

OFFICE OF INSPECTOR GENERAL
CITY OF NEW ORLEANS



ED QUATREVAUX
INSPECTOR GENERAL

December 9, 2015

New Orleans Sewerage & Water Board
625 Saint Joseph Street, Room 237
New Orleans, LA 70165

Dear Members of the Sewerage and Water Board:

The Office of Inspector General (OIG) conducted a performance audit of the Sewerage & Water Board's (S&WB) expense reimbursements and advances to employees and members of the S&WB Board of Directors for the period January 1, 2013 – June 30, 2014. The audit was performed to determine if controls over reimbursements and advances were properly designed and operating effectively.¹

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.² This audit was also conducted in accordance with the *Principles and Standards for Offices of Inspector General*.³ 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.

The auditors did not note any significant findings during the performance audit. However, the auditors did note some observations for your consideration. The purpose of this public letter is to communicate those observations. Observations are deficiencies in internal controls, noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse, which were not significant to the objectives of the engagement but warrant your attention.

¹ The S&WB did not have any active publicly-funded credit cards during the period tested.

² *Government Auditing Standards, Chapter 7.30*; U.S. Government Accountability Office, 2011 Revision.

³ "Quality Standards for Audits by Offices of Inspector General," *Principles and Standards for Offices of Inspector General* (Association of Inspectors General, 2014).

During the performance audit, the OIG auditors conducted interviews with S&WB managers and personnel to gain an understanding of S&WB policies and procedures. Auditors also selected a sample of expenses and obtained supporting documentation to verify the expenses were paid in accordance with applicable laws, rules, and policies.

Total advances and reimbursements to S&WB employees and members of the S&WB Board of Directors totaled \$195,039 for the period tested. To accomplish the objectives, a random sample of 60 advances and reimbursements to employees, with a confidence level of 90% and tolerable error of 7%, was selected from the total population using ActiveData.⁴ Additionally, ten employee reimbursements were selected using auditor judgment. Because the entire sample was not selected randomly, the errors could not be projected to the population.

OBSERVATION 1. THE S&WB PAID \$14,000 TO EMPLOYEES THAT MAY HAVE BEEN IN VIOLATION OF THE LOUISIANA CONSTITUTION.

Auditors noted 120 checks, totaling \$12,000, were issued to S&WB employees for annual employee recognition.⁵ Additionally, the S&WB spent \$2,000 for food, beverages, and decorations for a 2013 S&WB United Way fundraiser, for which there was no public purpose related to the S&WB's mission.

S&WB managers were not aware that either expense may have violated the Louisiana Constitution's prohibition on the donation of public funds.⁶

The Louisiana Constitution states, "funds, credit, property, or things of value of the state or of any political subdivision shall not be loaned, pledged, or donated to or for any person, association, or corporation, public or private."⁷ The Louisiana Attorney General has, "consistently opined that the payment of a bonus or any other gratuitous, unearned payment to public employees is prohibited by ... the Louisiana Constitution... ." ⁸ Additionally, "the Attorney General has historically opined that in general, the payment or reimbursement for food, drink, or the expenses associated with luncheons, banquets, parties or similar functions, from public funds, is improper under La. Const. Art. VII, Sec. 14."⁹

⁴ ActiveData is a data analytics tool.

⁵ Fifty-five S&WB employees were paid \$100 each (totaling \$5,500) for annual employee recognition for 2013. Another sixty-five S&WB employees were paid \$100 each (totaling \$6,500) for annual employee recognition for 2012.

⁶ La. Constitution. Art. VII, §14.

⁷ Ibid.

⁸ La. AG Opinion Number 03-0254.

⁹ La. AG Opinion Number 03-0387.

S&WB managers should become familiar with the types of payments that are forbidden by the Louisiana Constitution. Managers should also seek an Attorney General Opinion before making incentive payments to employees, associations, or corporations (public or private). Obtaining an Attorney General Opinion would ensure that payments are not pledged, donated, or otherwise unearned in violation of the Louisiana Constitution, and payments are in compliance with other applicable laws, rules and policies.

OBSERVATION 2. THE S&WB PAID EXPENSES WITHOUT ADEQUATE SUPPORTING DOCUMENTATION.

S&WB Policy Memorandum No. 46 required itemized receipts for all travel-related food and beverage items.¹⁰ S&WB Policy Memorandum No. 82 required that public vouchers be used for reimbursements to individuals and should include “actual dollar amount, documentation, charge code and proper signatures... ”¹¹

Eleven of the 70 reimbursements tested (16%), totaling \$3,145, lacked an itemized receipt and/or invoice. The exceptions were as follows:

- One of the 11 exceptions was a \$2,000 advance to a S&WB employee to purchase food, beverages, and decorations for the 2013 S&WB United Way fundraiser. Because the employee did not submit receipts for the amount advanced, the auditors could not determine how the funds were spent.
- Five of the 11 exceptions, totaling \$750, were for annual "tool allowance" payments to employees for which employees did not submit receipts.¹²
- Three of the 11 exceptions, totaling \$148, were for dues and testing fees for which employees submitted copies of the checks as support rather than the required receipts/invoices.
- Two of the 11 exceptions were travel-related reimbursements for meals, totaling \$247, for which employees did not provide itemized receipts as required by Policy Memorandum No. 46.

S&WB Policy Memorandum No. 82 was last revised in 1993 and did not specify the required “documentation” needed, such as itemized receipts/invoices for advances and reimbursements. Because of the lack of specificity, employees may not have known what type of documentation was needed. S&WB managers should update Policy No. 82 to provide guidance for advances and reimbursements for non-travel related expenses incurred by employees and members of the Board of Directors. The revisions should include the required documentation and approvals needed to receive funds, as well as overall best practices.

¹⁰ S&WB Policy Memorandum No. 46: Travel Policy for Sewerage and Water Board Members and Employees.

¹¹ S&WB Policy Memorandum No. 82: Requisition and Voucher Process.

¹² The S&WB provided a \$150 annual tool allowance to qualified maintenance personnel.

Additionally, the S&WB should review all documentation prior to reimbursement to ensure employees submitted itemized receipts and invoices.

Without adequate supporting documentation, the S&WB may have paid for disallowed or personal expenses. Although the amount of expenses paid without supporting documentation was not significant, the lack of specific written policies could still provide the opportunity for fraud, waste, and abuse of S&WB expense reimbursements. S&WB managers acknowledged that required supporting documentation was not submitted for the expenditures in question and that related policies were in need of revision.

Although there were no significant findings concerning non-compliance with S&WB policies, those policies should be revised to clarify required documentation for expenses as well as those that are specifically disallowed by the Louisiana Constitution.

City Ordinance section 2-1120(8)(b) provides that a person or entity who is the subject of an audit report shall have 30 days to submit a written explanation or rebuttal of the findings before the report is finalized, and that such timely submitted written explanation or rebuttal shall be attached to the finalized report. Although a report was not issued for this performance audit, as a courtesy, we provided you an Internal Review Copy of this letter on October 28, 2015.¹³

If you have any questions, please contact Erica Smith, Chief of Audit and Review, at (504) 681-3200 or esmith@nolaog.org.

Sincerely,



E.R. Quatrevaux
Inspector General

cc: Mitchell J. Landrieu, Mayor and President
Mr. Cedric S. Grant, Executive Director
Mr. Robert K. Miller, Deputy Director
Mr. Andrew D. Kopplin, First Deputy Mayor and CAO
Lisa M. Hudson, Personnel Director

¹³ A report was not issued because no significant findings were noted.

**Sewerage and Water Board of New Orleans
Tracking Tool for Audit Findings and Recommendations
October 2015**

Item	Source	Observations	Management Response
1	Expense Reimbursement Performance Audit	The S&WB paid \$14,000 to employees that may have been in violation of the Louisiana Constitution. Auditors noted 120 checks, totaling \$12,000, were issued to S&WB employees for annual employee recognition. Additionally, the S&WB spent \$2,000 for food, beverages, and decorations for a 2013 United Way fundraiser, for which there was no public purpose related to the S&WB's mission.	Disagree. Sewerage and Water Board contends that it is a reasonable and legitimate business expense to pay a token annual amount to selected employees in recognition of unusual and extraordinary performance, and that written criteria utilized as part of the annual employee recognition process are fully consistent with Civil Service Rule IV, and that the Employee Recognition payments were not a donation in violation of the State Constitution. See Louisiana Attorney General Opinion Number 06-0321. Sewerage and Water Board further contends that it is appropriate for a public employer to support payroll deductions for contributions to multi-agency charitable organizations such as the United Way, that it is a reasonable and legitimate business expense to provide an attractive occasion for employees to complete and sign the United Way payroll deduction forms, and that the expenses associated with the United Way fundraiser event were not a donation in violation of the State Constitution.

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Item	Source	Observations	Management Response
2	Expense Reimbursement Performance Audit	<p>S&WB Policy Memorandum No. 46 required itemized receipts for all travel related food and beverage items.10 S&WB Policy Memorandum No. 82 required that public vouchers be used for reimbursements to individuals and should include "actual dollar amount, documentation, charge code and proper signatures... ." Eleven of the 70 reimbursements tested (16%), totaling \$3,145, lacked an itemized receipt and/or invoice. The exceptions were as follows:</p> <ul style="list-style-type: none"> * One of the 11 exceptions was a \$2,000 advance to a S&WB employee to purchase food, beverages, and decorations for the 2013 S&WB United Way fundraiser. Because the employee did not submit receipts for the amount advanced, the auditors could not determine how the funds were spent. * Five of the 11 exceptions, totaling \$750, were for annual "tool allowance" payments to employees for which employees did not submit receipts. * Three of the 11 exceptions, totaling \$148, were for dues and testing fees for which employees submitted copies of the checks as support rather than the required receipts/invoices. * Two of the 11 exceptions were travel related reimbursements for meals, totaling \$247, for which employees did not provide itemized receipts as required by Policy Memorandum No. 46. 	Agree. Sewerage and Water Board will communicate enforcement of internal controls for reimbursement of these small-dollar expenses.