

LEGISLATIVE AUDIT ADVISORY COUNCIL

Minutes of Meeting April 2, 2019 House Committee Room 6 State Capitol Building

The items listed on the Agenda are incorporated and considered to be part of the minutes herein.

Chairman Julie Stokes called the Legislative Audit Advisory Council (Council) meeting to order at 1:55 p.m. Ms. Liz Martin called the roll confirming quorum was present.

Members Present: Representative Julie Stokes, Chairman
Senator Mike Walsworth, Vice Chairman
Senator Danny Martiny
Senator Rick Ward, Proxy for Senator John Smith
Representative Clay Schexnayder
Representative Stephanie Hilferty, Proxy for Representative Jimmy Harris
Representative Patrick Connick, Proxy for Vacant Seat

Members Absent: Senator Wesley Bishop
Senator W. Jay Luneau
Representative Blake Miguez

Also Present: Daryl G. Purpera, CPA, CFE, Louisiana Legislative Auditor (LLA)

Approval of Minutes

Representative Schexnayder made a motion to approve the minutes for the February 21, 2019 meeting and with no objection, the motion was approved.

Extension Requests

Mr. Bradley Cryer, Director of Local Government Audit Services, briefly explained the reasons for the eight entities' extension requests on the Nonemergency Extension Requests Ninety Days or Less. All entities on this list were discussed in the last meeting because some were approved through February 28, 2019 that carried all the way through March 31, 2019. First, the Bienville Parish Clerk of Court's clerk had some deaths in the family that caused delays. We granted that extension through 3/29/19 and we have received that report.

The Housing Authority of East Baton Rouge Parish's report is due March 31, 2019. They requested a 15 day extension based on the fact they replaced their director as well as several high level members of their administration. We have granted that 15 day extension. The East Carroll Parish Sheriff had been hit with ransomware this year and lost all of their files. The sheriff hired a contractor to recover files and store the backups. The extension we granted was through 3/29/19 but we have received that report as of yesterday.

The East Feliciana Parish School Board had problems with the new accounting standard that went into effect this year that dealt with health insurance premiums for retirees. We have received that report as well. Orleans Parish charter school Better Choice Foundation had management turnover. The CFO resigned late in October, and then they have some IT problems as well. We received that report yesterday as well.

Ouachita Parish Sewer District #5 has been late a couple of years in the past because of some ongoing litigation with their billing. Their contract of Greater Ouachita Parish Water System has been resolved.

However, there were still some billing problems with their third party contractor this year. So we have granted that extension through 5/31 for the full 90 days.

The Housing Authority of St. James Parish has two new component units they are picking up this year that were formerly rental properties that are now going to be considered part of the housing authority. Due to that change in reporting we have allowed them an additional three months to get that financial information. The City of Opelousas had a new mayor sworn in January and he's been changing operations. There have been a lot of problems in Opelousas the last couple of years, so we are optimistic that he is making some changes. He changed the auditor this year and so we are allowing them an extra 90 days to get their records in order and get ready for the audit.

Mr. Cryer said these are all the extensions that LLA has granted within a 90 day window that we have been allowed to grant and asking for the council's confirmation. Vice Chairman Walsworth moved to approve the 90 Days or Less Extension Requests and with no objection, the motion was approved.

Mr. Cryer noted the arrangement with the Council is that LLA can grant extensions through 90 days but anything beyond that goes to the council for approval. He directed the members to the Greater than 90 Days Extension List that required the Council's approval.

The Town of Winnsboro has asked for an extra 19 days to turn in their audit. The new mayor took office in July. The town hired a contract accountant to fix some other problems from the prior administration. Our office has been working very closely with them and provided some training for them as well.

The Town of Jonesboro had a disclaimer last year and a very large number of findings. We have allowed the new mayor to get his feet on the ground and still allowing their contract accountant to do follow ups with us once a month. The contract accountant used to be a fiscal administrator so we are confident that they are moving in the right direction. Mr. Purpera commented that the Town of Jonesboro had a fiscal administrator for quite some time. Representative Stokes asked if he felt like the extension through 2/28 is the thing to do. Mr. Cryer explained that because a new mayor came in January we want to give them some additional time to get caught up. Mr. Purpera added that LLA reached out to the individual that was the fiscal administrator who is now working with a new mayor.

Mr. Cryer said that the Village of Provencal has been late in past years, but we have not granted them an extension in the past because of problems. This year we did grant the extension and we are asking for an extra 60 days. Their computer system which is comprised of one computer failed with no backup but they did have hard copies. Those hard copies went to the auditor and allowing them 60 days to catch up with their audit.

Senator Martiny asked why in the past they requested extensions and you would not approve them. Mr. Cryer explained LLA's process that if someone does not engage their auditor on time which does not give the auditor enough time to do the audit or they had late reports for no real reason other than just not providing the records, we do not grant those types of extensions. In this case because this was something that we felt was outside of their control with the lost records and only had hard copy backups, but not prepared in a manner that the auditor could do the audit at that point.

Mr. Cryer explained that the COO, CFO and the grants administrator all resigned in the prior year at Firstline Schools, a New Orleans Parish charter school. The prior year extension caused additional problems for this year. So we felt that based on the situation, it was unreasonable they could catch themselves up within a time period allowed. So they asked for an additional 15 days to get caught up.

Anything that deals with charter schools is verified with the Department of Education (LDOE) to determine if there are any ongoing issues but LDOE is not aware of any issues with Firstline Schools. Mr. Cryer said that the same applies with Orleans Parish charter school Noble Minds. The CFO left around the time that the audit began and it was during their first year of operation. So they have requested an extra 15 days to complete their audit.

Mr. Cryer pointed out a few issues regarding the North Delta Regional Planning and Development District (NDRPDD). This organization is a funnel agency for about six Councils on Aging in northeast Louisiana. His staff has spoken with the Governor's Office of Elderly Affairs because they are monitoring the progress of the audit. We also have some communication this week with the Office of Community Development that provides some other federal funding. The explanation for the extension was a difficulty reconciling grant monies which is not something that we would normally say is a valid reason for the extension. But one of the things we consider is not just the reason for the extensions, but also does cutting off an agency's funding (state and federal dollars) impact the public health, safety or welfare of those organizations that are dependent on that organization. From communications with the governor's office, we are confident that they are going to address the situation with those councils on aging that report through this agency. And we are also working with OCD to make sure that the grant fund reimbursement documentation is all proper before allowed to release that report. We are asking for an extension through 5/ 31 to give them time to get caught up with all of that.

Mr. Cryer next explained that Ouachita Parish Charter School Learning Solutions, Inc. – Vision Academy had a change in the contract account midway through the audit. The accountant did acknowledge that some of the problems were his fault. We are very comfortable with the new accounting firm. There are also some allegations that came up that were in the newspaper so we are allowing them some extra time to work through those problems to try to get a clean opinion. This charter school lost their charter for next year, so we are trying to get this resolved before the end of this school year because once this year runs out not sure if we're going to have additional funding for that organization to keep going for another audit.

Representative Stokes asked if they lost their charter for reasons attached to this problem with the finances. Mr. Cryer responded that the charter was lost due to academic reasons through LDOE which to my knowledge has nothing to do with the financial issues here. Senator Walsworth asked why not only give until the end of April because if they do not complete the audit by May 31st then school will be over the funding too. He suggested only allowing them until April 30th to keep their feet to the fire especially since they lost their charter. We do not want the school to not have a completed audit.

Mr. Cryer responded that Alan Green & Williamson is the CPA firm that is doing the accounting work as of about two months ago. The prior accounting firm that was doing work for them in the fall was terminated in November or December. The correspondence that we received actually acknowledged that the accountant was at fault for some of the reporting issues that they had. Based on calls and written acknowledgments, we felt that it was appropriate to grant the extension at least within the 90 day period that we were allowed to grant. Mr. Cryer noted that Alan Green Williamson have good people that started in January catching up where the previous accountant left off. They were still waiting on a couple things from the bank and were just about finished with a compilation for the auditor to start working. He was not sure if the auditor could be completed by April 30th but certainly had not objection to setting that deadline.

Senator Walsworth asked if the first accountant who made mistakes was put on a list to not use. Mr. Cryer explained that was strictly a contractor for the organization and is not doing any work for our office. Senator Walsworth asked if the accountant could be put on a list that says you are blackballed. Mr. Purpera said we can do so for the purpose of audit but does not believe his office could do so for the purpose of just

providing consulting and accounting services. The accountant being discussed was only doing accounting services but not auditing. This charter school is also currently being investigated by my office. We are very actively involved in monitoring the school and doing everything we can to get information.

Mr. Cryer said that Union Parish School Board has been late for a couple of years in a row. They had problems with retaining staff and financial problems. We have been contacted to help them resolve some of those issues as well. They had a new CFO just started last year who is also a former employee of our office many years ago. They also had problems this year with accounting standards and the new OPEB requirements. They are requesting additional month to complete the audit. Even if we felt it was inappropriate to grant the extension, being on noncompliance would cut off funding and affect their MFP and basically shut their doors with their current cash flow. We are recommending that extension for 30 more days.

Lastly, West Feliciana Parish Fire Protection District No.1 is requesting an extension through April 30. The fire chief had retired and the new fire chief was killed in an accident last, so there are only volunteers at this point that are trying to catch up their books. They believe they can finish that within the next 30 days. So for all the entities on this list, we are asking for the council's approval of these dates.

Senator Walsworth made a motion to approve the nonemergency extension request greater than 90 days and with no opposition the motion was adopted.

Sewerage and Water Board of New Orleans - Louisiana House of Representatives Resolution 92 and Drainage Operations – Issued November 7, 2018

Mr. Cryer presented the report that was issued November 7, 2018 on the SWBNO and within that report we included 34 recommendations for improvement. He would go over the executive summary from the report and answer any questions but no follow up had been done since November.

Many corrective actions have taken place by the new administration which came in at the very end of this report period. They were not involved with creating the problems but are trying to fix the problems and will give an update of their own. We spoke with him earlier about where they stand with corrective action and what they're doing at this point. In August 2017 there was a heavy rainstorm in the City of New Orleans which caused widespread flooding. A press release was issued that day by the executive director of the SWBNO noting "drainage pumping system is fully staffed and operational". Three days later the executive director informed the New Orleans City Council that "it was inaccurate to suggest the system was operating at maximum capacities". Our office began to look at the operations in September of that year based on concerns about communication, about what led to the problems with the drainage operations. As we started to wrap up the work on the drainage operations and financial information, the House of Representatives passed House Resolution (HR) 92 which was filed by Representatives Connick and Hilferty. And that asked us to broaden our work to include an audit of the SWBNO contracts entered into by the board since January 2013.

The first area in the report deals with the contract issues as requested by HR92. Some performance auditors joined our advisors to put together this report and we noted that the SWBNO did not have adequate written policies and procedures over record keeping and reporting, procurement, monitoring, change orders and amendments and payments. Contract record keeping was not centralized nor was there a centralized management review and oversight of all contracts. We asked for a listing of contracts from SWBNO but because they did not have a centralized listing, it took more than five weeks just to get that listing from 2013 forward. We asked for 25 contracts and supporting documentation. It took seven weeks and we did

not get 25. We eventually shortened our request down to just 12 contracts to try to expedite that process. At the end of the day, we ended up with 11 contracts and none of those contracts had full supporting documentation. But using the supporting documentation that we had, some of which was more complete than others, we identified control and compliance deficiencies, including possible constitutional violations regarding donation of public funds, possible bid law violations, lack of appropriate approvals, and insufficient monitoring of conflicts of interest. Essentially every department within SWBNO maintained their own contracts. They monitored their own contracts and there was not any real oversight on how that process works.

The next area in the report is drainage operations dealing specifically with the pumps and the power supply. SWBNO operates its own drainage pumps on a combination of 60 Hz purchased from Entergy as well as 25 Hz power from its own turbines. And those turbines range in age anywhere from 37 to 109 years. Based on the infrastructure that is in place during the flooding event, there were broken pumps and out of service turbines, but we could not quantify their impact, not just because of the status of the turbines and pumps, but also because of the capacity of the canals. The condition of the canals whether they were clogged or cleared, the status of the catch basins, the drainage pipes leading to the pumping stations - essentially you had a very large rain event that even with the system operating at maximum capacity, there's no way for us to tell whether it would have worked to clear that water in time or not. But certainly the problems that we identified contributed to the flooding during that event.

We also noted that they had manual operator logs and because they were operating their turbines continuously, it was hard to maintain the maintenance on those turbines as well. We looked at communications within SWBNO before the current administration came in. We looked at the organization chart, looked at financial statements, spoke with staff that worked there from different departments. We noted that in March 2017 before the flooding event, the executive director informed the finance and administrative committee that emergency repairs were needed to the 25 Hz generators and notified the board about the emergency declaration. However, we did not observe any follow up communications to the board on the status of the repairs prior to the August flood.

Also the written minutes to the board meetings from April 1 through July 31, 2017 did not disclose any discussions about the status or operability of the pumps. Same applied with the hurricane and emergency operations plan. Our review of the board minutes from April through July of 2017 did not reveal any discussions held with the board regarding the status of hurricane preparedness or readiness of the drainage, water or sewer infrastructure.

We evaluated the professional qualifications and staffing. At the time of the flood state law did not require any board members or the executive director to have experience in the utility industry. The 2016 Black and Veatch contract report prepared for SWBNO indicated that adequate staff continued to be an issue. There were very few potential successors for the current management structure and there were several impediments that were noted, including a lack of competitive salaries compared to private industry and the policy that all employees must live within the Parish of Orleans to work for the SWBNO.

SWBNO's financial management, because of the emergency declaration, the costs of the emergency pumps that were brought in to provide service during that period caused their cash position to be severely impacted. Mr. Cryer said their financial situation was subject to further decline based on \$2 million minimum annual payments on a 10 year agreement with Southeast Louisiana Flood Protection Authority East as well as anywhere from \$1 million up to \$11.4 million annual payments on a 30 year financial obligation to the federal government for the construction of the Southeast Louisiana Urban Flood Control Project in New Orleans.

The Black and Veatch report also noted several concerns about SWBNO's financial position, cash reserves, debt capacity and capital project funding for the period 2017 through 2021. Finally, we looked at the federal reimbursements and expenditures that had been received 2005 through 2017 and where they were used. There is a schedule in the back of that report that goes on for many pages that show the different projects that were paid for in that area. Projects totaling roughly \$557 million of which \$67 million or 12% was for drainage projects.

As of the completion of our report, there was still an ongoing audit from the Office of Inspector General on the FEMA Public Assistance Program. I do not have the results. Our last discussion, just a few minutes before this meeting was that audit may be complete, but SWBNO had not received the report yet on the results. Our report had 34 recommendations that were sprinkled throughout this report. The bottom line on this was that at the point that the flood occurred and shortly thereafter there were pervasive problems with contracts, outdated infrastructure, lack of communication across the organization, staffing problems, projected cash flow and financial shortfalls. We have not done any follow up on this report since November when it was issued. I know there have been a lot of changes that have been happening, so we invited the current administration here to provide an update for you and we will be glad to answer any questions on the report itself.

Chairman Stokes asked the number of employees at SWBNO. Eric Sloan, Advisory Services Manager, responded that at the time of our audit there was about 1500 but probably 300-400 vacancies, so about 1100 active employees at that time. I do know they received some increases in some authorized positions, but I'm sure the executive director can update us on those.

Chairman Stokes asked if it costs more to produce the 25 Hz power, is there a reason why they needed 25 Hz power. Mr. Cryer explained that at the time that these were placed into production about a hundred years ago, the standard was 25 Hz. They had their own turbines providing the power of those pumps. Over the years the standard for electricity changed to 60 Hz and everyone else has updated to that. But SWBNO's old massive pumps only operate on 25 Hz or they have to do a conversion to get it to 25 Hz which is also expensive.

Chairman Stokes asked if HB92 included review of the state law requirements for the board members to have experience in the utilities industry. Mr. Cryer responded that it was not part of HB 92 but believes the law was changed during this process, but after the flooding event. Mr. Sloan explained the requirements may have a civil engineer and may require various disciplines, but we were looking specifically for utilities and never found that. I do not think the current legislation has utilities specifically mentioned as a requirement in that industry.

Representative Connick expressed concern that SWBNO was requested to present certain contracts and list of contracts. He asked if they could not produce that requested list. Mr. Cryer answered that SWBNO produced the list but it took them five weeks to produce it. Representative Connick asked if they know if the list was accurate. Mr. Cryer responded we do not know if it is complete.

Representative Connick said from the list provided you asked for certain contracts to look at. Mr. Cryer said we asked for 25 contracts. We waited for a period of seven weeks. We eventually reduced our request to 12 contracts to try to expedite the process and we still did not get all the support for even for the 12 contracts. Representative Connick asked if the seven weeks was after receiving the list. Mr. Sloan answered that was correct. It was another seven weeks from when we received the listing.

Representative Connick said it took five weeks to get the list of contracts. Then you picked 25 contracts to receive documentation for and it took them another seven weeks to present documents for 11 contracts. He asked if those were incomplete. Mr. Cryer said yes and in fact we had no complete documentation for any of the contracts. Representative Connick asked for an idea of what contracts did you specifically look for and who was awarded these contracts. Mr. Cryer said we do not have the names of those individuals, but we have the types of contracts that were awarded.

Representative Connick asked why they did not receive the actual contract names and vendors. Mr. Cryer responded that our practice is to present those in a general fashion because some of the documentation may have been lost by the SWBNO and may not have been the fault of the contractor. There were missing documentation and different billing information. So what we presented in the report was of the 12 contracts we selected, five were for professional service, three were for the purchase of goods and service, three were construction related and one was for emergency services. Representative Connick asked if these were active contracts. Mr. Sloan answered that five were closed contracts.

Representative Connick commented that of the 11 contracts five were closed and six were active and they still cannot provide you the full backup. Mr. Cryer said that is correct. Representative Connick remarked that a contractor will get paid for services, but how do you know that what is being paid is according to the contract if you cannot find the contract.

Mr. Cryer said that issue was noted in the report findings regarding the contract documentation. We could not verify that the actual amounts were being billed, or match the contract to determine whether they exceeded the contract or whether there were amendments that allowed those payments to be made. Starting on page 14 of the report goes through incomplete and inconsistent documentation, suspension and debarment requirements, insufficient monitoring of conflicts of interest, lack of appropriate approvals on the contracts, lack of post contract evaluations and lack of monitoring documentation. The summary on the problems that we found is comprised of two pages and then a full page of recommendations on how to fix it.

Representative Connick asked if this is typical operations for a government entity. Mr. Cryer responded that he has been auditing for 23 years and cannot recall a case where we have asked for something and could not get a full population of transactions to this degree. It is unusual, but SWBNO is a very large organization and it was decentralized. I am hoping that they can get their act together to get the information quicker into a centralized structure. What we saw was every department was working on their own with their own people maintaining the contracts, monitoring the contracts, and there just was not any oversight from upper management to know exactly how the whole process worked.

Representative Connick said that he read that the board implemented a new billing system in October 2016. He asked if it is known who was awarded that contract for the new billing system. Mr. Cryer responded that he did not have that information with him but could certainly ask the administration.

Representative Hilferty asked about the year-end audit findings that the board should have adequate internal controls in place to ensure customer accounts are billed and recorded correctly and in the accounting records. Has SWBNO complied with that and is that their first strike? Mr. Cryer answered that he was unsure about the status of their financial audit. The HB92 report being discussed did not address the billing system because it was being addressed in their regular audit. Mr. Sloan said it was reported in the 2016 and 2017 report and we are waiting on the 2018 report which is due to our office by June 30th.

Representative Hilferty said that is two years in a row that the billing has been incorrect and the recordkeeping pertaining to said billing has been incorrect. How long typically is the turnaround when you

ask a governmental agency to provide these sorts of contracts? Mr. Cryer said he spent 20 years working on audits of large state agencies before working with local governments. In most cases we were able to walk into the file room and pull that information ourselves from a centralized file room or from a centralized computer server that had all the information in one place. So it's unusual to have this kind of decentralized collection of contracts.

Representative Hilferty asked if it was decentralized among departments, among individual employees or all of the above. Mr. Cryer explained that each department had their own group that was monitoring those contracts and so their records were being kept in multiple departments rather than all centrally.

Representative Hilferty asked if there was no centralized server where you could go and find everything pertaining to one client, one contract, even though these contracts I would imagine in multiple situations pertain to different departments within SWBNO. Mr. Cryer said correct, there was no centralized location. The billing came into a centralized location for the billing and the payments, but the actual monitoring, the supporting documentation, all that was being maintained separately.

Senator Martiny asked when you are answering Representative Hilferty's questions about billing are you talking about billing of the customers or billing as pertains to contracts. Mr. Cryer responded all pertain to contracts for when a vendor has completed the service and they submit their billing to the SWBNO for payment. That information was being processed at a central point, but the supporting documentation to match up that payment was not being maintained at different points. Senator Martiny asked if any of your audit pertained to their billing practices to customers. Mr. Cryer answered it did not.

Representative Hilferty wanted to make a correction that she was referring to customer billing and that is related to the regular audit of SWBNO. As many of my constituents and the residents of New Orleans know, since the implementation of the new billing system it has been haywire. People are receiving grossly outrageous bills, other people receiving no bills and really the general public being left in the lurch as to how to address this. So I was referring personally to customer's bills but I think the point is also taken that it was not essentially categorized on the invoice side as well. So we are talking about two different billing systems that are both not working.

Mr. Cryer apologized for the misunderstanding and explained that the scope for this audit was looking at the disaster and how that could have been mitigated and then branched out into contracts based on the HR92. We did not look at the billing system for customers as part of our work.

Representative Hilferty said she just wanted to correct that. There are two different things at play here and your overall audit addressed the customer billing system which was changed in October 2016. I look forward to SWBNO addressing that piece as well. Chairman Stokes invited the representatives of SWBNO to come to the witness table.

Mr. Ghassan Korban, Executive Director for SWBNO, introduced Ms. Yvette Downs, CFO for the utility. Mr. Korban said his background reflects some of your concerns and some of the recommendations and I have prepared remarks to share. I moved here about seven months ago actually September 2nd, and it was the day when Tropical Storm Gordon was coming our way and you can argue that I was baptized by not only fire but also by water yet again. I come from Milwaukee, Wisconsin and spent 36 years there. I served the City of Milwaukee for 31 years. For the last eight years I was the Commissioner of Public Works there and I retired and was looking for a challenge and I assure you that I found one. I came to solve a problem and I think I certainly found a very daunting task and a great opportunity lies ahead the way I see things. I have been uncovering layer at a time all the things that SWBNO has been struggling with and suffering

through. I am very, very optimistic that there are a lot of bright days ahead. It's going to take a while but remain optimistic that opportunities are very, very great. We are here to provide you with some updates on the findings and recommendations of the audit.

Mr. Korban said when Ms. Downs and he received the report they could not have been more pleased with the report. Actually, the timeliness of it was so good for us because we were unveiling and looking at the processes that we had inherited and looking for ways to evaluate and find ways to improve. And it came with such robust and accurate findings that were so aligned. I cannot name one finding that we could not agree with. So I am thankful for the report, both on the power side and emergency operations as well as the procurement. I will go through a couple of the findings in general terms. We did provide you with a full document providing by recommendation in terms of the status, where we are, what we've done and what we intend to do as we move forward.

We are certainly happy to answer any questions that you may have. So I am going to read a couple updates for you for the benefit of the council as well as the audience. I am pleased to relay that we have developed a new and revise procurement policy and manual that has been presented to our board of directors for review and adoption. That was done a month ago and we trust that it will be adopted during the month of May. So that would become formal and official and a part of our board policy. So this policy will address the procurement and bidding process. It will address the contract monitoring, including vendor compliance. It would also manage the change order and payment oversight - very, very crucial pieces for a utility that does a lot of business at a large scale of millions of dollars on an annual basis.

To compliment this new policy, we have instituted a weekly change order task force which is meeting to ensure an advance level of oversight for all anticipated change order requests and payments. So there is nothing that takes place in terms of any modifications to any contract - construction or professional. We allow a conversation that involves me with the CFO and the general superintendent. That's the way it should be and it should have been for a long time and that is a very significant correction that's been made. To further help us track payments, we intend to procure an invoice tracking system next quarter. In the meantime, the procurement office has developed a spreadsheet tool to better track existing contracts and purchase orders. Eventually we intend to install the comprehensive contract management system. This is part of a current effort to assess our technology needs and associated costs. As you know funding for these types of purchases is limited. It's very expensive but a contract management system is at the top of our priority list when funding becomes available. Finally, we are in the midst of hiring a new procurement director. The advertising period for this position has been closed and we will begin interviewing candidates in the next couple of weeks.

Mr. Korban continued discussing the topic of finances to address an outstanding issue that I trust is on everybody's mind. It's an issue that you likely have been following in the news and has been brought up to my attention but on an individual basis. This was not part of your audit but I think it's important to highlight where we are and explain some of the confusion and some of the things that we are currently doing to clarify that confusion. So first and foremost it is very, very important to highlight that billing generates revenue from water and sewer operations only. It does not impact our ability to pay for drainage, which is solely funded by a set millage. So there are three different operations two are fee based and the drainage is based on a set amount of millage taxes that we receive every year. We remain in dire straits on drainage funding as a result of the 2017 floods and emergency response. We have depleted all our cash reserves due to that event. I know that the state is working hard to help us identify funding solutions in this area and for that we are truly thankful.

We reported \$134 million of what was dubbed as uncollected bills between 2016 and 2018 to the city council recently. That number included several different categories of dollars, not all of which we expect to collect. Hopefully when I give you the list of categories you will understand what that means. The following is a breakdown of the buckets included in that number. It was very inclusive number. The first item on that list was accounts receivable - bills that are currently due from customers are \$ 20 to \$21 million and any as of today but that seems to be an average number.

Mr. Korban continued explaining that the second category is delinquent bills which are anything that is over 60 days and some are three years overdue. That number is in the vicinity of about \$50 to \$51 million. So that is an accumulation of three years' worth of uncollected or delinquent bills.

Then there is a category we refer to as "free water" and this includes water used by municipal government, prisons and public schools. We are working to scrub this exact dollar amount in order to obviously end up with the number that we know for a fact is uncollectable. Every few years we do a write off amount and we have historically written off roughly about \$12 million or so a year. So this is about three years' worth of write offs. This is the typical utility practice where at one point you recognize that you will never collect on a certain amount. That is typically people who move, they leave the state and basically your chances of collecting that money is diminished significantly.

Chairman Stokes asked if not related to the free water which is going to governmental entities, then what other reason for giving it and how much is that part. Mr. Korban said that is correct and reluctant to specifically call out the number today, but we are making it a very high priority to scrub the numbers and define it because there's one more category which we call "inaccuracies, credits and voids". And those are basically due to all the chaos that was created because of the roll out of the new billing system that created such inaccuracies. We would go back and forth and a lot of numbers were written off, voided and those numbers are counted as part of that larger number. But those are basically just fake numbers that basically disappeared. So if I had billed you a \$1000 when in fact you only owed me a hundred we wrote off or voided the \$900 and \$900 disappears. It was never mine to start with. But that remains on the books as money that would be collected where it fact it should not be collected.

Chairman Stokes asked if none of that is included in the delinquent 60 plus days that you said was \$50 to \$51 million. Mr. Korban said that is correct and a totally separate category.

Chairman Stokes asked if the free water is included in the uncollectable total. Mr. Korban said that is correct and when you lump all those together it totals \$134 million in the whole billing system. At the end of the day you are going to be collecting a very much smaller number than the \$134M realistically by design because of the free water. For example, we meter it and account for it but we know we are not going to get money back for it.

Representative Connick said this reminds me of the Crescent City connection business model. You're paying for old equipment and you can't find contracts. It is just unbelievable the parallels and you have a big task in front of you. He asked for the name of the billing company that was hired in 2016 and how much was paid per year for that contract. Mr. Korban responded that the name of the company is Cogsdale, a Canadian company.

Ms. Downs said the total amount spent is somewhere around \$11 million but it did not all go to Cogsdale. That included some internal cost of employees and some consultant costs to help us with the implementation. Maybe \$4-5 million was paid to Cogsdale.

Representative Connick requested that the Council receive that information and those details. I think there is going to be some resolutions filed this session to get details of this. He asked if Cogsdale fulfilled their contractual agreement. Mr. Korban said as you alluded to, we inherited this situation. One of the first things I did is I brought them down from Canada. We basically wanted to hold them accountable. We wanted to understand what they did, what they did not do, what they are still obligated to do. And it was a very honest conversation and obviously reputation matters.

Representative Connick said it looks like they are not performing or someone is not performing based on \$11 million we are paying them. Is there a breach of contract, what do the terms of the contract say, and do you have the contract or the supplemental addendum to the agreement available? Mr. Korban said my first approach was to hold them accountable. Representative Connick asked for his question to be answered if he has the contract intact that you can give to the auditor.

Mr. Korban said we do have a contract that we can avail to you. I just wanted to point out that at one point - having spent \$10 to \$11 million on this software - my goal was to make it work. I bring them down and say we need to get out of this mess. And to be honest with you, it's maybe hard to believe, but they were part of the issue, but not entirely. They cannot be blamed. It's easy to blame one entity and just walk away. But in the matter of the fact there were so many other issues that layered up one issue after the other that just created this total chaos.

Representative Connick said we need to know those issues. I think the public deserves to know those issues so it doesn't happen again. I think there was a statement in mid-March that the account receivables were \$134 million and then it came back to \$50 million - that's an \$84 million difference. And then the explanation was that it was free water distributed to public schools and government agencies as you just addressed that. Looking at your free water that was on your books in 2016 was \$6 million; 2013 was \$5.5 million; 2017 -no data; 2018 -no data. He asked if the numbers in 2016 and 2013 were accurate.

Ms. Downs said we have to assume it is accurate. That was the annual report that was issued at the time. If you look closer at the report it is actually more than those numbers. The free water does not include what we call "process water" which is the amount used in our own processes. When I look at those old reports it is usually double the amount in that gross billed number that was reported.

Representative Connick asked if they do not know what the number is for the free water. Ms. Downs said I'm trying to make sure that before I give you a number of what that is, that it's an accurate number. Those reports that you probably have from the past were done in the old system. So making sure that we can parse through to go from the gross number, which is what was reported to the city council, down to the net number, which is the amount that we actually send to customers and expect to receive. There is a gap and that is the difference between what the city council characterizes as \$134 million to what we are recognizing - we are still doing the audit - but what we think is more in the \$71 million range.

Representative Connick asked what the real number of outstanding receivables if you factor in all the other. Is it \$50 million that you reported? Ms. Downs responded that it is the \$50 million delinquency along with another \$21 million or so that at any given time you're going to have that some outstanding receivables because you get a bill and it's not due until next month. Some people pay it right away and some people pay it when it is due. So at any given time you're going to have some receivables on the book.

Representative Connick asked if she has any idea how much of that is collectible based on past history. Ms. Downs answered probably \$20 million of that is for inactive accounts and a small percentage of that will be

collectible. Mr. Korban added that \$20 million out of the \$70 million - give or take - is likely to be uncollected because these are closed accounts and very difficult to trace and track down.

Representative Connick asked Mr. Korban if he had ever seen anything like this in his previous employment. Mr. Korban said the simple answer is no.

Representative Connick said we are here to help and to help the mayor. I know she's got a daunting task and she means well, but this is the old way of doing business that I've seen as a legislator that's got to go. We did it with the bridge. Unfortunately we can't get rid of the water and sewer systems so we've got to fix it and we're here to help. But we will be asking for more detailed information to see who's making the money on these contracts and why aren't they performing. Any help you can give us to get that information and get it to us, we would appreciate.

Mr. Korban said we welcome the feedback. We believe that we bring a culture of accountability to this organization and speak it every day. You can tell that it's resonating among staff. Most staff members want to hold each other accountable and it is happening and it's going to take a while. That is why we're cleaning every process possible in terms of procurement or any of the other processes.

Chairman Stokes said if you take this type of assignment in retirement, you must have had a heck of a career. So thank you for taking it and we appreciate it.

Senator Martiny commented that Mr. Korban was going to confession over the sins of predecessors. I hear how much is owed and that we paid somebody \$11 million I assume to collect. I have personal experience owning a double unit in Lakeview that I've owned for 10 years. For the first two years I got bills and it was great. I just got off the phone with my wife after talking with your people yesterday for about the umpteenth time. The thing that bugged me more than anything is they didn't send a bill, but when she would call after about an hour, they'd say, well you can pay it online, but there's a \$4 charge if you want to pay it online. But I'm saying wait a minute you didn't send me the bill and now I have to pay you \$4 extra to pay for it. What concerns me is let's just say I don't pay it, how far out will you let me string you out before you cut off the water. Do you ever cut the water off?

Mr. Korban said that's a very good question. We are very intentional about targeting what we call transfer accounts or accounts that are basically in an abyss. They're not on our books for whatever reason they fall off and they stay off. So we brought about a dozen people solely to look at those transfer accounts - basically dissect and scrutinize them. We had brought 12,000 accounts down to about 500 now so it was very intentional.

Senator Martiny said that is people who have moved in and somebody moved out. Mr. Korban said that is correct. Senator Martiny said I've been there. But if I don't pay the bill how much time do I get? Or do you just put me in that stack and write it off? Ms. Downs said she was going to try to answer if understood correctly. One of the things that we walked into, because I arrived two months before Mr. Korban, was a moratorium on turnoffs. So one of the things that we've worked on is to let people know they need to pay their bills and every collection effort will be made, including turnoffs. We are very purposeful and making sure that we provide the right notices and there are some legal requirements on that. But then yes, we are actively taking every collection effort we can.

Senator Martiny said I am sure not to be the only person that's not getting the bill. Now, the ideal thing for me to do is say I might pay it but let's wait till they do something except by it is a double and I have a tenant in there. Part of my deal is I provide the utilities and it just concerned me. Look I know you have much

bigger problems than that. What percentage of your water goes into the ground every month? That's a big deal. That is something we as a legislature can try to help you address. But what concerns me is when there are little things like I can't even get them to send me a bill and then I have to pay you \$4 every month. I've done this for the last five years because my wife says we will not let them cut the water off. That to me is such a small part of what you do.

Mr. Korban said we can be sure to send you a hard copy bill if that's what you want. Senator Martiny said I don't care if you want to send by email - that works too. I'm telling you I don't get any notice. We just call and that could be part of your problem. I'm not asking you to do this just for me. I'm in business. If I don't send people a bill, I promise you they won't run up and say let me give you some money.

Mr. Korban said we are focusing on those bills that are basically off the books and we have a company that helps us find those accounts. Senator Martiny said if you're going to show me that if I don't pay my bill, you'll write it off down the road though then we'll be fine. Mr. Korban said that's exactly what we're trying to avoid. Senator Martiny said I'm just saying it's very frustrating to me as a consumer and I'm just such a very small part of what you do. I'm wondering how you are going to solve the big problems when you can't really get to the small ones.

Representative Hilferty said we are at \$134 million versus \$50 million so we have an \$84 million delta there. Free water is \$6 million up to \$12 million potentially. Mr. Korban said times three because it's every year and we work on a three year period. Representative Hilferty said so that is \$18 million. And the \$20 million write off. Ms. Downs responded yes.

Representative Hilferty said adding for that additional \$6M, we still got somewhere around \$45 million or so between those two numbers, where does that come in? Ms. Downs explained before I tell you exactly how much is in each one of the buckets that Mr. Korban mentioned, we are making sure that we go through and can tell you specifically how much in each area and what they are from. Which ones are credits, which ones might represent other types of write offs that aren't necessarily related to inactive accounts. We are still working on trying to better quantify that for you in the various buckets.

Representative Hilferty said this has been a question that's been out there for a long time. So I'd hope that we're honing in on an answer because we are talking millions and millions of dollars. We've got an infrastructure problem with SWBNO and we have a public trust and public confidence issue with SWBNO. I'm sure you guys feel it just as I feel it. Looking at those two things when we have something that's \$30 million that we can't quite solve or we've been looking at for a couple of weeks - that's what concerns me. How do you figure that math problem out?

Mr. Korban said we are equally concerned and we were very mindful of how important it is to finally come up with accurate and solid numbers that we can share with you, the other stakeholders, with our customers so we can move on. I can't tell you exactly when I can provide that number, but we work on that every day. We actually brought in outside resources to help us scrub the numbers and at the end of the day give you an accurate solid number. It's important that at one point to start fresh, so to speak, in moving forward. You write off a certain number and then you are done.

Representative Hilferty asked for a walk through of the process. In 2016 everyone was getting their bills, SWBNO implemented the new software. I know you weren't there, but what have you heard happened when the new software was implemented.

Mr. Korban said they tried to reconstruct some of the processes so we can find the flaws in them so we can correct them. As a matter of fact, we spent about three months and just received in late January a set of recommendations from a vendor who helped us break down the process. To give you an example - I have a meter reader who was given a route on a daily basis and that route was so confusing. There was no sequence which created a lot of confusion reading a meter associated with a different address. So the meter reader billed for incorrect addresses.

Representative Hilferty asked how the software caused that. Ms. Downs said it was sequenced when it went live but some months later someone hits something and took it out of sequence. I thought it was just sort of a nuisance. But the consultant pointed out it was actually a major area for meter reading errors. Meter readers were unknowingly putting the meter readings into wrong accounts. It's a greater chance for human error whereas if you go house by house in proper sequence it is better.

Mr. Korban said there's several things that took place that contributed to the issue and just compiling all the inaccuracies and untimeliness. That is one example that once corrected removes the potential for more error. Representative Hilferty asked if that has been removed. Mr. Korban answered yes, for sure. Representative Hilferty asked why are there still issues though with the billing because the billing has not been resolved. Mr. Korban explained he believes that the issues have been diminishing every day as the more accurate readings and obviously the routing significantly improved. We are still facing about 20% of our meters that are not accessible. They are either buried, behind a fence, behind a locked door for whatever reason and we were addressing one at a time. If we get a report from a meter reader that the mirror is broke or it's not readable, we send a work order to our meter shop and then within three to five days that is corrected. We are talking about a large number of meters.

Ms. Downs said sometimes we have to estimate a bill, so when they get the meter read the next month and there's a true-up. People think there's something wrong with it because it looks like it is spiked, but it really is just trueing-up what should have been read, what wasn't read from the previous bill because it was estimated. So if you averaged it over the period of time that was estimated it is the right amount. But sometimes people assume, especially because they've read the paper, that the bill must be wrong because it looks so much different than it did the month before.

Representative Hilferty said in many cases though it is like a 10 times increase. Taking my own house as an example, it's not like the water usage went from one level and then in two months we filled two Olympic swimming pools and then we went back to normal. This is what I'm hearing from constituents. We keep hearing that it's the software but now I'm hearing that it's a meter reader punching in a number wrong. How we have not come to the exact source of what happened because all of this seemed to occur simultaneously with the new software. Why you don't have a more detailed response to what specifically happened is what's really confusing me and that's why I keep harping on this. Was it the software or was it the meter readers?

Mr. Korban said again it's a list of flaws in the process that we were correcting one at a time and I believe we are making a difference. We are not there yet. We haven't corrected all of them because it does take time. I mean another challenge, for example, we just lost about 12 meter readers. It is a very tough job and very low paying job. You spend time training the meter readers, you send a supervisor with them until they get professional at it. Six months later you lose them. Now when you're short on meter readers, then you start improvising and then start estimating because you can't touch every meter every month. Then you start by design estimating some meters instead of reading because you cannot read them and that that adds to the confusion and all that.

Representative Hilferty wondered how there's not been an autopsy of what happened with the Cogsdale incident specifically point by point is really perplexing. It has been the source of a tremendous amount of bad publicity for SWBNO and it's never been specifically answered. If you could say it was this glitch and we've patched it. I understand it might be multiple things, but why those are not easily enumerated?

Mr. Korban said it may be helpful if we share with you the actual report from Utility Works that helped us break down and dissect the actual process of the new system implementation. So I'm happy to share with you the actual report and I'm happy to just sit with you and go over it because it does do what you just asked for.

Representative Hilferty saw that Utility Works recommended - previously pre-Cogsdale - an estimated 100 gallons a day per consumer and now Utility Works is recommending 170 gallons per day. What is the genesis or basis for that again? Mr. Korban said it reduces the true-up number. Say I estimate your meter for two months and then the third month I am actually reading it and I'm correcting the estimates. The estimates are too low at 100 gallons a day. Then that difference is going to be so large it's going to appear like it's spiking when in fact it's not, it's just correcting the two low numbers.

Representative Hilferty asked how they came up with 170 gallons. Mr. Korban said that was just a policy. We had recognized that it's too low and that's why we're going up to 170 to help reduce that spike. Representative Hilferty said so consumers will be charged 70 gallons more per day. Mr. Korban said yes, as an estimate with the hopes that when we read it, the actual difference will be less. So you're not burdened by a spike in the third bill paying a higher amount.

Ms. Downs said to answer your question - they looked at the average residential customer use to come up with that average number. Representative Hilferty asked how the average is not based on what your personal average based on your last readings. If I've read your meter four times over the past year how is that not my average whereas someone else's average is a different number based on his four past readings. Mr. Korban said that is a good question. The challenge is that if we're looking back, sometimes those numbers themselves are estimates, so we're relying on a wrong number to come up with a true average and that average becomes inaccurate. That's why the 170 is a better solution for now, again, to make it more realistic and then when it is trued-up, it's again less often.

Representative Hilferty remarked that 170 gallons is going to be skewed against one person or the other. Ms. Downs explained that originally when the system went live, it's my understanding that they did exactly what you're saying, which is best practice in the industry. Sometime in early 2018 before we arrived because of all of the issues, it was decided that they would just average it because people were getting an estimated bill that included some incorrect billing. And so I guess the decision was made to just use the same average for every customer at a very small, minimal level. One hundred gallons a day is really assuming that you have one person in a house, that's what that is. So they went to that minimal level of estimating, but it is way too low for an average of residential customers, much less any other type of customer.

Representative Hilferty asked why they would not have transitioned into that best practice where you look at an individual home's average because now everyone is paying for 70 more gallons a day and perpetuate what we have been in. Ms. Downs said our plan is to get to there but concerned about creating new problems - unintended consequences by going straight to that individual averaging because there will be people who had a lot of estimates. If we do that, we'll be looking for the actual reads and the actual reads may have been adjusted to high erroneously and may not reflect their average. So if I can get them to much more of a norm, even if I have to estimate it, going forward, then in the future - I'm not talking about like

five years but talking about in some months - be able to go back into a different type of estimating. But right now I'm a little afraid that if we go straight from 3000 gallons a month, which is about a 30 day average, to actual estimating then I'm going to have some people whose bills will just spike and look ridiculous.

Representative Hilferty said I'm concerned because people have already been getting wrong bills. She received a call from a single elderly lady living alone in a 2000 square foot house that paid an \$800 water bill last month because she did not want water cut off. So you have people that have been doing that and now will be receiving a higher and even higher estimate. It just keeps going and concerning because now we're talking about an even higher number for people that have already paid very large bills that were based in this whole billing software issue.

Representative Hilferty switched to a question about overtime jobs and work that is done on weekends - how is that monitored and routed through SWBNO's system to determine what constitutes an overtime job, when that is warranted and the size of the crew that should be out there.

Mr. Korban responded that they are focusing quite a bit on that. We brought in a right leader for what we call the network division who is very capable and has a very watchful eye. Representative Hilferty asked when they were brought in. Mr. Korban responded about eight months ago. We sat down and went through the overtime issue in detail. Obviously we have a significant number of work orders that appear at our desk on daily basis and we continue to generate backlog because we cannot touch every work order that comes our way. So if we have 125 requests a day and we are doing 100, that leaves 25 basically goes untouched.

Representative Hilferty asked if you have a work crew going out on a Saturday is there someone charged with checking on that work crew to make sure they are working, have the supplies they need and, and to make the determination that maybe they don't have what they need so they do not need to be billing for these hours anymore. Mr. Korban answered yes, it's no different working on a Saturday or even a Sunday than working on a Monday through Friday with their supervision. There's accountability and there's meaningfulness to the work. Basically we are working seven days a week to keep up with the workload that is this coming our way.

Representative Hilferty explained a problem with a water main that happened in her neighborhood on January 5th where seven SWBNO trucks out all day and not working. Mr. Korban could not speculate on what happened and would look into it. Representative Hilferty said she personally saw a worker sleeping in his truck on that Saturday and it was very disheartening to her and someone should be supervising and sending them home if unable to get the work done.

Mr. Korban said SWBNO is elevating customer service to a higher level in terms of addressing these things. And one of the things we're looking at is how do we communicate with residents who see a crew in front of them and explain what we're doing, why we're doing it, how long it's going to take. That piece of that missing communication has been a source of tarnish for us. It's causing us to deteriorate in terms of our brand. So we were going to obviously elevate that importance. So we will come to your door and explain exactly what we are doing. Representative Hilferty asked if they have implemented a text messaging system similar to what Entergy New Orleans has in place. Mr. Korban answered not yet but actually talking to Entergy about how they do it.

Representative Hilferty asked which department is responsible for keeping your contract files now because that was in recommendation made in the report to have a specific department responsible for all the

contractual files. Ms. Downs responded it is our goal to have that all as the responsibility of procurement. Right now we are still collecting all of that to make sure that it's in one place. We need to procure some document control systems, which again require us to have some additional funds, but it is the desire for us to have it all in procurement.

Representative Hilferty asked for the timeline for that. Ms. Downs answered I am not sure because some of this is finance dependent. We need to do a lot of technology. Representative Hilferty asked the cost to procure that system. Ms. Downs responded I don't know that answer right now. As I think you mentioned a little earlier, we don't have any capital money for any of these projects right now.

Mr. Korban said whether it is a million dollars or two - we don't have either. To be honest with you, we know where the needs are and we're just basically taking the approach that if you don't have money, you cannot issue contracts. And that's what we're struggling with. I'm not repeating the mistakes of the last two to three years of spending money that we did not have. That's why we are in large debt going into 2019 owing a significant amount of money - millions of dollars to vendors that we don't have money to pay.

Representative Hilferty said our state implemented something called the Louisiana Checkbook last year. It is based on the Ohio checkbook system, which is an online database where residents of Ohio or anywhere it can look and see contracts, expenditures, income of state agencies around Ohio. We recently implemented that for Louisiana. Would you be open to being a part of that system? Mr. Korban responded we are more than open to any system that would allow us to be transparent. But I would dare to guess that that system probably costs multiple million dollars. Representative Hilferty explained that this is maintained by the state, so SWBNO would have to be added into the system. So I'm sure I can figure out what that number looks like. Mr. Korban said he is happy to discuss that.

Senator Walsworth said this is the first time he ever heard of that terminology "free water". He asked for what entities receive the free water. Mr. Korban answered that all city government buildings and facilities and obviously our facilities. We meter the water that we are using but do not expect to receive a payment back. Also the prisons and the public schools receive free money.

Senator Walsworth asked if public schools are a part of the City of New Orleans. Mr. Korban said there was a policy at one point where they were responsible for payment. Ms. Downs explained that it is state law and there is a very convoluted formula on how they pay water and it entitles the schools to free water per student and personnel that work there. Senator Walsworth asked if state law requires you to give free water to all schools. Ms. Downs said that the guidance for SWBNO gives a cap. So they get water up to a certain amount per student, per staff, per building. And we can only charge for the water they use over that amount.

Senator Walsworth asked them to send that state law to the Council members. Ms. Downs said that Audubon Park is also in state law to receive free water. I can't remember the cap number but it is way up here and the water is way down here and based on 1980-something usage so some of it is outdated. Senator Walsworth asked if non-public schools or universities receive free water. Mr. Korban said that all universities pay for their water. Senator Walsworth asked again for the law that provides for the free water.

Senator Walsworth commented that going from 100 gallons of water usage to 170 gallons a day estimated usage is a 70% increase to the elderly. That means no food. And so be careful when you just say we would rather see it go up this much. Please be cautious on that because I know you have the same elderly and the same poor maybe not in numbers but by percentage wise the same. Going up 70% on utilities means no groceries because I promise you that social security did not go up 70%. So I ask you to be cautious doing

that and thinking to just refund back if their usage is not that high. I don't know how you're going to do that because I think SWBNO is struggling just to do what you're supposed to be doing and how you give them their money back or how do you make that correct the next month. Let's be honest, I think you're so far behind. Lastly, you are saying that if people do not pay their bills that you will write it off. I don't think legally you have the right to do that. I think you have to be very careful and not sure legally you can just arbitrarily say that if they do not pay that we will not go after them. Maybe it is in the law giving you the ability to do that. Obviously the City of New Orleans has some differences and now I hear that it is SWBNO too. In other small communities they go knocking on doors and tell the residents that they owe money. Lastly, he asked what the Canadian company hired for the \$11 million contract was supposed to be there for.

Ms. Downs responded that as she stated before, not all of that money went to the contractor. Some of it went to implementing the system. Senator Walsworth asked if the contractor was not charged with collecting, has SWBNO looked at a collection system. Ms. Downs said they use a private collection agency.

Senator Walsworth asked what guidelines SWBNO gives the collection agency for going after delinquencies. Ms. Downs explained they only give the collection agency accounts that are closed, inactive and more than more than 60 days due. That is the \$20 million number. We are working with the collection agency to help us go after those people. We've had sort of a bad, a low history on that. And that's the only group that we are concerned about whether or not it's actually collectible. You are right - we do not have the authority to give away free money and to just write people off. On active accounts we are going after everything and we're trying to collect on active accounts aggressively as we can. I don't want to give you the impression that we're going up 70% on the estimating. I actually think that we are doing a disservice to the elderly or lower incomes when we underestimate and then in the second or third month we send them a true-up bill that's much larger and it's outside of their ability to pay. So if we can even those out with better estimates, it's actually in their favor so it's not to try to overbill them, it's to really try and bring them closer to their true usage and that's the reason for the change in billing.

Senator Walsworth said that is one of those half full, half empty situations. He asked if they overestimate and then in four months will you give them a cash refund. Mr. Korban answered absolutely. Senator Walsworth asked what will a lower income person do for the four months that they are paying an extra 70% on their bill. Mr. Korban said that is very accurate and the number was derived on a valuation of what we have been doing and the overall fact that at the end of the day we were under billing and then with the true-up causing people to pay a higher amount to catch up. So the overall intent is to make people bit more evenly spaced in terms of what they owe us. Ms. Downs said this will actually make their bills more manageable and only for the bills that are being estimated which are about 20% of the meters at any time cannot be read for some reason.

Senator Walsworth asked if they use an electronic meter system. Mr. Korban responded we definitely need to be, but we're not because of funding.

Representative Connick requested for SWBNO to present to this Council a complete listing of every entity that is associated with the billing contract entered into in 2016. I know you talked about the Canadian company and you said there's other companies involved. I would like this committee to have that information - full information with all the addendums and all the change orders and everything else. He asked if that was possible. Mr. Korban said yes, absolutely. Chairman Stokes said I am sure that that has been recorded into the meeting notes.

Representative Connick asked how long do you think it would take to get that information to us. Ms. Downs said we have the breakout - originally I thought you were just looking for the cost breakout. If you want me to pull the contracts and the amendments, I just need to make sure I just put resources in the right place. We are also still doing the audit, so obviously my priority is pulling contracts for auditors, but we are pulling contracts.

Mr. Korban wanted to finish off with drainage and emergency operations and just maybe highlight the fact that we are intentionally moving away from steam power to electric power. We have come to a place where 100 year old equipment is no longer worthy of repair. So we are doing everything that we can to find a way to replace a piece of equipment rather than that restoring it. We are partnering very effectively with Entergy to find a way to efficiently draw a roadmap to get us to where we can build a substation where they can be the sole or main provider of our energy. And to your point previously the four times as much money spending on generating our own power is just ridiculous quite honestly. And we must move toward the inexpensive, cost effective way of providing power.

We are nowhere near that point and there is a lot of transition that we need to go through. Even if I could rely 100% on Entergy today, I still have equipment that runs on 25 Hz, so I still need to use frequency changers, adapters to allow me to use that. But the point is this is a 20 year plan that must start today in terms of transitioning toward the 21st century.

Representative Connick said that the Entergy question piqued my interest because when a news article came out, I got a phone call from someone who used to work for SWBNO and they said what needs to be done is solar power. They mentioned solar power over the city landfill. I kind of got a chuckle that we're using steam power still and this is 2019. So are you looking at solar energy to save cost on that long term? Mr. Korban responded absolutely. The larger approach is that we have to create a master plan that incorporates lots of sustainable measures in it. It has not even started but I can tell you because it's happening as we speak there is a real, potential source of funding for a solar power specific to the SWBNO and taking that seriously. We are pursuing it. We cannot rely on it solely, obviously, but it will be part of the menu of options that would allow us to power efficiently, cleanly the next group of equipment and power generation that we will have in the utility.

Chairman Stokes said she always wondered if you could somehow capture the energy of the river but I don't want to get into that. I think that there are several items to follow back up on like the list of contracts and stuff. Mr. Korban pointed out the handout showing all the initiatives started that we will continue to pursue consistent with the recommendations. Chairman Stokes said we all look forward to seeing some real change and appreciated them working and lending their expertise.

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Mr. Purpera explained that he simply wanted to update the Council on this issue. He serves as chair of the Task Force on Coordination of Medicaid Fraud Detection & Prevention Initiative (Task Force). In 2017 the Task Force did some work whereby we took a sample out of the Department of Health's (LDH) records and gave it to Department of Revenue (LDR). LDR provided some statistical data to the Task Force. I made a request in September 2018 for that same information to be provided to the Task Force. I made the request again in December 2018, then again in January 2019. Finally at the February 26 Task Force meeting, LDR came and basically said they could not provide us the information that they had provided us before. LDR basically said they did not think the law allowed it but they did provide some similar information but not what we requested and in our view not complete. So in that meeting I informed LDR secretary that I would ask for an Attorney General (AG) opinion. That AG opinion is what you have in your packages and

basically what this AG opinion concludes that the information we are asking for is statistical data and it is part of what's listed in the law as an exemption of information that can be provided. It's not information that would indicate any particular taxpayer or identify any particular taxpayer, just simply would provide statistical data.

Mr. Purpera said the Task Force still does not have the information. I do not believe it is LDR's intent to provide it as they still do not believe the law affords them the opportunity to do provide it. Normally auditors do not accept the answer that information cannot be given. I have agreed to meet with the administration at the first part of next week and further discuss this. However, I think at some point in time we are going to need some resolution that might take an outside party to do that.

Chairman Stokes said that is well noted and hopefully you guys can work something out. I eagerly await to hear that something has been worked out. We appreciate the information and look forward to hearing your follow through on it.

Legislative Auditor's Budget

Mr. Purpera said the law provides that I am to bring you the budget once a year. In your packages, you have the budget request as we intend to present it this year. It is exactly the same amount as total means of financing and total expenditures. Note that personal services go up as a result of the increased cost of retirement and some other things. We are figuring out other places to reduce the budget in order to accomplish those things. But the biggest change that I do need to bring it to your attention is that in the previous year I had a state general fund budget of \$8.1 million. In 2015 my general fund budget was \$10 million and it's gone down every year since then. My total filled positions in 2015 were 262, and now it is roughly 232. So we have decreased the size of the office and decreased the amount of work we are able to do. The way that we have been primarily funding the office is using fund balance. There was a point in time where we had a sizable fund balance but we have been draining that down. In this current year we estimate to use somewhere around \$3 million in fund balance which we need some of that for cash flow purposes. We are \$34 million agency with \$10 million from state general funding, and the rest is from billings like your CPA firm. We bill when you do work. To get down to a zero fund balance would certainly not be the place to go and I wouldn't want to see us below a million for sure. So we can go through this next year using more of that and draining it down. But what I don't want to happen is if we're unwilling as a state to start increasing the general fund money that is going to this is office, then I cannot wait until June 30th of next year to react to that and I have to start reacting earlier.

I am asking to go back to the 2015 level then my office will be in a lot better shape. I heard the other day in the budget hearings from the governor's executive budget on their page dealing with the legislature that showed an 8% cut. I can tell you this office cannot operate where we are operating now with an 8% cut.

Chairman Stokes asked if the 8% cut is across the board for all offices included in the legislative budget. Mr. Purpera commented in prior years, they put in one cut and the legislature is supposed to figure out who that comes from - either the Senate, the house, my office. Chairman Stokes said it will be interesting to watch. I strongly believe in the work that you guys do, so hopefully, you can come out of it in good enough shape to be able to do the important work that you are assigned.

Mr. Purpera said if we cannot go the \$10 million this year, then let us start going there in stages and not get to the point where I've got to start predicting whether we're going to add \$2 or \$3 million to the budget or whether I need to be looking at some severe decrease in the size of the office. To explain why this is important, of the self-generated monies about \$6 million is FEMA billings and \$14-15 million is billable

audits that we do on a regular basis. Of the \$8-\$10 million in general fund gets sucked up by the actuary work that's required statutorily by the office. So I've got to pay actuaries, actuarial firms to do all the actuarial notes on every retirement bill. I've got to provide valuations on every one of the retirement systems. There is nobody I can bill to do that actuary work.

All the work in local government that we talk about every month, there is no one that I can bill. Also for the fraud investigations, there is no entity that can even begin to pay for that work. So the areas that are going to hurt will be local government, fraud investigations and performance audits because statutorily I have to do the actuarial work anyway. I assume that you are not going to let me get by a session without actuarial and fiscal notes and things like that.

Local Auditees with Unresolved Findings Pursuant to Louisiana Revised Statutes 24:554(B)(2):

Mr. Cryer referred to the meeting in October 2018 where three villages were brought for consideration of the "3-Strikes" law. This is our six month follow up and because the fiscal year ended June 30, 2018, that report came in after our October meeting. We have that report information in these talking points, but that report obviously is now nine months after the fiscal year end. So we have invited the mayors for the different villages today. I will provide the update based on the audit report and information from our conversations with the administration over the last few weeks. But I would like them to explain what they are doing right now to address those. I will run through each one and then allow the mayors the opportunity to address those different issues.

a) Village of Bonita (Morehouse Parish)

Mr. Cryer explained the findings that met the three strikes criteria. The first one was untimely payments. The Village was deficient in paying U.S. federal taxes in 2017. They caught up during September 2018 but fell behind again but as per our last discussion with the mayor they are caught up again and trying to maintain that. The Village continued to have a net operating loss in its utility operations in 2017 and then also lost money in 2018. We provided just some basic financial spreadsheet without projections because the projections that are going to happen are going to be based on a rate study currently being done. The Village has contacted the Louisiana Rural Water Association (LRWA) to try to get a real number from them on the utilities both the water and sewer and that study has not been finalized. They have not raised the rate yet and the mayor can talk a little bit more about that. The Village had missing signatures and documents in its tested disbursements performed by the auditor. The auditor found similar things again in 2018 for inadequate purchase procedures.

The Village was noncompliant with the Local Government Budget Act. There are a number of violations of the Budget Act. Some were cleaned up during 2018 but there were still some things missing such as the fund balance, detailed itemized expenditures. Finally we have inadequate segregation of duties. So the village only had one staff during 2017. They hired an additional person since that point, which is going to help them mitigate some of the risks with errors or fraud happening. So we have here today, Mayor Penn who just took office in January to give us an update on their corrective actions since that point.

Mayor Virgil Penn said the issue of timely payments has been addressed and payments are being made in a timely fashion due to the lack of the taxes needing to be paid. The past administration was trying to catch up with the overdue taxes and in the last three months we have addressed and resolved that pretty much getting everything in a timely fashion. Recommendations were made to have a rate study by the Louisiana Rural Water Association and we are going to have to go up on the rates. I have talked with the citizens about it and they are on board as long as we provide them with something better. They do not want the rates to be

raised if the water is not going to get any better. We are trying to fix the water and the sewage and that's what this study is for to find out if we are up to par. The payments coming in for the water is not covering the real costs for existence. If the pipes were to break or the pumps go out, it would be a real big issue dealing with the operating loss. Once we get all this fixed hopefully we won't be spending a lot of money patching the system up, trying to keep everything going. To address the inadequate segregation of duties I have hired another clerk. We are supposed to have two and only had one clerk so now everything is going good.

Mayor Penn said regarding the noncompliance with the local government act, the annual budget has been adopted. Regarding net operation laws and untimely payments, we are doing good. I have just been in three months and addressed everything to the best of my ability so far. If we need to do some more work just let us know what we need to do. I wanted to ask a question about the three strike law and by me just coming in, would I be struck out?

Mr. Cryer explained that the law talks about the organization as a whole. In this case it would be the Village that would be subject. The law was intended to make sure that the repeat offenders were not allowed to do this multiple years without any kind of consequence. So the law provides that the Council requires a two-thirds vote to take that kind of action against an agency. It takes that out of just the fact that you have three years at the same finding and it puts it in the people's hands that can understand the situation and can make a judgment call. Thus far we have not had anyone subject to three strikes and we have only been looking at this for a few months. However it comes back down to a vote of the Council and a super majority at that to actually cut off some one state funding. So this is really reserved for those situations where someone is blatantly disregarded the law.

Reverend James Smith, Director of Economic Development, said that they got with our Senator Walsworth and got everything on hold and we are going to meet with DEQ and we're setting up a reserve fund already after we get started. We are setting all that in place so when the rate study is over and looking at a new auditor because we paid \$13,000 for the previous auditor. We are trying to get somebody quarterly to come in and help him.

Chairman Stokes said that as soon as you have fewer issues in the audit then the audit bill tends to go down. I see that your population is 284 so a relatively small place. Representative Bubba Chaney has also been speaking on your behalf.

Senator Walsworth said he appreciates the mayor and the council doing the right things to have an adequate rate system that will pay for the water and for repairs. I know we're going to be working with you to try to get some grant dollars that might be out there or some other things that could be out there with DEQ and public health. I do appreciate that you in the new and the new council are working together to try to find out those kinds of things that you need to do. I promise you that the auditor's office will help and tell you when there's an issue. You've already done that with the hiring of a part time clerk and just need to follow good policies. It's a small village and we need to see if we can figure out how to get more people into the Village of Bonita instead of less people. I know that you're trying to do the right thing and that goes a long way with this committee. If you've got a question, don't hesitate to call an auditor. They are there to help, not to punish, to make sure you do it the right way. Reverend Smith said we got some people out there getting free water but we are going to find those meters and work on that.

Chairman Stokes asked if Mr. Cryer feels the Village is doing satisfactory or if need to follow up in another six months. Mr. Cryer said we are recommending for all three villages on this agenda for our office to continue monitoring them. We are seeing things move in the right direction whether due to the new

administration coming in or some corrective action like we've seen on Harrisonburg. If we have problems with the direction things are taking, then we would bring the village back to this council. Currently we have probably about 30 different villages and other municipalities that we monitor for various reasons. But once we feel comfortable that they are moving in the right direction, we can keep an eye on those and not have to bring back to the Council. Chairman Stokes commented on the success of the new mayor's administration and getting this important work done.

b) Village of Harrisonburg (Catahoussa Parish)

Mr. Cryer noted the two findings for the Village of Harrisonburg from last time. First is the utility cut off policy. As of June 30, 2017, the village had 81 utility customers. They included village employees receiving services after the cutoff point. That total was about \$27,000. As of the end of February, the village still had about 51 accounts including village employees, totaling about \$18,000. The mayor is trying to get those caught up and trying to move away from allowing cutoffs to not be enforced. The other finding was common for small entities - lack of segregation of duties because only has two office staff. But we understand talking with the mayor that he has become much more active looking at bank statements, looking at billing adjustments. So we're seeing even with that small office staff that we are seeing some progress. The village had no problems really with the utility system last year. In fact, they had a little bit of a surplus on the revenue versus the expenditures. They did have a short fall in the general governmental operations and that's something that we've been talking to the auditor and the mayor trying to work through exactly what caused that spike. There was some confusion over exactly what was shifted around to make that happen. Some expenses that were previously being paid through the utility system are now being paid through governmental funds. So we're trying to make sure that they have a good understanding of what the real budget is, but financials appear to be fairly stable. We've had just these two findings and it looks like they're moving in the right direction. So we would ask the mayor to address what they're doing more specifically.

Mayor Michael Tubre of the Village of Harrisonburg said they have updated policy and procedures and basically implemented the cutoff policies that have been in place. We have been improved communications with workers in the main office to see that is carried out properly. I am reviewing all of the before anyone else does. I go through all the bank statements before the clerk has possession of those.

Our cutoff deficiency is down this month to about 5,000 and getting that pretty close. Most of the outstanding debts are under a contract. Over time we have allowed people to sign some contracts because they got behind on their bills and trying to get away from that except in very special cases. But I feel good about where we're going. It's been good for us to get kicked in the butt.

Chairman Stokes said we do really appreciate the work that you're doing. My understanding from Mr. Cryer's previous statements is that the LLA will keep an eye on the village and bring them back if needed. Thank you, Mayor Tubre for starting those procedures. I appreciate you coming here and best wishes.

c) Village of Morse (Acadia Parish)

Mr. Cryer said that has a new mayor elected and we have seen some very promising things happening already from discussions with the mayor and village attorney. The findings include the water and sewer fund is operating in deficit. It has continued to lose money during the 2017 and 2018 and continue to lose money on sewer operations. The water was basically breakeven with depreciation and sewer was falling behind. The village does have just a flat rate that they're charging for village residence because they don't

have water meters. And we understand right now that there is an engineering firm working on water meter specifications. They are all looking at some different options on how to improve those systems.

Mr. Cryer said there was also a finding on the 5% budget violations because they did not amend its budget for excessive expenses and revenue shortfalls. And we understand currently the new clerk will be providing budget to actual comparisons at all board meetings, which is a best practice. This will make sure that the board understands exactly where they're at financially at all times.

One of the findings they had last year on bank reconciliations actually dropped off and it was resolved. But one of the other findings became a three strikes finding in 2018 and that was the bill which was not collecting and dispersing all of those collections properly. So they had some of the amounts that are being collected in fines and forfeitures that the village was collecting but weren't turning around and sending in to the right agencies such as crime stoppers. And so we understand that they have been working to resolve that with their auditor and making sure with the new administration coming in that they're getting all those disbursements going to the right place. We have had some communications with both the village mayor and the attorney and hearing some positive things about what they're planning to do.

Newly elected Mayor Ray Richard explained that they increased the water and sewer rate by 75 cents for water and 75 cents for sewer because a flat rate. We are a small community and don't want to impact the older people with increasing the rate too much. Their sewer plant is old and needs to be redone because a lot of sludge.

The water meters are in progress right now. I have two bids so far coming in and the people are working on the water system. We have the boxes and they gave us meters to put in the box so we don't need the whole system, we just need the meter. It does work in that box and it's very easy to put it in but it's a \$100,000 dollar for the system. I don't want a meter reader but I want electronic. If I'm want to do something, I want to do it right the first time. And that's the way we want to go because we can't hire more people just to read meters. It's not a lot of people, only about 300. My agenda is to do it right the first time and bring it back up. We not going to stay at the level we are right now. We have all new people in. All old people are gone. But we all in and be all working hard and they all honest, they've got to come to me. And this is a lady that works with very hard to bring it back and on top. We don't owe nobody nothing, no more.

Chairman Stokes said break even for water with depreciation is exactly where you want to be. Is 75 cents enough? Mayor Richard said that the resolution reads 75 cents per year, so next year we'll go up another 75 cents. They were not doing that. They will leaving it the same for four years and did not go up their rate. But then we had breakdowns and you have seen the bill for the two pumps that went down.

Chairman Stokes said it sounds like you have a plan that will get you into the black. Mr. Cryer said they are stepping into the right direction. It's such a thin margin because the town's finances are such a small dollar amount that any kind of disaster could upset that. So having those reserve funds, having that excess of money coming in, even if building up to it, it's better than staying where you're at. Right now there's still losing about \$28,000 a year on depreciation, if you will, on the sewer fund. So putting that money back into the system in case of failures is super important.

Mayor Richard said they hired LaMATs to collect from the delinquent people who don't pay. We were 21,000 people that owed the town. Ms. Birdie Touchet, Village Clerk, said the reason LaMATS could not collect the overdue money was because the old workers would just take name and address and send someone to turn on their water. LaMATS said to fill out these forms and they would collect the bills. We didn't have a driver's license number, a forwarding address, or a social security number. So there was no

way for them to track and recoup those funds. So when we took over in January, that's one of the main things. The residents must provide ID, social, fill out the contact information page fully before water gets turned on. And that way if they leave owing a bill, then they can be traced and at some point we can recoup.

Mayor Richard said they are charging court costs and we are giving everybody the money that belongs to police training, Crime Stoppers or whatever. It's all listed now. Ms. Touchet said that the old mayor would dismiss all the court cost. Mayor Richard said he does not dismiss tickets. He sends them to pay their tickets. Ms. Touchet said they don't send you invoices and you have to know that that's where those funds go. If it's collected, then you have to disburse it where it needs to be in. That's one of the main things that, I've been adamantly looking at. If we collected x amount goes to each different department.

Mr. Cryer said there are there are certain laws that allow you some discretion on what your charge and waiving of fees, but we also had a history of findings with this village in the prior administration and even going further back than that. So there are a lot of violations that have occurred and this is just one of many in that history.

Mayor Richard said he has a grant going out for sewer repairs now. Ms. Touchet said that the old administration would charge \$10 late fee if you didn't pay it by a certain date, she would charge \$5 for water, \$5 for sewer, cause they come on stay bill. When I took over, we started going through our illnesses. There's supposed to be a \$25, a late fee on sewer and a \$10 on water. So over the years thousands of dollars was lost. Chairman Stokes said even though it might help somebody individually for a minute, when the town's starts sliding downhill, that doesn't help anybody. So it sounds like y'all are on the right track. Mayor Richard said they come after me and say, look, you're doing this, and you got to run again. I don't care about four years, I care about now.

Chairman Stokes said it is rough because a lot of times doing the right thing is making the hard choices correct. And they, they, they actually elect us to be grownups. Like I always say, I've never been shown more respect in my life and I've never been shown less respect. And so I know it's a tough life.

Senator Walsworth said a lot of mayors come into your seat and most of them do the right thing. And you know, regretfully, every once a while they get defeated because it's easier for some guy to come in and say to vote for me and I'll lower your water rates. Senator Walsworth recognized John with the Louisiana Municipal Association and thanked them for all they do to help everybody do the right thing. Senator Walsworth thanked the mayor for being here and doing the right thing.

Other Business

No other business was discussed.

Adjournment

Senator Martiny offered the motion to adjourn and with no objection, the meeting adjourned at 4:18 p.m.

Approved by LAAC on: September 12, 2019

The video recording of this meeting is available in House Broadcast Archives:

http://house.louisiana.gov/H_Video/VideoArchivePlayer.aspx?v=house/2019/apr/0402_19_LegislativeAudit