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MANAGEMENT INTERFERENCE, A FLAWED REPORTING STRUCTURE AND LACK OF OVERSIGHT RENDERED S&WB INTERNAL AUDIT DEPARTMENT INEFFECTIVE. S&WB MANAGEMENT INITIATES CORRECTIVE ACTION.

As detailed in the Performance Audit of the Sewerage & Water Board of New Orleans (S&WB) Internal Audit Department (Department) released today, the Office of Inspector General (OIG) concluded that due to a flawed reporting structure, the S&WB Audit Committee failed to provide effective oversight of the Department. As a result, S&WB management's interference with the Department continued unabated for over two years.

Because of this structural deficiency and very few Audit Committee meetings, the S&WB's former Executive Director interfered with Department operations by directing the acting Internal Audit Manager and Internal Audit staff to conduct no projects without his prior approval.

The objective of the OIG's audit was to determine if the S&WB's Audit Department (Department) complied with the *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* promulgated by the Institute of Internal Auditors (IIA). For the period from January 1, 2016 to June 30, 2018, the Department released reports or letters without documenting an engagement plan for each audit, nor did it develop and document engagement work programs or work papers to support the results and conclusions as required by IIA Standards. In fact, the Department released 14 reports during this period, and none of the findings and conclusions contained in those reports were supported by evidence.

In addition, the OIG concluded the Department did not conduct an annual risk assessment that 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.

To resolve these findings, the OIG recommended the S&WB Board of Directors:

- Restructure the organizational placement of the Department to ensure the chief audit executive of the internal audit activity reports functionally to the Audit Committee and administratively to the Executive Director.
- Amend the by-laws to allow the Board of Directors to appoint a chief audit executive. The by-laws should also include information on terms for removal and remuneration.

- Appoint a chief audit executive and determine remuneration, based on established qualifications and relevant employment experience

In addition, the OIG also recommended the Audit Committee:

- Provide the type of governance described in the IIA Standards. Review and formally approve the S&WB Internal Audit Charter, the S&WB Audit Committee Charter, and all policies pertaining to the Department to determine if those policies and procedures comply with IIA Standards. If the Audit Committee notes instances of non-compliance with IIA Standards, it should revise the necessary components as appropriate.
- Obtain the collective knowledge of the IIA Standards to fulfill its responsibilities to the Department and to ensure the Department complies with those standards.

Furthermore, the OIG recommended that the Department:

- Obtain periodic and professional training, including training on the professional standards, and ensure it possesses the collective knowledge to conduct audits in accordance with those standards.
- Provide training to S&WB personnel to ensure they understand the organizational placement of the Department as well as any requirements to comply with the Department's inquiries or document requests.

In its response, S&WB management generally agreed with the findings and recommendations in the audit report and initiated corrective action.

“A competent, professional internal audit function is vital to demonstrating accountability in the operations of any government entity. While of serious concern that management interference rendered the internal audit department totally ineffective, it is equally disturbing to find that the breakdown in governance by the S&WB allowed this situation to continue for an extended period of time. We commend the S&WB and the current senior management team for recognizing this fact and initiating corrective actions to resolve this problem.”

In addition to today's report, the OIG released a brief with highlights. Go to www.nola.oig.gov to view all OIG reports.