



A Case Study: Sewerage & Water Board of New Orleans Internal Audit Department

Presented by:
Erica Smith



Course Objectives

- Understand the appropriate reporting structure between the Chief Audit Executive and the Chief Executive Officer (or equivalent).
- Identify important functions of an internal audit department.
- Identify red flags that may indicate an ineffective internal audit function.



Sewerage and Water Board of New Orleans Strategic Plan 2011-2020

Mission, Vision, and Values

Our mission is to provide safe drinking water to everyone in New Orleans; to remove waste water for safe return to the environment; to drain away storm water; to provide water for fire protection; to provide information about products and services; and to do all of this continuously at a reasonable cost to the community.



Water system:

- 1,610 miles of mains
- Services 353,000 residents

Sewer system:

- Gravity collection system
- 1,450 miles of lateral and trunk sewers (8 inches to 7 feet in diameter)

Drainage system:

- 90 miles of open canals
- 90 miles of subsurface canals
- Subsurface canals are large enough to drive a bus through.

A Mazda 626 is pulled from an underground canal near the Lafitte Greenway at South Jefferson Davis Parkway in New Orleans, La., Thursday, Aug. 22, 2019. The car that was discovered deep within the Mid-City drainage canal was pulled up in the air and out of the canal just after 2:30 p.m., hours after the painstaking process began. The vehicle was within an underground culvert near the Lafitte Greenway, clogging the drainage system in an area prone to floods.

STAFF PHOTO BY DAVID GRUNFELD

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S&WB Financial Position

| Table A-1 Sewerage & Water Board of New Orleans Net Position | | |
|--|-------------------------|-------------------------|
| | 2018 | (Restated) 2017 |
| Current unrestricted assets | \$ 150,478,786 | \$ 194,955,962 |
| Restricted assets | 69,484,786 | 116,611,194 |
| Property, plant, and equipment - net | 3,208,862,077 | 3,019,092,797 |
| Other assets | 7,478,739 | 12,291,080 |
| Total assets | 3,436,304,388 | 3,342,951,033 |
| Deferred outflows of resources | 48,123,085 | 16,734,173 |
| Total deferred outflows of resources | 48,123,085 | 16,734,173 |
| Total assets and deferred outflows | \$ 3,484,427,473 | \$ 3,359,685,206 |
| Current liabilities | \$ 167,662,980 | \$ 148,037,878 |
| Long-term liabilities | 1,054,308,552 | 1,040,787,916 |
| Total liabilities | 1,221,971,532 | 1,188,825,794 |
| Deferred inflows of resources | 17,653,950 | 1,867,968 |
| Total deferred inflows of resources | 17,653,950 | 1,867,968 |
| Net position: | | |
| Net investment in capital assets | 2,543,371,049 | 2,405,347,069 |
| Restricted | 46,042,585 | 46,606,340 |
| Unrestricted | (344,611,643) | (282,961,965) |
| Total net position | 2,244,801,991 | 2,168,991,444 |
| Total liabilities, deferred inflows, and net position | \$ 3,484,427,473 | \$ 3,359,685,206 |

\$3.5 billion
Assets

(\$83.5 million)
Operating Loss

| Table A-3 Sewerage & Water Board of New Orleans Revenues, Expenses and Change in Net Position | | |
|---|--------------------|--------------------|
| | 2018 | 2017 |
| Operating revenues: | | |
| Sales of water and delinquent fees | \$ 90,287,081 | \$ 90,464,810 |
| Sewerage service charges | 114,614,157 | 111,063,719 |
| Plumbing inspection and license fees | 648,332 | 588,330 |
| Other revenue | 5,687,203 | 3,451,274 |
| Total operating revenues | 211,236,773 | 205,568,133 |
| Operating expenses (Table A-4) | 294,807,252 | 314,911,503 |
| Operating loss | (83,570,479) | (109,343,370) |
| Non-operating revenues: | | |
| Property taxes | 54,651,624 | 55,422,813 |
| Other taxes | 594,532 | 593,424 |
| Federal noncapital grants | 78,814 | 845 |
| Interest income | 3,788,898 | 4,277,115 |
| Interest expense | (3,204,239) | (3,537,336) |
| Recovery (provision) for grants | 3,183,641 | (8,906,949) |
| Total non-operating revenues | 59,093,270 | 47,849,912 |
| Income before capital contributions | (24,477,209) | (61,493,458) |
| Capital contributions | 100,287,756 | 96,336,075 |
| Change in net position | 75,810,547 | 34,842,617 |
| Net position, beginning of year | 2,168,991,444 | 2,228,421,948 |
| Change in accounting principle | - | (94,273,121) |
| Net position, end of year | \$ 2,244,801,991 | \$ 2,168,991,444 |

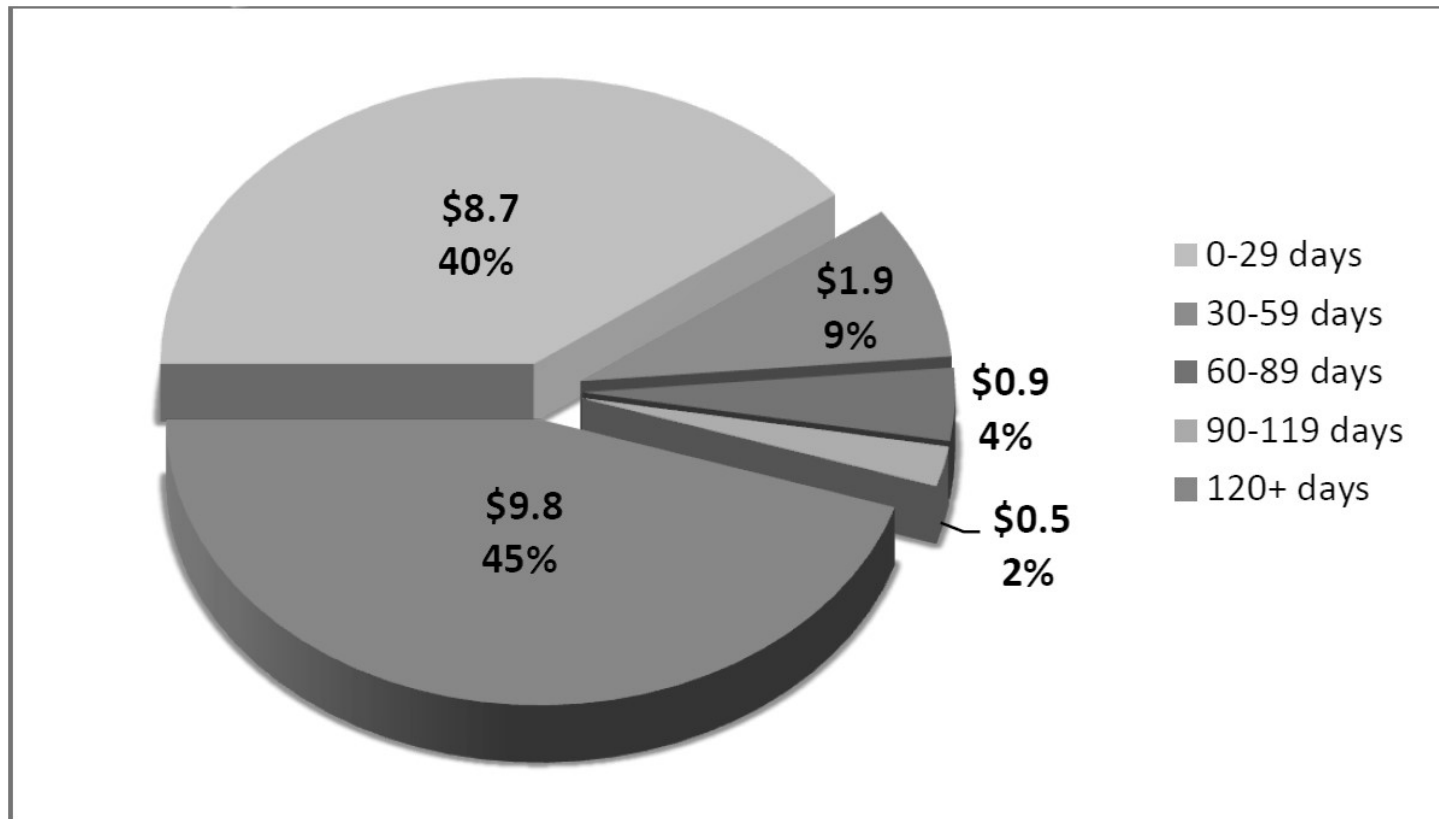


New Orleans... A City Under Water



S&WB Accounts Receivable Aging

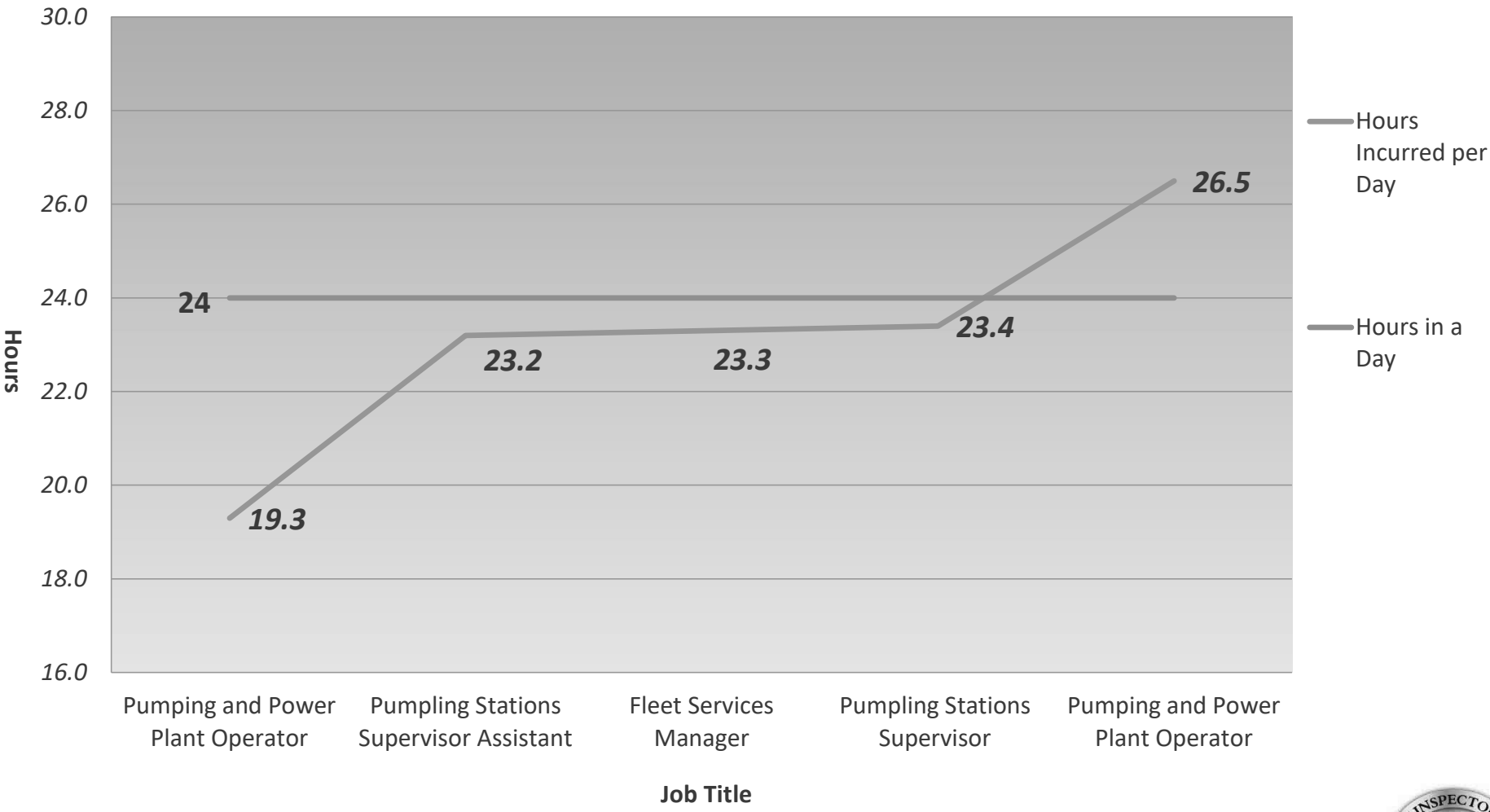
December 31, 2013 Sewer and Water Account Aging (in millions).



No Detailed Aging Report



Top Five S&WB Employees Who Incurred the Most Hours per Day

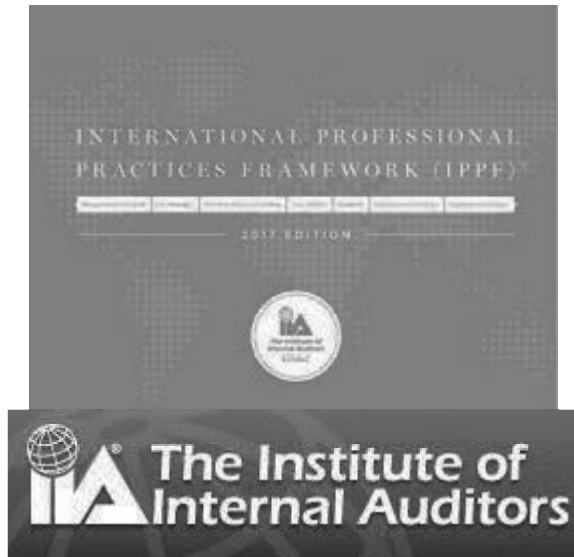




What's Going on at the S&WB?



The Allegation



1. Executive Director directed the Internal Audit Manager to stop working
2. Lack of professional competence
3. No direct access to the Board of Directors



The Allegation (continued) ★

1. Executive Director directed the Internal Audit Manager to stop working

“The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.” (Red Book: 1110.A1 – Organizational Independence)

2. Lack of professional competence

“Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.” (Red Book: 1210 – Proficiency)

3. No direct access to the Board of Directors

“Organizational independence is effectively achieved when the chief audit executive reports functionally to the board.” (Red Book: 1110 – Organizational Independence Interpretation)

“Dual-reporting relationship” CAE reports administratively to the CEO (Red Book: 1100 – Independence and Objectivity Interpretation)



What do you do all day?



Define Nothing?



I know I'm an internal auditor, but...



Importance of Internal Audit ★

1. Improves efficiency and effectiveness of operations
2. Evaluates risks and protects assets
3. Assesses and evaluates internal controls
4. Determines compliance with laws and regulations
5. Identify deficiencies that could result in significant operational failures



What next?

1. Audit Team meeting
2. Meeting with the Inspector General
3. Brainstorming
4. Initial document request

Our goal: To help the S&WB help themselves!



Executive Director

TO: _____

DATE: 1-11-17

PLEASE:

☐ RESPOND, COPY ME

☐ FOR YOUR FILES/INFORMATION

☐ GIVE ME YOUR ADVICE

☐ SEE ME/LET'S DISCUSS

☐ PROCESS PAYMENT

☐ COPY AND DISTRIBUTE

☐ TAKE NECESSARY ACTION

☐ PREPARE A RESPONSE FOR MY SIGNATURE

REMARKS Why was this response prepared,
I know I did not direct it. It
does not address any of the issues
it purports to and is not helpful
in any way.

Please discontinue any work on
this or any similar reports and
only take on what I have specifically
authorized.



What We Did

1. Reviewed the Audit Committee Charter, the Internal Audit Charter, the Internal Audit Manual, IIA Standards, state law, and other best practices.
2. Conducted interviews with personnel and the Audit Committee Chairperson.
3. Requested and/or reviewed risk assessments, audit plans, work papers, reports, and communications to senior management and/or the Audit Committee.
4. Reviewed the reporting structure to determine compliance with the IIA Standards.



What We Found

Finding #1:

- S&WB management interfered with IA operations
- Lack of independence
- Audit Committee lack of oversight

Recommendations:

- Restructure the organizational placement
- Amend the bylaws to hire/fire a Chief Audit Executive
- Appoint a CAE, determine remuneration
- Obtain collective knowledge of the Red Book
- Communicate Internal Audit authority within the S&WB



What We Found (continued)

Finding #2: No documented risk assessment

Finding #3: No documented engagement plans, audit programs, or work papers to support the results and conclusions in the “reports”

Finding #4: No internal or external quality assurance improvement program

Recommendations:

- Appoint a Chief Audit Executive
- Training on IIA Standards





Background

Under contract 8143, Hamp's Construction was awarded the job of performing the Hurricane Katrina related repairs to garage no. 2 at Central Yard. During construction, it was discovered the facility experienced water damage to the electrical system which resulted in the Board subcontracting the electrical work for repairs. Hamp's Construction submitted payroll records for the purpose of retrieving additional overhead for the time they were unable to complete work on the facility.

As a result of Hamp's request for additional overhead costs through the change order process, the Board instructed the company to submit payroll expenses. CH2M reviewed their payroll records and determined the following: (Refer to attached letter dated March 23, 2016 for further details)

1. Hamp's numbering system showed duplications of the payroll numbers. For example, payroll #6 is recorded for the week ending in 8/9/15 and 8/16/15.
2. On payrolls #1, #9, #10, #22, #26, #26 (a duplicate number), Hamp's reported work activity of federal holidays.
3. On payroll #6, it indicated that Robert Martin, Project Manager worked 40 hours on Garage #2; however, it records were inadvertently submitted showing Martin's work on a separate project at the same time.
4. Payroll #6 indicated that Gwen Parker did not work for the week ending 8/9/15; however, their CH2M's records indicate that Ms. Parker did in fact work that week.
5. Payroll #15 for the week ending in 10/18/15 shows that Darrick Livas, worked 40 hours as Project Superintendent; however, on Payroll #10 (for the week ending 10/18/15), it shows Mr. Livas as working 40 hours as a Laborer.

Scope

The review was conducted based on interviews with the following persons:

- The General Superintendent
- The Principal Engineer
- The Purchasing Agent



- CH2M Program Manager

The following documents were reviewed:

- The original and revised Contract 8143: Katrina Related Repairs to Garage #2 at Central Yard
- The daily journals maintained by CH2M Program Manager
- Payroll documents submitted from Hamp's to our Principal Engineer
- CH2M's Review of Hamp's Payroll

Recommendations

In reviewing Hamp's payroll records and comparing them to Sewerage & Water Board's daily journals, it was confirmed that CH2M's findings were accurate. There were numerous inconsistencies between what was submitted by Hamp's Construction and records maintained by the Board's Program Manager. As a result of the inconsistencies, it is recommended that the Board consider establishing a liquidation of damages clause within contracts to ensure contractors stay within the terms and schedule of the contract. It is also recommended that the Board consider revising the critical path method for determining the construction schedule. By revising the current method and/or considering another project management method (i.e. the schedule of value method), the Board can reduce the amount of change orders and time taken to complete projects.

Who is this to?
What are the standards?
the work performed on the various
documents identified?
What is the audit objective?
What is the scope?

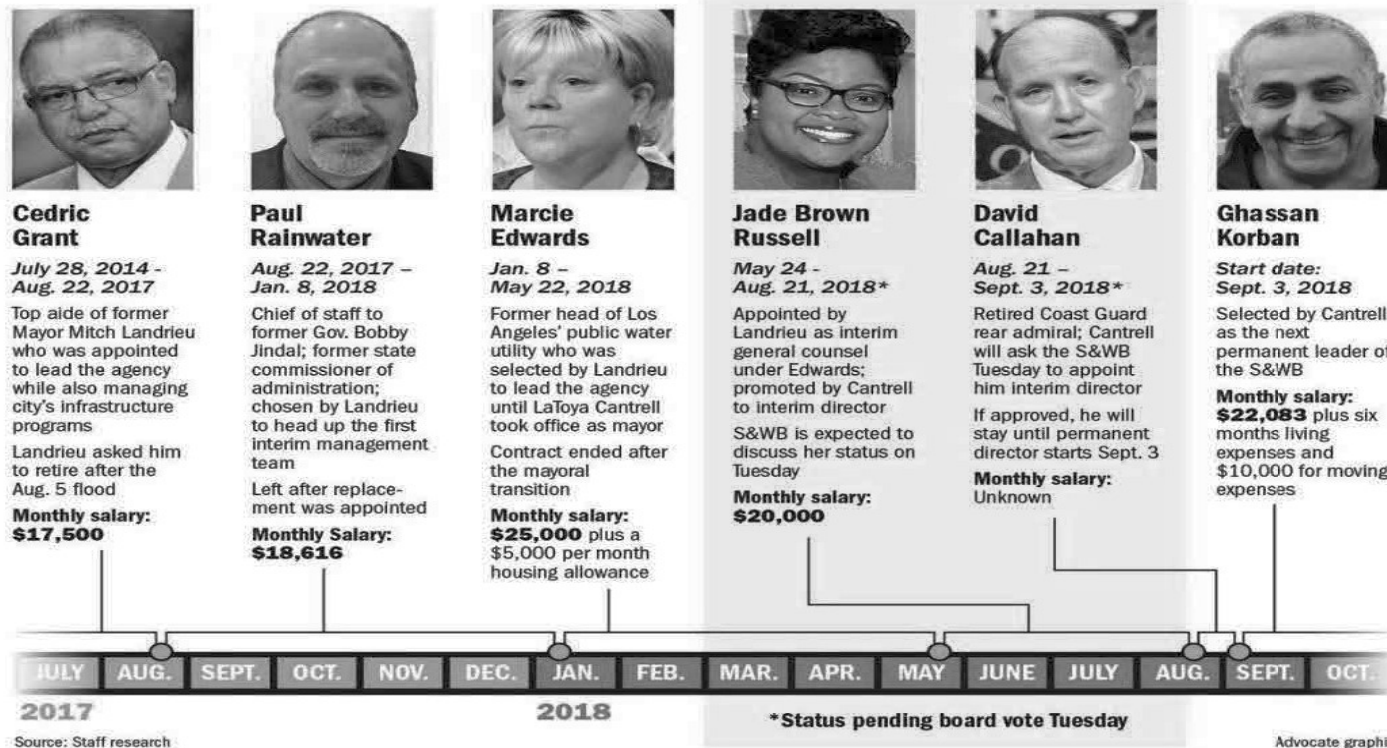


What did the S&WB do?

1. New management

The revolving door at the Sewerage & Water Board

Leaders who have been in and out since last summer



What did the S&WB do?

2. Immediate steps to implement corrective action

- Classified job posting
- Unclassified position
- Civil Service – Denied



Contact Information

New Orleans Office of Inspector General
525 St. Charles Avenue
New Orleans, LA 70130

Phone: 504-681-3200

Hotline email: hotline@nolaoig.gov

Hotline: 504-681-3247

Website: nolaoig.gov



Contact Information

Erica Smith

Deputy Inspector General – Audit Division

Phone: 504-681-3210

Email: esmith@nolaoig.gov

