 percent penalty will be added to the outstanding balance of the sanitation service charge.”<sup>12</sup>

**Cause:** The past due sanitation customers were charged a flat rate of \$1.80 per container<sup>13</sup> prior to January 2011 and \$3.60 per container after January 2011 regardless of the past due balance.

**Effect:** Customers with past due amounts were not charged the proper penalty rate. The customers tested were charged less than 1% of their past due balance instead of 15% as required per City Code.<sup>14</sup>

**Recommendation:** The sanitation service charge applied to customers’ sanitation bills should be adjusted retroactively to reflect the provisions of the City Code.

**S&WB Comment:** *“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. If the 15% penalty was charged based upon the outstanding total balance instead of the outstanding current balance, then the effective annual rate of the penalty would be over 435%, which is clearly inconsistent with the ordinance. Sewerage and Water Board affirms that the penalty fee for late payment of sanitation charges has been applied correctly.”*

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<sup>11</sup> City Code Section 138-57(b)(8).

<sup>12</sup> Id.

<sup>13</sup> Some customers’ bills contain multiple sanitation units.

<sup>14</sup> As this was not a statistical sample, the error rate could not be projected to the population. The past due balance of all sanitation customers of record on 9/30/2011 was over \$14 million as of 12/31/2011.

**City Comment:** *“The City disagrees with this finding and believes that the OIG has misinterpreted the penalty provision of the ordinance. The City has directed S&WB to assess a .15 percent late fee penalty on the outstanding current balance only. If the City applied a 15 percent per month penalty, the annualized rate would be over 400 percent—far exceeding legal limits on interest charges allowed for so-called pay-day loan companies, for example. That was clearly not the City Council's intention in setting the 15% penalty. Finally, the City follows a similar approach of adding penalties only once to other delinquent taxes or fines.*

**OIG Comment:** *The ordinance clearly stated “a 15 percent penalty will be added to the outstanding balance of the sanitation service charge.” The ordinance does not mention charging a penalty rate of 15 percent of the current outstanding balance. The ordinance also refers to the charge as a penalty, not interest. Furthermore, charging a 15 percent penalty on the outstanding balance (as the ordinance dictates) would provide greater consequences for past due customers to pay their sanitation bill.*

#### **Finding #4**

**Background:** The auditors requested a listing of payments made from customers between January 1, 2010 and September 30, 2011. The S&WB was only able to provide a listing of payments made from July 1, 2010 to September 30, 2011.

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

**Criteria:** The S&WB document retention policy 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).”<sup>15</sup> Retaining documents for three years is also required by state law.

**Cause:** The S&WB did not maintain all of the reports for three years as required by its document retention policy because of limitations of outdated computer software.

**Effect:** The S&WB payment records for the first six months of 2010 could not be audited.

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

**S&WB Comment:** *“Sewerage and Water Board management disagrees with this finding. Sewerage and Water Board affirmed at the exit conference on June 21, 2013 that documents related to sanitation fee billings are retained consistent with requirements in state laws and regulations and that the requested reports were available for review. Sewerage and Water Board was notified by email on June 28 that the Office of Inspector General was no longer willing to review the requested reports. Sewerage and Water Board requested that this decision be reconsidered, but received another email on July 1 that the Office of Inspector General was unwilling to meet on this matter.”*

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<sup>15</sup> Per Sewerage and Water Board of New Orleans Inter-Office Memorandum dated September 30, 1987.

**OIG Comment:** *The auditors originally requested these records on October 31 of 2011 and several times during first six months of the audit. The auditors were told consistently and repeatedly that the records between January 1, 2010 and June 30, 2010 were not available. At the exit conference, the S&WB suddenly indicated that records were in fact available. The auditors allowed S&WB an additional week after the exit conference to provide the additional records that were unavailable for the past nineteen months. The S&WB was unable to meet the stated deadline given at the exit conference. Exit conferences are not meant to receive documentation that was requested over nineteen months ago.*

#### **Finding #5**

**Background:** The auditors requested a listing of customers with past due balances as of the end of September 2011.<sup>16</sup> The S&WB was only able to provide the listing as of the end of October 2011<sup>17</sup> or the previous December.<sup>18</sup>

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

**Criteria:** “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).”<sup>19</sup>

Furthermore, the United States General Accounting Office stated that “all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination.... All documentation and records should be properly managed and maintained.”<sup>20</sup>

**Cause:** The S&WB’s 1980s computer system could not provide summarized historical data for any period other than at year-end. Hard copies were also unavailable for the same time period.

**Effect:** An internal control weakness was created by not properly managing and maintaining information for periods other than the current month or year-end.

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

**S&WB Comment:** *“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 Statment [sic] of Qualifications and in June 2013 for a new system to replace the existing Customer Account Management System.”*

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<sup>16</sup> The request was made in November 2011.

<sup>17</sup> The most recent month-end.

<sup>18</sup> S&WB’s year-end.

<sup>19</sup> Per Sewerage and Water Board of New Orleans Inter-Office Memorandum dated September 30, 1987.

<sup>20</sup> Obtained from the United States General Accounting Office *Standards for Internal Control in the Federal Government*, dated November 1999.

**OIG Comment:** If the system was “sufficient to meet all applicable records retention...standards” as stated, there would be no need to “issue a Request for Statment of Qualifications.”

## IV. OBSERVATIONS FOR THE CITY

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**Background Observation # 1:** As of December 31, 2011, 37.3% of the City's sanitation customers had past due sanitation fee balances. The City did not disrupt trash collection for delinquent customers because decomposing trash would attract insects, rodents, and other animals and create a health risk to its residents. The S&WB, however, did discontinue water services to customers with past due balances on the water bill. As a result, many customers paid their water bill in a timely manner yet failed to pay the sanitation fees timely.

**Observation #1:** The City did not terminate sanitation or water service to delinquent sanitation accounts; therefore there were insufficient consequences for delinquent account holders.

**Observation #2:** Sanitation fees collected by the S&WB were remitted 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.

## V. OBSERVATIONS FOR THE S&WB

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**Background Observation #3:** Per La. R.S. 42:1170A(3), all public servants were required to complete annual ethics training beginning January 1, 2012.

**Observation #3:** Routine fraud inquiries<sup>21</sup> with selected S&WB employees revealed that the S&WB did not require ongoing ethics training. In order to comply with the state law, all S&WB employees should be required to complete the free ethics training<sup>22</sup> available from the State of Louisiana on an annual basis.

**Observation #4:** The drop box safe used to drop off payments was not locked resulting in customers' payments that were not secured. Note: The lock was not broken, but remained unlocked.

**Observation #5:** According to S&WB personnel, the camera in the cashier area at the S&WB building has been broken for over two years.

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<sup>21</sup> For all audits performed, the auditors conducted an interview with the key personnel for that department and asked routine fraud related questions including how frequently ethics training courses were provided.

<sup>22</sup> The Louisiana Ethics Administration Program has a free one-hour online training program available that can be accessed at <http://204.196.0.55/EthicsTraining/login.aspx>.

## VI. CONCLUSION

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The Sewerage & Water Board's collection of the City's sanitation fee collections left \$8.5 million or 21.4% of the total owed to the City uncollected for 2011. This was an increase from the 15.5% uncollected in 2010, and suggests a potential deterioration in the payment compliance rate. More than a third of all accounts were delinquent, and the penalties for those accounts were under-billed 81.3% of the time.<sup>23</sup>

The findings show that the City did not take normal and prudent actions to ensure timely collections, and that the Sewerage & Water Board's automated systems were ineffective for this purpose.

The Sewerage & Water Board had insufficient incentives to collect sanitation fees. The City did not require termination of sanitation or water service to delinquent sanitation accounts; therefore there were insufficient consequences for account holders with delinquent accounts.

The current system is ineffective and must be changed or the City will fail to collect many millions of dollars in the coming years.

A follow-up review to determine the status of the findings in this report will be conducted in 2015.

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<sup>23</sup> Based on the sample tested.

## VII. OFFICIAL CITY & S&WB COMMENTS

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City Code Ordinance 2-1120 section (8)(b) “Prior to concluding an audit or evaluation report, which contains findings as to the person or entity which is the subject of the audit or evaluation, the Office of Inspector General shall provide the affected person or entity with an Internal Review Copy of the report. Such person or entity shall have 30 days from the electronic transmittal date of the report to submit a written explanation or rebuttal to the findings before the report is finalized, and such timely submitted written explanation or rebuttal shall be attached to the finalized report.”

An Internal Review Copy of this report was distributed to the Sewerage & Water Board of New Orleans and the City of New Orleans on June 6, 2013 to provide an opportunity to comment on the report prior to the public release of the Final Report. The comments were due on July 8, 2013. The S&WB’s comments were received on July 3, 2013 and the City’s comments were received on July 9, 2013. The City’s and the Sewerage and Water Board’s comments are included in the body of this report behind each finding and in its entirety behind this section.

Note: Responses were not requested for the observations in this report. Any responses to the observations can be viewed in the City’s and the S&WB’s responses in their entirety behind this section.



CHIEF ADMINISTRATIVE OFFICE  
CITY OF NEW ORLEANS

MITCHELL J. LANDRIEU  
MAYOR

ANDREW D. KOPPLIN  
FIRST DEPUTY MAYOR & CAO

July 9, 2013

Mr. Edouard Quatrevaux  
Inspector General  
City of New Orleans  
525 St. Charles Avenue  
New Orleans, LA 70130

RE: OIG Report on – A Performance Audit of the Sanitation Fees Collected by the  
Sewerage & Water Board

Dear Mr. Quatrevaux:

We are in receipt of the Office of Inspector General's "Performance Audit of the Sanitation Fees Collected by the Sewerage & Water Board." The Landrieu Administration has been focused on improving collections of taxes and charges for the past three years, having added auditors and revenue field agents to increase sales tax collection efforts, taken thousands more property tax delinquencies to tax sales, and increased significantly the pursuit of other scofflaws with unpaid traffic tickets or other municipal charges. The City welcomes the Inspector General's review of how sanitation service charges are collected and agrees wholeheartedly with the report's endorsement of the Mayor's proposal, made when he introduced the 2013 budget last October, that customers who fail to pay the City's bill for sanitation services sent to them by the Sewerage and Water Board should, at some point, be faced with a disconnection of their water services.

As referenced in the report, in 2010 the City collected \$16.9 million in sanitation charges. In 2011, collections grew to just over \$31 million as a result of an increase in the sanitation fee from \$12 per month to \$24 per month in early 2011. The full value of this change was realized in 2012 when collections grew by an additional \$2 million. For 2012, collections were over \$33 million. While we aggressively utilize the tools at our disposal, the City is not satisfied with this level of collection. That is why, as indicated above, the Landrieu administration proposed measures to strengthen collections further in the 2013 budget, and is currently working with the City Council and S&WB to implement similar measures during 2013.



**Finding No. 1. The City did not perform reconciliations of the sanitation payments received or the sanitation adjustments made.**

As discussed with the OIG's auditor, the Sanitation Unit within the Bureau of Treasury consists of a supervisor and two staff members. 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.

For adjustments which result in a refund to the customer, the refund is first reviewed by the supervisor, but then, in addition, is currently also reviewed in writing by management within the Bureau of Treasury, the Director of Finance, a member of the City Attorney's office and the Chief Administrative Officer.

**Finding No. 2. The City did not require a detailed listing of customers by age of delinquency.**

This finding suggests the City is making insufficient efforts to collect delinquent sanitation fees from customers. We disagree. In fact, we aggressively pursue delinquent sanitation fees with the tools at our disposal and have collected significant amounts from past due accounts. For example, during the period of audit, the City collected \$4.4 million in delinquent sanitation fees in 2010 and \$7 million in 2011.

To collect the delinquent sanitation fees, the City has an arrangement with S&WB to bill the sanitation fee monthly and when the account becomes 30 days delinquent, S&WB adds 15% to the bill. If the account reaches 60 and 90 days delinquent, S&WB mails to the customer a notice of past due amount. Finally at 120 days delinquent, the delinquent account is referred City's outside collection agency. Our outside collection agency regularly reports delinquencies to the credit reporting agencies, which is a significant collections tool. So the delinquent collections occur both before 120 days in some cases and after 120 days in others, thus showing that both the delinquent letters and the collection agency are effective tools. This collection system, with monthly delinquent letters and all delinquencies over 120 days being referred to an outside collections agency, achieves the goal of determining which accounts should receive letters and which should be turned over to a collection agency. While the S&WB's collection system is not modern enough to produce true aging reports, the current process offers a cost-effective equivalent.

Of course, as indicated earlier, we fully support the OIG's endorsement of the Mayor's proposal to have the S&WB, at some point in time, disconnect water services for those customers who do not pay. The city agrees that this additional legal authority is necessary as further improvements from the current collection level are unlikely without additional measures being available.

**Finding No. 3. Customers with past due balances were charged the incorrect penalty rate.**

The City disagrees with this finding and believes that the OIG has misinterpreted the penalty provision of the ordinance. The City has directed S&WB to assess a 15 percent late fee penalty on the outstanding current balance only. If the City applied a 15 percent per month penalty, the annualized rate would be over 400 percent—far exceeding legal limits on interest charges allowed for so-called pay-day loan companies, for example. That was clearly not the City Council's intention in setting the 15% penalty. Finally, the City follows a similar approach of adding penalties only once to other delinquent taxes or fines.

**Observation No. 1. There is no incentive for sanitation account holders to make payments timely.**

The city agrees that there are currently insufficient consequences for delinquent sanitation account holders. The Landrieu administration proposed measures to strengthen collections further in the 2013 budget, 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.

**Observation No. 2. An assertion made by the City Treasurer was unsupported by evidence.**

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.

Thank you for the report and for the opportunity to respond.

Sincerely,



Andrew D. Kopplin  
First Deputy Mayor and Chief Administrative Officer  
City of New Orleans

Cc: Emily Arata, Deputy Mayor of External Affairs, City of New Orleans  
Norman Foster, Chief Financial Officer, City of New Orleans  
Sharonda Williams, City Attorney, City of New Orleans



"RE-BUILDING THE CITY'S WATER SYSTEMS FOR THE 21<sup>ST</sup> CENTURY"

# Sewerage & Water Board OF NEW ORLEANS

MITCHELL J. LANDRIEU, President  
WM. RAYMOND MANNING, President Pro-Tem

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July 3, 2013

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 Performance Audit of the Sanitation Fees Collected by the Sewerage and Water Board

Dear Inspector General Quatrevaux:

Enclosed herewith please find Sewerage and Water Board Management's Response to a Performance Audit of the Sanitation Fees Collected by the Sewerage and Water Board dated July 1, 2013. This response utilizes the standard format employed by Sewerage and Water Board to track all audit findings and recommendations since 2010.

With best regards,

Marcia A. St. Martin  
Executive Director

cc: Norman Foster, City of New Orleans



Sewerage and Water Board of New Orleans  
Tracking Tool for Audit Findings and Recommendations  
June 2013

Item	Source	Finding	Recommendation	Management Response	Status
A.	A Performance Audit of the Sanitation Fee Collected by Sewerage & Water Board / Office of Inspector General	<p><b>Finding 3:</b> Customers with past due balances were charged the incorrect penalty rate. <b>Background:</b> Of the 90 customer accounts tested, 32 (35.6%) customers had past due balances. The auditors examined the penalty amount for those past due accounts to determine whether the customers were charged the correct rate of 15% per month of the outstanding balance of the sanitation service charge. <b>Condition:</b> Eighty-one percent (81.3%) of the 32 customers with past due balances were charged an incorrect penalty rate. <b>Criteria:</b> "The sanitation service charge will become due on the due date of the water and/or sewerage bill. If not paid on or before due date, a 15 percent penalty will be added to the outstanding balance of the sanitation service charge." <b>Cause:</b> The past due sanitation customers were charged a flat rate of \$1.80 per container prior to January 2011 and \$3.60 per container after January 2011 regardless of the past due balance. <b>Effect:</b> Customers with past due amounts were not charged the proper penalty rate. The customers tested were charged less than 1% of their past due balance instead of 15% as required per ordinance.</p>	The sanitation service charge applied to customers' sanitation bills should be adjusted retroactively to reflect the proper rate.	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 <i>current</i> balance in accordance with previous direction provided by the City of New Orleans based upon their understanding of the intent of the ordinance. If the 15% penalty was charged based upon the outstanding <i>total</i> balance instead of the outstanding <i>current</i> balance, then the effective annual rate of the penalty would be over 435%, which is clearly inconsistent with the ordinance. Sewerage and Water Board affirms that the penalty fee for late payment of sanitation charges has been applied correctly.	No further action required.
B.	A Performance Audit of the Sanitation Fee Collected by Sewerage & Water Board / Office of Inspector General	<p><b>Finding 4:</b> The Sewerage &amp; Water Board (SW&amp;B) was unable to provide a listing of payments from customers between January 10, 2010 and June 30, 2010. <b>Background:</b> The auditors requested a listing of customers with past due balances as of the end of September 2011. The S&amp;WB was only able to provide a summarized listing as of the end of October 2011 or the previous December. <b>Condition:</b> The S&amp;WB was unable to provide a listing of payments made from customers between January 10, 2010 and June 20, 2010. <b>Criteria:</b> The S&amp;WB document retention policy required that "All departments should retain records for a period of at least three (3) years as allowed in L.S.A.- R.S. 44:36 (A)." Retaining documents for three years is also required by state law. <b>Cause:</b> The S&amp;WB did not maintain all of the reports for three years as required by its document retention policy because of limitations of outdated computer software. <b>Effect:</b> The S&amp;WB payment records for the first six months of 2010 could not be audited.</p>	All records should be maintained for at least three years as required by state law.	Sewerage and Water Board management disagrees with this finding. Sewerage and Water Board affirmed at the exit conference on June 21, 2013 that documents related to sanitation fee billings are retained consistent with requirements in state laws and regulations and that the requested reports were available for review. Sewerage and Water Board was notified by email on June 28 that the Office of Inspector General was no longer willing to review the requested reports. Sewerage and Water Board requested that this decision be reconsidered, but received another email on July 1 that the Office of Inspector General was unwilling to meet on this matter.	No further action required.
C.	A Performance Audit of the Sanitation Fee Collected by Sewerage & Water Board / Office of Inspector General	<p><b>Finding 5:</b> The S &amp;WB' s computer system is outdated and could not provide summarized historical data for any period other than at year-end. <b>Background:</b> The auditors requested a listing of customers with past due balances as of the end of September 2011. The S&amp;WB was only able to provide the listing as of the end of October 2011 or the previous December. <b>Condition:</b> The S&amp;WB did not maintain historical documentation. <b>Criteria:</b> "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)." Furthermore, the United States General Accounting Office stated that "transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination...All documentation and records should be properly managed and maintained". <b>Cause:</b> The S&amp;WB's computer system is outdated and could not provide summarized historical data for any period other than at year-end. <b>Effect:</b> An internal control weakness was created by not properly managing and maintaining information for periods other than the current month or year-end.</p>	The S&WB should consider replacing its' computer system with one that is able to provide historical data for periods other than current month or year-end or maintain paper records until the system is replaced.	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 Statment of Qualifications and in June 2013 for a new system to replace the existing Customer Account Management System.	No further action required.

D.	A Performance Audit of the Sanitation Fee Collected by Sewerage & Water Board / Office of Inspector General	<b>Observation 3:</b> Per La. R.S. 42:1170A(3), all public servants were required to complete annual ethics training beginning January 1, 2012. Routine fraud inquiries with selected S&WB employees revealed that the S&WB did not require ongoing ethics training. In order to comply with the state law, all S&WB employees should be required to complete the free ethics training available from the State of Louisiana on an annual basis.	Sewerage and Water Board management disagrees with this observation and believes that the Office of Inspector General has misinterpreted the responses on what ethics training has been provided. Sewerage and Water Board affirms substantial compliance with this statute with more than 87 percent of employees received this formal training in 2012 consistent with the referenced.	No further action required.
E.	A Performance Audit of the Sanitation Fee Collected by Sewerage & Water Board / Office of Inspector General	<b>Observation 4:</b> The drop box safe used to drop off payments was not locked resulting in customers' payments that were not secured. Note: The lock was not broken, but remained unlocked.	Sewerage and Water Board management disagrees with this observation, as a uniformed New Orleans police officer or security guard is present at all times at this location. In addition, the drop box has since been replaced and is kept locked.	No further action required.
F.	A Performance Audit of the Sanitation Fee Collected by Sewerage & Water Board / Office of Inspector General	<b>Observation 7:</b> According to S&WB personnel, the camera in the cashier area at the S&WB building has been broken over two years.	Sewerage and Water Board management agrees with this observation and has initiated a project to replace the camera in the Cashiers area.	Completion of project to install the camera in the Cashiers area by December 31, 2013.