

**Sewerage & Water Board of New Orleans**

**Internal Audit Department  
Performance Follow-up Audit**

Final Report • August 19, 2021



**OIG NEW ORLEANS OFFICE OF  
INSPECTOR GENERAL**

Edward Michel, Interim Inspector General



August 19, 2021

Re: Sewerage & Water Board of New Orleans Internal Audit Department Follow-up Audit

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

Edward Michel  
Interim Inspector General

**TABLE OF CONTENTS**

**EXECUTIVE SUMMARY ..... 2**

**I. FOLLOW-UP RESULTS ..... 5**

**II. OBJECTIVES, SCOPE, AND METHODOLOGY ..... 13**

**LIST OF FIGURES**

**FIGURE 1. IMPLEMENTATION STATUS OF CORRECTIVE ACTIONS..... 4**

In August 2019, the Office of Inspector General (OIG) issued a report titled “Sewerage & Water Board of New Orleans Internal Audit Department Performance Audit” (2019 Report).<sup>1</sup> The OIG conducted a follow-up audit to its 2019 Report. The objective of the follow-up audit was to determine if the Sewerage and Water Board of New Orleans (S&WB) implemented the OIG’s recommendations from the 2019 Report and/or implemented other policies or procedures to resolve the OIG’s findings.

From January 1, 2020 through May 31, 2021, the S&WB Internal Audit Department (Department) and the S&WB Audit Committee (Audit Committee) made some improvements.

The OIG found that the Department:

- Revised the Internal Audit Charter to require the Chief Audit Executive (CAE) to report functionally to the Audit Committee and administratively to the Executive Director. As a result, the OIG did not find any instances of interference from S&WB management during the scope period. The Audit Committee approved the revised Internal Audit Charter at their June 10, 2020 meeting.
- Revised the Audit Committee Charter to require the Audit Committee to review and concur on the appointment, replacement, reassignment or dismissal of the CAE. The Audit Committee is expected to approve the revised Audit Committee Charter at the September 2021 meeting.
- Revised the Internal Audit Manual in 2021. The Audit Committee is also expected to approve the revised Internal Audit Manual at the September 2021 meeting.
- Procured electronic audit software and was working with a consultant to complete system configuration and to conduct staff training sessions.
- Increased staff training. Department staff attended weekly meetings and local Institute of Internal Auditors (IIA) chapter monthly meetings to discuss IIA Standards and other best practices. The Chief Auditor also conducted individual staff trainings to review IIA Standards.

---

<sup>1</sup> The 2019 audit report is available on the OIG’s website: <http://www.nolaoig.gov/reports/all-reports/s-wbno-internal-audit-department-performance-audit>.

The OIG found that the S&WB also attempted to appoint a CAE. S&WB management requested that the Civil Service Commission (Commission) approve an unclassified CAE position. The Commission rejected their request in 2019 but approved a classified CAE position. The S&WB appealed the decision and hired a temporary contractor to serve as the CAE while the Commission considered the appeal. The S&WB terminated the temporary contractor's contract in June 2020, and the Commission rejected the appeal in July 2020. Since then, the Chief Auditor served as the Department head and the Board has no current plans to appoint a CAE in the approved classified position.

Despite these changes, many of the OIG's recommendations were not implemented. The OIG found that the Audit Committee and/or the S&WB Board of Directors (Board) did not:

- Meet at least quarterly as required by the Audit Committee Charter because two of the four Audit Committee meetings were cancelled.
- Attend any formal training sessions on IIA Standards in 2020 due to COVID-19.<sup>2</sup>
- Educate S&WB personnel as to the Department's organizational placement and authority.

The OIG also found that the Department did not:

- Develop an annual risk assessment or an annual audit plan.
- Communicate its performance relative to any audit plan to the Audit Committee.
- Develop or implement an internal or external quality assurance and improvement program.
- Prepare or include any planning documents as part of the audit file.
- Prepare workpapers that included sufficient supporting documentation and/or information to support the engagement's results and conclusions.
- Communicate resource requirements to the Audit Committee.

---

<sup>2</sup> LaPorte CPAs and Business Advisors prepared a brief presentation on internal controls and presented the information at the November 10, 2020 Audit Committee meeting.

Figure 1 below summarizes the implementation status of the OIG’s recommended corrective actions.

**FIGURE 1.** Implementation Status of Corrective Actions.

Corrective Action	Implementation Status	Anticipated Implementation Date
1A	Pending Implementation	September 2021
1B	Unable to Implement	N/A
1C	Not Implemented	Ongoing
1D	Not Implemented	Ongoing
1E	Pending Implementation	September 2021
1F	Not Implemented	Ongoing
1G	Not Implemented	Ongoing
2A	Not Implemented	Ongoing
2B	Fully Implemented	N/A
3	Not Implemented	Ongoing
3A	Not Implemented	Ongoing
3B	Pending Implementation	September 2021
3C	Fully Implemented	N/A
3D	Pending Implementation	Ongoing
4	Not Implemented	Ongoing

## I. FOLLOW-UP RESULTS

---

The OIG conducted a follow-up audit to its 2019 report titled “Sewerage and Water Board of New Orleans Internal Audit Department Performance Audit”. During interviews with OIG auditors, S&WB personnel described the corrective actions taken and provided supporting documentation where appropriate. The OIG’s four findings, the associated recommendations, and the status of the S&WB’s corrective actions are detailed below.

During the follow-up audit, OIG auditors did not observe or test the implementation of new procedures and/or policies. Therefore, the OIG made no determination of their effectiveness, which would require a full performance audit of the Department.

### **Prior Finding 1: Independence and Objectivity**

S&WB management interfered with Department operations. Specifically, the Department lacked independence from S&WB management because of an improper reporting structure and a lack of oversight by the Audit Committee.

### **Prior OIG Recommendation 1A:**

The Board should restructure the organizational placement of the Department to ensure the CAE of the internal audit activity reports functionally to the Audit Committee and administratively to the Executive Director.

### **Status of Corrective Action 1A: Pending Implementation.**

The Department revised the Internal Audit Charter and restructured the organizational placement of the Department so that the CAE reports functionally to the Audit Committee and administratively to the Executive Director. The Audit Committee approved the new Internal Audit Charter on June 10, 2020. In 2021, the Board and the Department revised the organizational chart to reflect the organizational restructuring as documented in the revised Internal Audit Charter. The Audit Committee is expected to approve the revised organizational chart at its September 2021 meeting.

The Department revised Internal Audit Policy Memorandum 35, and the Audit Committee approved this revised memorandum at its June 10, 2020 meeting. However, the OIG noted the document stated that the CAE “is responsible to the Audit Committee directly via Executive Management”, which was the same improper reporting structure noted in the 2019 Report. The Audit Committee is expected to revise this policy so that it is consistent with the revised Internal Audit

Charter and organizational chart. The Audit Committee is expected to approve the revised Internal Audit Policy Memorandum 35 at its September 2021 meeting.

**Prior OIG Recommendation 1B:**

The Board should amend the By-laws to allow the Board to appoint a CAE. The By-laws should also include information on terms for removal and remuneration.<sup>3</sup>

**Status of Corrective Action 1B: Unable to Implement.**

The OIG found that the Board last revised and amended the By-laws on August 19, 2015. The S&WB advised the OIG that the Board could not amend the By-laws to allow the Board to appoint/remove a CAE or determine remuneration because the Commission rejected the S&WB's request to create an unclassified CAE position as noted in Corrective Action 1C. However, the Department revised the Audit Committee Charter in 2021 to require the Audit Committee to review and concur on the appointment, replacement, reassignment or dismissal of the CAE. As noted above, the Audit Committee is expected to approve the revised Audit Committee Charter at its September 2021 meeting.

**Prior OIG Recommendation 1C:**

The Board should appoint a CAE and determine remuneration, based on established qualifications and relevant employment experience.

**Status of Corrective Action 1C: Not Implemented.**

S&WB requested approval for an unclassified CAE position from the Commission. The Commission rejected their request in 2019. However, they approved a classified CAE position.<sup>4</sup> The S&WB appealed this decision and hired a temporary contractor to serve as the CAE while the Commission considered the appeal. The S&WB terminated the temporary contractor's contract in June 2020, and the Commission rejected the appeal in July 2020. Since then, the Chief Auditor served as the Department head and the Board has no current plans to appoint a CAE in the approved classified position.<sup>5</sup>

---

<sup>3</sup> Remuneration is also known as compensation or money paid for work or a service.

<sup>4</sup> The classified position provides an employee with Civil Service protection from unjustified dismissal and allows the employee the right to appeal termination.

<sup>5</sup> Civil Service practices and protections for classified positions do not align with IIA Standards which state, "Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board: Approving decisions regarding the appointment and removal of the chief audit executive. Approving the remuneration of the chief audit executive."

**Prior OIG Recommendation 1D:**

The Audit Committee should obtain the collective knowledge of the IIA Standards to ensure it is fulfilling its responsibilities to the Department.

**Status of Corrective Action 1D: Not Implemented**

The Audit Committee did not attend any formal training sessions on IIA Standards during the year ended December 31, 2020, due to the ongoing pandemic. However, LaPorte CPAs and Business Advisors prepared a brief presentation on internal controls and presented this information at the November 10, 2020 Audit Committee meeting.

**Prior OIG Recommendation 1E:**

The Audit Committee should review the S&WB Internal Audit Charter, the S&WB Audit Committee Charter, and all policies pertaining to the Department to ensure compliance with IIA Standards. If the Audit Committee notes instances of non-compliance, it should revise the necessary components as appropriate.

**Status of Corrective Action 1E: Pending Implementation.**

The Department revised the Internal Audit Charter, which was approved by the Audit Committee at their June 10, 2020 meeting. The Department also revised the Audit Committee Charter and Internal Audit Manual in 2021. The Audit Committee is expected to approve the revised Audit Committee Charter and revised Internal Audit Manual at its September 2021 meeting.

**Prior OIG Recommendation 1F:**

The Audit Committee should appropriately and continually govern the Department to ensure its full compliance with the IIA Standards and the S&WB Internal Audit Charter. Specifically, the Audit Committee should: (1) review and approve the risk-based internal audit plan and the Department budget and resource plan; (2) receive communications from the CAE on the internal audit activity's performance relative to its plan and other matters; and (3) make appropriate inquiries of management and the CAE to determine if there are inappropriate scope or resource limitations.

**Status of Corrective Action 1F: Not Implemented.**

The Department did not develop an annual risk assessment or an annual audit plan. As such, the Department could not communicate its performance relative to any audit plan to the Audit Committee. However, the Chief Auditor spoke with the Audit Committee Chairperson to receive feedback about goals and/or initiatives

of the Department. The OIG also found that the Audit Committee did not meet at least quarterly as required by the S&WB Audit Committee Charter. The Audit Committee met twice, once on June 10, 2020 and again on November 10, 2020. The Audit Committee meetings scheduled for February 11, 2020, May 12, 2020 and August 11, 2020 were cancelled.

According to Department personnel, communications between the Department and management did not include a discussion of the Department's resource requirements because the Chief Auditor was still assessing what resources the Department needed.

#### **Prior OIG Recommendation 1G:**

The Audit Committee should communicate and provide awareness training to S&WB personnel to ensure they understand the organizational placement of the Department, and the full scope of the audit activity's purpose, authority, and responsibility, including unrestricted access to records, personnel, and physical properties relevant to the performance of engagements without management interference.

#### **Status of Corrective Action 1G: Not Implemented.**

The S&WB Audit Committee Chair and the Chief Auditor advised the OIG that the Audit Committee did not provide any awareness training to S&WB personnel. Although executive management did not interfere with the Department's operations, S&WB employees were not always cooperative or willing to provide requested information to the Department.

#### **Prior Finding 2: Annual Risk Assessment and Audit Plan**

The Department did not develop and document a risk assessment, which would have enabled the Department to assess organizational risks, prioritize internal audits, and focus auditing efforts on those areas that would provide the most impact on the S&WB's operations.

#### **Prior OIG Recommendation 2:**

The Board should appoint an experienced CAE to, among various duties, ensure that a documented risk assessment methodology is used to create the annual audit plan. An experienced CAE should:

- Consider the adequacy and effectiveness of S&WB governance, risk management, and control processes. **(Corrective Action 2A)**

- Consider the input of senior management and the Audit Committee during the risk assessment process. **(Corrective Action 2A)**
- Communicate the Department’s plans and resource requirements, including significant interim changes, to senior management and the Audit Committee for review and approval. **(Corrective Action 2A)**
- Provide training to Internal Audit staff to ensure they possess the collective knowledge to conduct audits in accordance with IIA Standards. **(Corrective Action 2B)**

**Status of Corrective Action 2A: Not Implemented.**

As noted in Corrective Actions 1C and 1F, respectively, the S&WB did not appoint a CAE, and the Department did not develop an annual risk assessment or an annual audit plan. However, the Department advised the OIG that audits were selected based on concerns which were sent to them by management and the Audit Committee. According to the Department, there is no plan to conduct an entity-wide risk assessment as required by IIA Standards or to develop a risk-based annual audit plan.

As noted in Corrective Action 1F, communications between the Department and the Audit Committee did not include a discussion of the Department’s resource requirements because the Chief Auditor was still assessing what resources the Department needed.

**Status of Corrective Action 2B: Fully Implemented.**

Per discussion with the Chief Auditor, the Department conducted individual staff trainings to review IIA Standards. Additionally, Department staff attended weekly staff meetings and local IIA chapter monthly meetings to discuss IIA Standards and other best practices.

**Prior Finding 3: Engagement Planning, Performance and Reporting**

The Department did not document an engagement plan for each audit, nor did it develop and document engagement work programs or work papers to support the results and conclusions in its work product as required by IIA Standards and the

S&WB Internal Audit Manual. The Department also did not document evidence of engagement supervision.

### **Prior OIG Recommendation 3:**

The Board should appoint an experienced CAE to ensure their audit work encompasses all aspects of engagement planning, performance, and appropriate supervision. **(Corrective Action 3)** Additionally, the CAE should:

- Develop and implement policies for the Department as well as provide input to the Executive Director to develop organization-wide policies to ensure internal controls are implemented and operating effectively. **(Corrective Action 3A)**
- Review and approve the S&WB Internal Audit Manual to ensure it complies with IIA Standards. **(Corrective Action 3B)**
- Provide training to Internal Audit staff to ensure they possess the collective knowledge to conduct audits in accordance with IIA Standards and understand the audit procedures documented in the S&WB Internal Audit Manual. **(Corrective Action 3C)**
- Procure automated audit software and/or use relevant electronic means to promote efficiencies in audit operations, facilitate document creation, and reflect compliance with agency records retention requirements. **(Corrective Action 3D)**

### **Status of Corrective Action 3: Not Implemented.**

As noted in Corrective Action 1C, the S&WB did not appoint a CAE. The Department staff did not prepare or include any planning documents as part of the audit file. Although the S&WB auditors developed an audit program and included auditing procedures, the procedures were vague and not clear as to how the engagement objectives were achieved. There was no evidence that the audit program was approved prior to its implementation or that any adjustments were approved.

The testing workpapers lacked sufficient supporting documentation and/or information to (1) support the engagement results and conclusions and (2) show that the engagement objectives were achieved.

The engagement documentation showed evidence of supervision via initials within the work papers, but there were no dates indicating when the work papers were prepared or reviewed. As demonstrated above, the workpapers did not comply with IIA Standards or the Internal Audit Manual. Due to the lack of dates

and supporting documentation, the OIG auditors concluded the S&WB internal audit function did not provide adequate or effective supervision.

**Status of Corrective Action 3A: Not Implemented.**

The Department did not implement any new internal or organization-wide policies or procedures since the 2019 Report.

**Status of Corrective Action 3B: Pending Implementation.**

The Department updated its Internal Audit Manual in 2021. The Audit Committee is expected to approve the updated manual at its September 2021 meeting.

**Status of Corrective Action 3C: Fully Implemented.**

As noted in Corrective Action 2B, the Department conducted individual staff training sessions to review IIA Standards. Additionally, Department staff attended weekly staff meetings and local IIA chapter monthly meetings to discuss IIA Standards and other best practices.

**Status of Corrective Action 3D: Pending Implementation.**

The Department procured electronic audit software and was working with a consultant to complete system configuration and to conduct staff training sessions.

**Prior Finding 4: Quality Assurance and Improvement**

The Department did not develop and implement a quality assurance and improvement program that covered all aspects of the internal audit activity, including internal and external assessments.

**Prior OIG Recommendation 4:**

The Board should appoint an experienced CAE to properly develop and implement a quality assurance and improvement program that complies with IIA Standards.

- Internal assessments must include ongoing monitoring of the performance of the internal audit activity, as well as periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of IIA standards.
- Once the quality assurance and improvement program is established, the CAE should obtain an external assessment of the Department at least every five years.
- The CAE should communicate the results of internal and external assessments, including any instances of nonconformance with the

standards and the potential impact, to senior management and the Audit Committee.

**Status of Corrective Action 4: Not Implemented.**

As noted in Corrective Action 1C, the S&WB did not appoint an experienced CAE. The OIG also found that the Department neither developed nor implemented quality assurance and improvement program that included both internal and external assessments as required by IIA Standards. The Chief Auditor advised the OIG that she was in the process of developing a program.

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

---

The OIG conducted a follow-up audit to its 2019 report titled “Sewerage & Water Board of New Orleans Internal Audit Department Performance Audit.” The objective of the follow-up audit was to determine if the S&WB implemented the OIG’s recommendations from the 2019 Report and/or implemented other policies or procedures to resolve the OIG’s findings.

The original scope period of the follow-up audit was January 1, 2020 through December 31, 2020 and included a review of the Department’s policies and procedures, risk assessments, audit plans, work papers and their associated reports, and communications with S&WB senior management and the Audit Committee. During fieldwork, the OIG found that the Department updated several policies in 2021; therefore, the OIG expanded the scope period to May 31, 2021 to include all policy and procedure updates in the follow-up audit.

To accomplish the objectives, OIG auditors performed the following procedures:

- Conducted interviews with Department personnel and the Audit Committee Chairperson;
- Reviewed the Department’s reporting structure to determine compliance with the IIA Standards;
- Requested and/or reviewed Department risk assessments, audit plans, work papers completed in 2020 and their associated reports;
- Reviewed the Audit Committee meeting minutes and Audit Committee Charter; and
- Reviewed the Internal Audit Charter and the S&WB Internal Audit Manual.

OIG auditors did not obtain or rely on any computer-processed data for this audit; therefore, OIG auditors did not assess the reliability of computer-processed data.

### **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.