

August 22, 2017

Mitchell J. Landrieu, Mayor
City of New Orleans
1300 Perdido Street
New Orleans, LA 70112

City Council
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New Orleans, LA 70112

Re: Sewerage and Water Board

Dear Mayor Landrieu and City Councilmembers,

The Sewerage & Water Board's huge operating budget and multi-billion dollar capital program ***makes it as financially significant as the rest of city government combined.*** Given its financial significance and its vital mission, it is of great concern that some workers regularly engage in theft and abuse, and its managers have been far too comfortable with mediocre performance.

In a letter to the Mayor in [July 2012](#), I questioned whether the Sewerage & Water Board (S&WB) had the capacity to manage the influx of more than \$2 billion in additional FEMA funds and cited the OIG risk assessment, numerous media reports of managerial and operational shortcomings, failure to correct material weaknesses cited in an independent audit of the S&WB, and the Board's meddling in procurements as supporting evidence.

A [July 2013](#) OIG audit of S&WB's sanitation fee collection reported that the S&WB failed to collect \$8.5 million in 2011 fees. Auditors also noted that 35.6 percent of the accounts were delinquent and that the S&WB was unable to produce billing records for the first six months of the audited period.

In [August 2015](#) OIG auditors reported over \$4.5 million paid to employees in violation of Civil Service rules: the S&WB paid \$3 million to employees who worked more than the allowable limit of 416 overtime hours per year, and \$1.5 million in standby pay to employees who also used their time for personal purposes, a practice which likely violated the state constitution's prohibition on the donation of public funds. The report cited S&WB's failure to enforce its controls on overtime. In response, the S&WB requested the City Council to increase the annual allowed overtime from 416 to 750 hours.

An [October 2015](#) OIG administrative investigation reported that the S&WB spent \$394,388 to fuel and repair take-home vehicles in 2014. The expenditures were difficult to justify given that 45 percent of employees with take-home car privileges lived outside Orleans Parish and would be unable to respond quickly to an emergency. The report cited S&WB's failure to enforce its policies intended to control the use of take-home vehicles. In response, the S&WB eliminated the controls.

A [December 2015](#) IG letter to members of the S&WB reported that some expense reimbursements from January 2013 through June 2014 appeared to violate the state

constitution's prohibition on the donation of public funds. The letter cited 120 "employee recognition" checks totaling \$12,000 and \$2,000 spent on food and beverages for a charity event. OIG auditors also identified more than \$3,000 on expense reimbursements without proper documentation. The letter cited failure to enforce S&WB controls over such expenditures.

A [March 2016](#) OIG audit of S&WB's collection of water and sewerage fees for January through March 2014 showed that 47 percent of S&WB's \$21.8 million accounts receivable balance was more than 90 days delinquent. The audit noted that S&WB employees and managers were not even aware that there was a collections policy. Auditors also reported that the automated billing system did not add late fees on 23 percent of late accounts and that the S&WB failed to return \$189,000 in customers' unclaimed deposits and overpayments.

An [August 2016](#) OIG follow-up report on the collection of sanitation fees found that the uncollected fees had dropped from \$8.5 million in 2011 to \$7 million in 2014. But the S&WB had not improved controls to ensure the validity of fee adjustments totaling \$1.4 million.

In [August 2016](#) the OIG issued a letter to the City Council opposing legislation that increased the overtime pay annual limit from 416 hours to 750 hours, an 80 percent increase. The S&WB spent more than \$9.4 million on overtime, more than three times Jefferson Parish's overtime expenditures. The letter noted the lack of internal controls over payroll and said, "**Please be advised that there is a very high risk of payroll fraud at S&WB.**" The Council voted 7-0 to approve the additional overtime.

In [December 2016](#), the OIG reported the results of an investigation into thefts of 34,000 pounds of brass parts over three years by S&WB employees. The value of the stolen brass topped \$500,000. In **July 2017** the OIG reported that the District Attorney's Office issued warrants for nine more S&WB employees.

The OIG has shown the S&WB internal control system to be ineffective and revealed S&WB managers' indifference to preventing and reducing waste. The years-long wholesale theft of brass parts by S&WB employees provides proof of the S&WB's high risk of fraud and theft. Multiple ongoing OIG investigations are uncovering additional instances of fraud and theft.

The recent drainage failures demonstrate that an organization cannot perform poorly in finance and administration yet perform well in operations. It was why I had the OIG evaluate the S&WB's water quality testing after the news surfaced about Flint. The OIG's evaluation of the S&WB's water quality testing will be released in October.

It is logical to consider how the many problems of the S&WB might be solved by organizational restructuring. From a theoretical view, there is a continuum from city control on one end to privatization at the other. But what is the S&WB now? It is not a city department but an independent entity that is legally impervious to city controls. The S&WB sits halfway down the continuum from city control to privatization, neither fish nor fowl.

The fundamental problem with the Sewerage & Water Board is that it is an institution impervious to change—it has ossified. Its celebrated independence permitted decades of technological progress to bypass the S&WB. Fees or millages increased when the inefficiencies could not be

paid with current funds. The problem is structural, and the passing characters—mayors, directors, members of the S&WB—almost irrelevant.

A turnaround in such an organizational culture would be very difficult to achieve: the S&WB must be replaced with a modern organizational structure, one that ***makes elected officials responsible for the organization's performance***.

The state legislature created the present day Sewerage & Water Board in 1903 with the merger of the Drainage Commission and the then Sewerage & Water Board. The current S&WB was created outside of city government, a move motivated in good part by a desire to avoid the corruption of city government. A June 7, 1899 *Picayune* article reported the prevailing sentiment in no uncertain terms:

The election yesterday was a grand victory. ... [The] secondary proposition, ... the question of the appointment or the election of the sewerage commissioners, was emphatically decided in favor of their appointment. This shows the taxpayers have little faith in the promises of the politicians. ... They would rather intrust the responsibility of naming these important officials to one man ... than to a set of machine politicians¹

It is ironic that the same issue reemerges 114 years later in proposals for an entity even further distanced from city government. However, the problem is that ***the S&WB is too independent of the City and its voters***. The recent decades have seen a transfer-of-wealth program that unburdened ratepayers and taxpayers of their money, often for the purpose of financing excessive employee benefits: a 4 percent S&WB contribution rate for employee pensions; gifts of jewelry at holiday parties; pay for 26 hours of work in a 24-hour day, take-home cars and/or trucks for employees not required to perform emergency services, and free breakfast for employees. These are the consequences of an organization removed from political control and the scrutiny of voters.

Boards can only be effective when they are informed through a vigorous internal audit program that reports directly to the Audit Committee of the Board. It is the most important corporate control and provides the Board with independent confirmation of information it receives from management; without it, corporate boards are victims of management's selective reporting.

The S&WB's existing internal audit function produced a few reports each year, but they lacked both rigor and completeness. For example, an "audit" of billings sampled 20 accounts but did not mention whether they were random or representative. In addition, there was no documented annual risk assessment or plan of engagements based on that assessment, both of which are required by the *International Standards for the Professional Practice of Internal Auditing*. Yet the S&WB's Audit Committee found such deficient internal auditing acceptable.

A few years ago the Mayor implemented changes in the S&WB's composition. However, the mayor's legal authority did not expand: the mayor's only authority was to call meetings and vote

¹ "Sewerage Succeeds, With It Drainage, Plenty of Pure Water, [illegible] Parks and Other Improvements Needed," *Picayune*, June 7, 1899, <http://infoweb.newsbank.com/resources/user/login?destination=doc/nb/image/v2%3A1223BCE5B718A166%40EANX-1228CA37F69A2A28%402414813-1226DD64F959E668-125FDAE56C4BBD4E%3Fp%3DAMNEWS>.

like other members of the Board. It was hoped that when the Mayor appointed a protégé as executive director the Mayor would gain some degree of control, but in practice that control did not materialize. In any event, it is not an adequate substitute for executive authority.

In my [July 2012](#) letter to the Mayor, I wrote:

I urge you to consider moving this entity [S&WB] into City Hall as a department so that management processes and the Chief Administrative Officer's oversight can rein in waste and abuse ... [eliminate] redundant expenses and [improve] coordination of street repairs among City entities. Such a change would involve considerable legal and political challenges, but the potential benefits to citizens are great.

After five years of OIG reports that confirmed the S&WB's poor performance and wasteful and inefficient practices, I close today's letter with the same recommendation: New Orleans needs to return the S&WB to city control; the Sewerage & Water Department should report to the mayor like all the other departments. Oversight can then be improved through policy and citizens dissatisfied with the S&WB could complain at the polls when they received poor services.

Legislative changes at the state and local level, as well an amendment to the City Charter would be necessary in order to eliminate the S&WB and establish a Sewerage and Water Department. However, the outcome would likely be well worth the effort. ***There is no risk in changing the status quo because independence has failed miserably for most of a century.***

Sincerely,



E.R. Quatrevaux