

# Annual Work Plan

## 2019

September 1, 2018



Derry Harper Esq., CIG

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## I. INTRODUCTION

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This Annual Work Plan of the City of New Orleans Office of Inspector General (OIG) covers the period from September 1, 2018, to August 31, 2019.

Pursuant to the City Charter, the enabling Ordinance and applicable professional standards and consistent with our vision and mission, the OIG undertakes a planning process that identifies goals, priorities, and strategies while effectively using available resources. Work planning is a cyclical process by which OIG staff assess the performance of city departments and component entities and examine their operational methods, in order to adjust the OIG work plan to reflect a changing environment.

The Annual Work Plan sets forth the results of a preliminary risk assessment process. The purpose of this document is to communicate OIG priorities and strategies this year to the public, the Mayor, City Council, the Ethics Review Board, and all interested parties.

### MISSION OF THE OFFICE OF INSPECTOR GENERAL

The mission of the OIG is to promote accountability, integrity, and efficiency in city government operations by deterring and detecting fraud, waste, and abuse. We do so by conducting audits, inspections, evaluations, and investigations. Our reports, findings, and recommendations are provided to the public, the Ethics Review Board, the Mayor, the City Council, and all interested parties. Reports of fraud or misconduct that may warrant criminal prosecution are referred to the appropriate federal, state, or local law enforcement agencies.

The City Ordinance that established the OIG created a unique structural and operational independence from the City's Executive and Legislative branches while encouraging working with these entities in a cooperative manner. The Ethics Review Board appoints the Inspector General and provides periodic oversight but has no operational authority over the OIG. The ordinance encourages the OIG to work cooperatively with the Ethics Review Board. This framework provides the public with a reasonable assurance that our activities are conducted in an objective and independent manner.

### VISION OF THE OFFICE OF INSPECTOR GENERAL

To *preserve the public trust* is our vision. This statement describes who we are and reinforces the OIG's commitment to the citizens of New Orleans and to the

community as a whole. To fulfill this vision we must meet the highest standards of professional and ethical conduct in all activities and work products. For ten years the OIG has worked to demonstrate we deserve the trust the citizens placed in the reports and findings we produced. It is now our task to continue to improve every day the in the performance of our duties and responsibilities. We shall do so by focusing on the task each day in order make a positive difference in the lives of the people we serve.

## II. RISK ASSESSMENT

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The purpose of a systematic risk assessment is to guide the OIG in setting priorities and the in selection of projects. Conducting a risk assessment benefits the public because it ensures that taxpayer resources are spent on projects that are needed the most.

### ASSESSMENT CATEGORIES

In 2018, the OIG developed a new risk assessment framework to take a fresh look at city government operations.

The new OIG risk assessment framework starts with the budget and number of budgeted positions at city departments, agencies, and programs under OIG jurisdiction. The risk assessment then considers these entities in four categories: money at risk, operational risk, internal knowledge of problems, and the risk inherent to the organization and citizens.

#### **DOLLARS AT RISK**

This category considers the likelihood of insolvency or financial instability within an organization, as well as the risk of fraud, waste, or corruption. It also includes an assessment of the risk that the physical assets of the entity are not adequately managed, maintained, or safeguarded, costing taxpayers money.

#### **OPERATIONAL RISK**

This category considers the prospect of deficiencies in the entity's operations that could result in inefficiencies or liabilities for taxpayers. It contemplates the risk that the agency is not complying with laws, regulations, or professional standards; that the agency has improper or insufficient management and oversight; and that the agency lacks updated, well-documented policies and procedures to achieve the agency's mission. It also assesses the risk that the entity does not have the right people in the right places with the right skills to fulfill the entity's purpose. It further considers the risk of technological failures within an organization.

#### **INTERNAL KNOWLEDGE**

This category allows for general consideration of tips to OIG about potential fraud, waste, and abuse; media reports that suggest dysfunction; and the existence of

audits with negative findings about the organization. It prompts auditors and evaluators to look deeper when there are known problems at an entity.

### **INHERENT RISK / PUBLIC IMPACT**

This category contemplates the external events that could impose change on an organization's operations, focus, priorities, or workload, such as a political change, legislative change, court decision, new regulations, or a natural disaster.

It also allows the OIG to consider what essential services an organization provides to the public, and the impact or consequences of a failure in a critical area. Issues of concern to the public are issues of concern to the OIG. For example, if the Sewerage & Water Board is unable to power its drainage pumps, that is a core failure of the S&WB's responsibility to manage drainage in the city. Such a failure exposes homes and businesses to property damage, puts people at risk, and harms the economy and quality of life in the city, so the S&WB would rank high in this category of the OIG risk assessment.

### **ENTITIES / ISSUES IDENTIFIED**

In the fourth quarter of 2018, auditors and evaluators will begin conducting a risk assessment of major city entities using the new framework. It is the first time that the OIG has conducted a citywide risk assessment since 2011. Based on preliminary interviews and data collection, the OIG has identified the following areas for further inquiry:

#### **THE SEWERAGE & WATER BOARD OF NEW ORLEANS (S&WB)**

The Sewerage & Water Board is the largest city governmental body outside of City Hall as defined by the City's Comprehensive Annual Financial Report (CAFR). According to the S&WB's 2018 operating budget, the water utility has \$234 million in operating revenue and \$302 million in operating expenses, leaving the S&WB with a projected operating loss of \$68 million. Meanwhile, the S&WB has about \$3.2 billion in assets, according to its most recent CAFR, and has a \$3.2-billion ten-year capital improvement program.

Managing such a large entity is a formidable task, yet the S&WB faces challenges on multiple fronts. The entity has had serious difficulties finding enough qualified people to fill vacancies just as the organization's management and maintenance challenges have increased. Public confidence in the S&WB was seriously eroded after the city flooded in strong rainstorms in July and August 2017, and citizens

discovered that S&WB leadership did not warn the public that the turbines powering the city's drainage pumps were not operating at full capacity. Five executive directors have led the S&WB since last August, and the agency endured large accelerated or unplanned expenditures to fix its drainage and electrical problems, according to S&WB procurement records. Our assessment found that the S&WB's policies, procedures, and internal controls in several areas are outdated or deficient, harming the S&WB's effectiveness.

Meanwhile, after the installation of new billing software in October 2016, the S&WB recorded more than 26,000 billing disputes and experienced a drop in revenue when people stopped paying their bills, according to S&WB testimony at public meetings. The S&WB asked for a 90-day extension to complete work on its 2017 CAFR because it was unable to determine how much money its customers owed, according to interviews with the S&WB. The uncertainty about the state of the S&WB's finances also delayed its ability to issue new revenue bonds for capital projects, according to news reports about the S&WB's finance committee meeting in July.

Taking all these factors into account, the S&WB faces significant risks in all categories in the OIG risk assessment.

## **THE DEPARTMENT OF PUBLIC WORKS**

The Department of Public Works (DPW) is responsible for maintaining 1,547 miles of streets, as well as bridges, catch basins, and drainage lines, according to the transition documents prepared for the Cantrell Administration. It is a large city department with a \$53.1 million budget, 193 workers, and many contractors, according to the transition documents and the 2018 Adopted City Budget. The DPW plans to spend \$1.4 billion on capital improvements between 2018 and 2021, according to the city budget.

Nonetheless, the DPW has challenges fulfilling its central mission, and many streets are in poor condition. Funding for street maintenance is grossly insufficient, creating the risk that newly paved streets will fall again into disrepair, according to a report by the Bureau of Government Research. The DPW lacks experienced people to run the ambitious and complex \$2.3-billion Roadwork NOLA infrastructure repair program, and the DPW and S&WB have had trouble coordinating street and drainage repairs, according to the transition documents.

The DPW experienced management turnover in the past year after the former Deputy Mayor in charge of infrastructure and former Director of DPW departed after the August floods. Two interim directors have followed.

In recent years, the DPW has also taken on an expanded revenue generation role through its Parking Management and Traffic Camera Safety programs, according to OIG interviews with city officials. Both programs also require management of outside contractors.

The DPW also ranks high on the OIG risk assessment because of the critical nature of the services it provides and vulnerabilities with regard to finances, physical assets, management, internal processes, and staffing.

### **CITY OF NEW ORLEANS REVENUE COLLECTION AND FINANCIAL MANAGEMENT**

The Department of Finance collects taxes and fees, manages the procurement of goods and services, and handles most financial management for the City of New Orleans. It is also a large department with a budget of \$62.3 million and 116 employees, according to the 2018 Adopted City Budget.

Approximately 34 percent of the City's general fund revenue, or \$219.7 million, derives from sales taxes, according to the city budget. City officials told OIG that historically, the Department of Finance did not have a "red flag" system for identifying businesses that may be underreporting their revenues, creating a risk that the City may not be collecting all of the sales taxes that are properly owed to it.

The Finance Department is implementing a new computer system known as the Enterprise Resource Planning System (ERP) that will consolidate many financial management functions and replace five antiquated computer systems, according to city documents about the ERP. If the implementation goes well, the City will be better able to budget and manage its resources, identify problems in tax collection and other areas, and operate more efficiently. However, implementing the ERP is a massive transition that requires software conversions and employee training, and such transitions have not always been effective.

The Finance Department ranks high on the OIG risk assessment because of the critical nature of its work, the tremendous opportunity for improvement, and the risks associated with such a major computer conversion.



## **CORRUPTION**

Fraud and corruption are perennial concerns at the City of New Orleans. The City has a well-documented history of corruption. A lack of internal controls, insufficient processes and outdated technology at many departments and agencies create opportunities for fraud. The City's decentralized structure with more than 100 outside boards and commissions also creates the potential for a lack of accountability and transparency in these silos.

## III. PROJECTS

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The projects listed below implement the OIG’s strategy and are intended to mitigate the risks identified in the assessment. The OIG’s work involves the evaluation of city programs and operations; doing so requires examining and reporting on the effectiveness of policy as implemented.

Association of Inspectors General Green Book standards note that analyzing government operations and programs includes “making recommendations to improve programs, policies, or procedures.”<sup>1</sup> These standards require that auditors and evaluators identify the root cause of deficiencies reported as findings and the impact of those deficiencies.

In some cases, an improperly implemented policy may result in inefficient or ineffective operations. In these instances, OIG staff examine the policy to recommend improvements in policy design and implementation.

The schedule of activities will be reviewed and modified as circumstances warrant during 2019.

### **ACTIVITIES UNDERWAY OR STARTING IN 2019**

Projects may be delayed due to the carryover of projects or actions beyond the control of the OIG, such as delays in receiving requested documents or turnover at the agencies under review.

#### **THE SEWERAGE & WATER BOARD**

*\*Starting in 2019. Completion date unknown.*

- Audit of Billing & Collections\*
- Audit of Internal Audit Function
- Audit of Inventory\*
- Audit of Payroll\*
- Evaluation of the Billing Dispute Resolution Process (March 2019)

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<sup>1</sup> Association of Inspectors General, “Quality Standards for Inspections, Evaluations, and Reviews by Offices of Inspector General,” *Principles and Standards for Offices of Inspector General* (New York: Association of Inspectors General, 2014), 33, <http://inspectorsgeneral.org/files/2014/11/AIG-Principles-and-Standards-May-2014-Revision-2.pdf>.

## **THE AUDUBON COMMISSION AND AUDUBON NATURE INSTITUTE**

- Audit of Purchase Cards & Expense Reimbursements (November 2018)
- Audit of Payroll (December 2018)
- Audit of Disbursements (December 2018)

## **THE DEPARTMENT OF FINANCE**

- Audit of the Enterprise Resource Planning System (ERP)\*

## **THE DEPARTMENT OF PUBLIC WORKS**

- Audit of Catch Basin Cleaning and Maintenance Contracts (March 2019)
- Evaluation of Automated Traffic Enforcement (February 2019)

## **TOURISM**

- Aviation Board Construction Fraud Deterrence Program—Investigations Division, ongoing
- French Quarter Citizen Reporting Initiative—Investigations Division, ongoing

## **PUBLIC CORRUPTION**

- Conduct Fraud Awareness seminars for employees and contractors—Investigations Division, ongoing
- Conduct investigations and refer evidence to appropriate prosecutors—Investigations Division, ongoing

## IV. QUALITY ASSURANCE AND QUALITY CONTROL

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The OIG is an oversight organization. Its mission is accomplished primarily through audits, evaluations, inspections, investigations, and other fact-finding and reporting activities.

### QUALITY ASSURANCE

Every three years, a team of investigators, auditors, and/or evaluators from other inspector general offices comes to New Orleans to review the work performed by the OIG. The goal of this triennial peer review team is to determine if the OIG performed its work according to OIG policies and procedures, meets established professional standards of performance, and carries out its work economically, efficiently, and effectively. The external peer review process is critical to the OIG's overall program of quality assurance, and provides the citizens of New Orleans a level of confidence that all OIG activities adhere to the highest standards of professional conduct.<sup>2</sup>

In June 2018, the Association of Inspectors General (AIG) conducted a triennial peer review of the New Orleans Office of Inspector General Audit Division (AD), Investigations Division (ID), and Inspections and Evaluations Division (I&E). The peer review team evaluated the work of the three divisions from January 1, 2015, through December 31, 2017. The peer review team assessed the work of the Audit Division to determine if it complied with Generally Accepted Government Auditing Standards (Yellow Book) issued by the U. S. Government Accountability Office (GAO). The peer review team also assessed the work of the Investigations and the Inspections and Evaluations divisions to determine if each division complied with the AIG Principles and Standards for Offices of Inspector General (Green Book).

The peer review team concluded unanimously that all three divisions “met all relevant AIG and GAO standards for the period under review.”<sup>3</sup> The peer review

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<sup>2</sup> Quality assurance is an “evaluative effort conducted by sources external to the units/personnel being reviewed to ensure that the overall work of the OIG meets [professional standards].” Association of Inspectors General, “Quality Standards for Inspections, Evaluations, and Reviews by Offices of Inspector General,” *Principles and Standards for Offices of Inspector General* (New York: Association of Inspectors General, 2014), 22, <http://inspectorsgeneral.org/files/2014/11/AIG-Principles-and-Standards-May-2014-Revision-2.pdf>.

<sup>3</sup> AIG Peer Review Opinion Letter, Team Leader Flora Tran to Inspector General Derry Harper, June 11, 2018.

team also provided management with ten areas of distinction that highlighted the efficiency and effectiveness of existing policies and procedures.

## **QUALITY CONTROL**

The OIG developed the following goals, objectives, and strategies to ensure that our work adheres to the highest standards of professional conduct and to ensure we achieve our mission.

### **GOAL # 1: TO PREVENT AND DETECT FRAUD, WASTE, AND ABUSE**

*Objective 1: To educate citizens of New Orleans, managers, and those charged with governance on how to prevent and detect fraud, waste, and abuse.*

#### **STRATEGIES:**

- Conduct Fraud Awareness seminars.
- Conduct seminars with publicly funded boards based on the OIG's Handbook for Boards and Commissions.
- Continue meeting with businesses as part of the OIG's French Quarter Initiative.

*Objective 2: To provide continuous monitoring over contracts and other activities to deter fraud, waste, and abuse.*

#### **STRATEGIES:**

- Conduct cyber-based analyses to identify potential fraud indicators.
- Screen new procurements exceeding \$100,000 in value.
- Monitor high-risk City contracts.
- Conduct investigations into allegations or indications of fraud and abuse, and refer credible evidence of fraud or abuse to prosecutors and city officials, as appropriate.
- Provide fraud deterrence activities for the construction of the new terminal at Louis Armstrong International Airport until it opens in 2019.

## **GOAL # 2: TO FOCUS OIG ACTIVITIES ON THE RIGHT ISSUES AT THE RIGHT TIME**

*Objective 3: To ensure that OIG resources are directed to the issues of greatest concern and that the most important projects are selected for review.*

### **STRATEGIES:**

- Develop an annual work plan based on assessed risks for the universe of City of New Orleans and its component and satellite entities.
- Assign resources according to priorities identified in the risk assessment.
- Complete projects in a timely manner to provide relevant and timely reports.

## **GOAL # 3: TO PROVIDE CREDIBLE AND ACCURATE REPORTS**

*Objective 4: To ensure that projects are performed by independent staff to achieve objectives in accordance with professional standards.*

### **STRATEGIES:**

- Remain organizationally Independent as established by the City Charter.
- The IG certifies independence before commencing projects and in final reports.
- Staff members are required to attest to their personal independence on each project.

*Objective 5: To ensure that the OIG staff possesses sufficient knowledge and skills to achieve the objectives of OIG projects.*

### **STRATEGIES:**

- Staff are required to meet continuing professional education requirements.
- The OIG requires its employees to have advanced degrees, prior work experience, and/or nationally recognized certifications for employment.

*Objective 6: To ensure that the OIG develops and implements methodology in accordance with professional standards, and the methodology is appropriate to achieve objectives.*

**STRATEGIES:**

- The OIG developed policies and procedures to ensure a high level of quality control for each project. Quality control procedures include proper planning and supervision throughout each phase of the project.
- Policies and procedures are communicated to all employees.

**GOAL # 4: TO COMMUNICATE COMPLETE AND ACCURATE REPORTS TO THE CITIZENS OF NEW ORLEANS, MANAGERS, AND/OR THOSE CHARGED WITH GOVERNANCE**

*Objective 7: To involve managers and/or those charged with governance in all phases of projects.*

**STRATEGIES:**

- Communicate findings or other information with managers and/or those charged with governance throughout the project to encourage corrective action.
- Inform decision makers of findings, identify underlying causes of reported problems, and work with decision makers to develop recommendations that serve as a basis for corrective action.

*Objective 8: To ensure that OIG reports meet all form and content expectations established by city ordinance and professional standards.*

**STRATEGIES:**

- Reports contain all information required by city ordinance and professional standards.
- Reports are clear and concise and encourage corrective action.
- Reports are distributed to citizens of New Orleans, managers, and/or those charged with governance.