

City of New Orleans

City-Wide Risk Assessment

Final Report • February 10, 2021



Edward Michel, Interim Inspector General



February 10, 2021

Re: City of New Orleans City-wide Risk Assessment

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

Edward Michel

Interim Inspector General

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I. PURPOSE

The mission of the Office of Inspector General (OIG) is to prevent and detect fraud, waste, and abuse and promote efficiency and effectiveness in the City of New Orleans (City) programs and operations. Since 2011, the OIG has periodically conducted a city-wide risk assessment to allocate the OIG's resources efficiently and effectively, identify potential projects, and create a framework to determine OIG audit and evaluation priorities in future years.

In 2019, the OIG made substantial revisions to the risk assessment process and completed another comprehensive city-wide risk assessment. In late 2019 and throughout 2020, the City's risks evolved substantially, and the operating environment changed significantly because of the cyberattack and the ongoing COVID-19 pandemic. To determine its 2021 priorities, the OIG revised its risk assessment in 2020 to account for these evolving risks.

The purpose of this document is to disclose the scope and methodology used to conduct the city-wide risk assessment and to report the detailed results to the public, the Mayor, New Orleans City Council, City of New Orleans Ethics Review Board, and all interested parties.

II. OBJECTIVES, SCOPE AND METHODOLOGY

The OIG completed an in-depth city-wide risk assessment for the City in 2019 to develop our priorities in future years. In 2020, the OIG updated the risk assessment to incorporate qualitative risks and weaknesses resulting from the City's December 2019 cybersecurity/ransomware attack and COVID-19.

The objective of this risk assessment was to systematically assess risk within the City, including but not limited to, its departments, agencies, districts, and component units (collectively referred to as "entity"). The results of this city-wide risk assessment were used to allocate the OIG's resources efficiently and effectively, identify potential projects, and create a framework to determine OIG audit and evaluation priorities in future years.

SCOPE AND METHODOLOGY

The risk assessment methodology was based on the Committee of Sponsoring Organization's (COSO) *Internal Control Integrated Framework*, the Government Accountability Office's (GAO) *Assessing Internal Controls in Performance Audits* (Publication OP-4.1.4), and Deloitte & Touche, LLP *Risk Assessment in Practice* (October 2012).

To develop the risk assessment universe, the OIG obtained the City of New Orleans Budget Book, Capital Budget, Comprehensive Annual Financial Report, Budget Ordinance and a listing of all City boards and commissions. Based on this collective information, the OIG developed a universe of 156 entities that included, but was not limited to, departments, agencies, districts, and component units. Refer to Appendix A for a complete listing of the risk assessment universe. Collectively, the universe included total revenues and expenditures as follows:

Table 1. Revenue and Expenditure Universe.¹

Description	Amount
Revenues	\$2,744,007,325
Expenditures	\$2,601,820,698

Due to staffing constraints, the OIG could not conduct a risk assessment of all 156 entities. Therefore, the OIG established the following criteria to determine which entities and/or revenue streams would be subjected to the risk assessment.

- Entities who received General fund and/or Non-General fund revenue from the City that was \$10,000,000 or greater.
- Entities with expenditures \$10,000,000 or greater except for:
 - a. Intergovernmental Affairs.
 - b. Entities outside of the OIG's jurisdiction.
- Entities whose total expenditures could not be determined.

Based on this criterion, these entities and revenue streams accounted for approximately 92 percent of total known expenditures and 93 percent of total known revenues. Upon further review and determination of the OIG's jurisdictional power, the OIG selected 34 entities and 24 revenue streams to test.²

I. Quantifying Risk

To obtain an understanding of the control environment, control activities, information and communication, and monitoring within each entity, the OIG obtained and reviewed over 1,000 documents. To assess risk, the OIG obtained questionnaires, internal policies, and other documentation related to governance.

¹ Some information was not available for all entities in 2018 and 2019; therefore, the OIG had to use the most recent available data, which included financial data from previous years for certain entities. Therefore, total revenues and expenditures consisted of financial information from different years. Additionally, total numbers included revenues and expenditures for the City's component entities; therefore, the revenues and expenditures did not represent a balanced budget. In addition, some entities did not have financial information readily available but were still included in our population.

² The OIG considered and obtained documentation for entities accounting for 92 percent of the total expenditures and 93 percent of total revenues, which included 38 entities and 42 revenue streams, respectively. After reviewing documentation, the OIG determined it may not have jurisdiction over some of the entities selected. Therefore, the comprehensive risk assessment was performed on 34 entities and 24 revenue streams.

The OIG also conducted interviews of City employees and reviewed news coverage, external audits, and any other publicly available information. Based on this information, the OIG scored risk by assessing its impact and likelihood using the following framework:

A. Impact – the extent to which a risk event may affect the entity. To assess impact, the OIG determined the probability and consequence of risk events if they are realized and the impact they would have on the City. Based on the information obtained, each entity and revenue stream were subjectively assigned an impact score. Impact is defined and categorized in terms of one of the below numerical values:

- 1 – Incidental: Financial loss up to approximately \$1 million, local media attention is brief and issues are quickly remedied, not reportable to regulator, and/or isolated staff dissatisfaction.
- 3 – Minor: Financial loss of more than approximately \$1 million to \$5 million, local reputational damage, reportable incident to regulator, and general staff morale problems and/or increase in turnover.
- 5 – Moderate: Financial loss of more than approximately \$5 million to \$30 million. Local and/or statewide negative media coverage, report of breach to regulator with immediate correction to be implemented, and widespread staff morale problems and/or high turnover.
- 7 – Major: Financial loss of more than approximately \$30 million to \$75 million. National and/or statewide negative media coverage, report to regulator requiring major implementation for corrective action, and/or high turnover of experienced staff.
- 10 – Extreme: Financial loss of greater than approximately \$75 million. National negative media coverage, potential criminal activity, opportunity for significant prosecution and fines, and/or multiple senior officials leave.

B. Likelihood- the probability that a given event or consequence will occur and the related frequency. Measuring likelihood includes consideration of the existence and application of control activities and is indicative of residual risk. Likelihood is defined and categorized using the following numerical values:

- | | |
|----------------|---|
| 1 – Rare: | Less than 10% chance that the indicated risk factor is present and that it poses serious financial and/or operational risk to the organization. This assignment of risk should be used sparingly. |
| 3 – Unlikely: | 10% to 35% chance that the indicated risk factor is present or that the risk factor, if present, poses little threat to the organization. |
| 5 – Possible: | 36% to 65% chance that the indicated risk factor is present and that it poses a threat to the organization. |
| 7 – Likely: | 66% to 90% chance that the indicated risk factor is present and that it poses a significant threat to the organization. |
| 10 – Frequent: | 91% or greater that the indicated risk factor is present and poses a significant threat to the organization. |

II. Risk Categories and Weighted Percentages

An organization can encounter a variety of risks, some of which may prove detrimental to either a specific operation and/or to the entire organization. Therefore, the process for correctly defining, outlining, evaluating, and monitoring risks becomes of the utmost importance.

The framework below identifies the four specific risk categories that provide the foundation for our assessment and risk evaluation. These distinct but interdependent categories address different needs and may be the direct responsibility of different business units and/or individuals. When scoring, the OIG was cognizant of inherent risk associated with the entity under consideration.

Assigning weighted percentages to the four risk categories allowed the OIG to focus on certain aspects of internal control; therefore, those risks deemed more

important properly contributed to the final result. The risks and their weighted percentages are shown in Table 2.

Table 2. Risk Categories, Definitions, and Weighted Percentages.

Risk Category	Weighted Percentage	Risk Category Definition
Financial Risk	30%	<p>The risk of:</p> <ul style="list-style-type: none"> Financial insolvency or instability involving the financial transactions, procurements and contracts and reporting of the entity; Budgetary overages and/or shortfalls; Inadequate management, maintenance, or safeguards over physical assets; and Fraud, waste, abuse, theft, and/or corruption.
Compliance Risk	20%	The risk that the agency may not comply with local, state, or federal laws, regulations, contracts, grant requirements, or professional standards.
Operational Risk	40%	<p>The risk that the organization has:</p> <ul style="list-style-type: none"> Ineffective and inadequate processes; Improper or insufficient management and oversight; Outdated, poorly-documented policies and procedures; Inadequate staffing and/or skills needed to perform or achieve the entity's objectives; and Technological failures.
Reputational Risk	10%	The risk that the political climate and/or legislative changes could adversely affect the entity.

III. Risk Scoring

To calculate the risk scores and determine the overall risk ranking, the OIG assigned an impact and likelihood score for each selected entity and revenue stream in each risk category and multiplied each score to develop a risk score for that risk category. Table 3 shows the Impact and Likelihood Assessment Chart.

Table 3. Impact and Likelihood Assessment Chart.

Impact Score	Likelihood Score				
	Rare (1)	Unlikely (3)	Possible (5)	Likely (7)	Frequent (10)
Incidental (1)	1	3	5	7	10
Minor (3)	3	9	15	21	30
Moderate (5)	5	15	25	35	50
Major (7)	7	21	35	49	70
Extreme (10)	10	30	50	70	100

Then the OIG multiplied the risk score identified in Table 3 by the risk category weight to determine the Risk Category Score. Table 4 below shows the calculation.

Table 4. Risk Category Score Calculation.

$$\text{Risk Category Weight Percentage} \times (\text{Impact} \times \text{Likelihood}) = \text{Risk Category Score}$$

The Total Risk Score was determined by summing each of the four Risk Category Scores as shown in Table 5. To assess the total level of risk, the OIG used the scoring guidelines shown in Table 6.

Table 5. Total Risk Score Calculation.

$$\text{Total Risk Score} = \text{Financial Risk} + \text{Compliance Risk} + \text{Operational Risk} + \text{Reputational Risk}$$

Table 6. Total Risk Score Assessment.

Low (1-30)	Medium (31-69)	High (70-100)
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Once the Total Risk Score was calculated, each selected entity and revenue stream was ranked from the highest to the lowest risk. From those rankings, the OIG then determined which entities and revenue streams should be selected for audit and/or evaluation. Refer to the Results section for the ranking of all entities and revenue streams.

To provide an example of the scoring process, Table 7, illustrates the scoring calculation for the New Orleans Police Department (NOPD).

Table 7. NOPD Risk Assessment Calculation.

	(A)	(B)	(C)	(D) = A x (B x C)
Risk Objective	Risk Objective Weight	Impact Score	Likelihood Score	Risk Category Score
Financial Risk	30%	10	3	9
Compliance Risk	20%	10	5	10
Operational Risk	40%	10	5	20
Reputational Risk	10%	10	7	7
Total Risk Score				46

The total score of 46 points is associated with “Medium” risk, which indicates that various aspects about the processes, management, strategies, and compliance elements may require a moderate degree of evaluation and oversight to ensure that the organization achieves its objectives.

IV. Risk Mitigation – Collaboration with OIG Investigations Division.

To compliment the work of the Audit and Evaluation Divisions, the OIG Investigations Division (ID) investigates reports of alleged impropriety and illegal acts affecting city resources, as well as presents the results to prosecuting authorities when warranted. In addition, the ID operates and maintains a telephone hotline and email in order for citizens to anonymously report fraud, waste, and abuse of city resources. ID also provides training and presentations.

III. RESULTS

Based on the risk assessment procedures performed and documented above, the following 2020 and 2019 risk assessment results were used to develop the 2021 and 2020 audit and evaluation workplans, respectively.

Table 8. 2020 Risk Assessment Results by Revenue Stream.³

Revenue Stream		Total Risk Score
1	S&WB - Charges for Services/Taxes/Grants	94
2	Orleans Parish Communication District - Taxes	65
3	Sanitation - Service Charges	62
4	New Orleans East Hospital - Patient Service Revenue	61
5	Red Signal Light/Camera Enforcement - Fines and Forfeits	57
6	Sales Tax	49
7	Hotel/Motel Sales Tax	47
8	Police - Fire Dedicated Millage	46
9	Occupational Licenses - Licenses & Permits	41
10	Airport - Operating Revenues/Fees/Grants/Federal Funds	41
11	Public Safety Service Charges	38
12	Parking Ticket Collections	36
13	Downtown Development District - Ad Valorem Taxes	29
14	General Government - Service Charges	29
15	Utility Tax	29
16	Real-Personal Property - Current	28
17	Streets Parking Meters	28
18	New Orleans Tourism Marketing Corporation - Taxes	28
19	Motor Vehicle Tax - Sales Tax	22
20	French Market Corporation - Rental Income	17
21	Library Funds - Ad Valorem Taxes	12
22	Housing Improvement Taxes	11
23	New Orleans Building Corporation - Rental Income	11
24	Firefighters' Pension and Relief Fund of the City of NO	7

³ Considered and used for the 2021 Audit and Evaluations Workplan.

Table 9. 2020 Risk Assessment Results by Entity.⁴

	Entity Description	Total Risk Score
1	Orleans Parish Sheriff's Office	100
2	Sewerage and Water Board	100
3	Orleans Parish Communication District	82
4	New Orleans East Hospital	71
5	Information Technology and Innovation	70
6	Department of Public Works	62
7	Finance Department	60
8	Office of Homeland Security	60
9	Health Department	60
10	Procurement Department	51
11	Revenue Department	51
12	New Orleans International Airport	50
13	Firefighters' Pension and Relief Fund of the City of NO	50
14	New Orleans Recreation Development Commission	49
15	Treasury Department	48
16	Sanitation Department	48
17	New Orleans Police Department	46
18	Mayor's Office	44
19	New Orleans Fire Department	42
20	New Orleans City Council	40
21	Audubon Commission/Audubon Nature Institute	35
22	CAO - Executive Office and Budget Office	34
23	New Orleans Tourism Marketing Corporation	32
24	Municipal Employees Retirement System	28
25	Health Department- EMS	27
26	Office of Community Development	24
27	French Market Corporation	18
28	New Orleans Building Corporation	17
29	Children and Youth Planning Board	16
30	Parks and Parkways	16
31	Non-Flood Protection Asset Management Authority	13
32	Library	12
33	Board of Liquidation, City Debt	11
34	Arts Council of New Orleans	2

⁴ Ibid.

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6	Finance Department	51
7	Procurement Department	51
8	Revenue Department	51
9	Office of Homeland Security	50
10	Firefighters' Pension and Relief Fund of the City of NO	50
11	New Orleans Recreation Development Commission	49
12	Treasury Department	48
13	Sanitation Department	48
14	New Orleans East Hospital	48
15	New Orleans Police Department	46
16	Health Department	46
17	Mayor's Office	44
18	New Orleans Fire Department	42
19	New Orleans City Council	40
20	New Orleans International Airport	36
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22	Municipal Employees Retirement System	28
23	Health Department- EMS	27
24	Office of Community Development	24
25	New Orleans Tourism Marketing Corporation	20
26	Audubon Commission	18
27	French Market Corporation	18
28	New Orleans Building Corporation	17
29	Children and Youth Planning Board	16
30	Parks and Parkways	16
31	Non-Flood Protection Asset Management Authority	13
32	Library	12
33	Board of Liquidation, City Debt	11
34	Arts Council of New Orleans	2

⁶ Ibid.

APPENDIX A. RISK ASSESSMENT UNIVERSE

Risk Assessment Universe			
1	Alcoholic Beverage Control board	34	East New Orleans Neighborhood Advisory Commission
2	Algiers Development District	35	Economic Development Advisory Committee
3	Arts Council of New Orleans	36	Economic Development Fund
4	Audubon Area Security District	37	Edward Wisner Donation Advisory Committee
5	Audubon Commission	38	Emergency Medical Services
6	BioDistrict New Orleans	39	Ernest N. Morial New Orleans Exhibition Hall Authority
7	Board of Building Standards and Appeals	40	Ethics Review Board
8	Board of City Trusts	41	Fairgrounds Citizen Advisory Committee
9	Board of Liquidation, City Debt	42	Finance Authority of New Orleans
10	Board of Trustees of the Municipal Employee's Retirement System	43	Finance Department
11	Board of Trustees of the Police Pension Fund	44	Fire Department
12	Board of Zoning Adjustments	45	Firefighter's Pension and Relief Fund
13	Broadmoor Neighborhood Improvement District	46	First City Court
14	Canal Street Development Corporation	47	French Market Corporation
15	Central Business District Historic Landmarks Commission	48	French Quarter Management District
16	Chief Administrative Office - Core	49	Garden District Security District
17	Children and Youth Planning Board	50	General Services
18	City Council	51	Gentilly Development District
19	City Park Improvement Association	52	Gentilly Terrace and Gardens Improvement District
20	City Planning Commission	53	Health Department
21	Civil Court	54	Health Education Authority of Louisiana
22	Civil Service Commission	55	Historic District Landmarks Commission
23	Clerk of Criminal District court	56	Homeland Security
24	Code Enforcement	57	Housing Authority of New Orleans
25	Coroner's Office	58	Human Relations Commission Advisory Committee
26	Criminal District Court	59	Human Services
27	Criminal Justice Coordination	60	Huntington Park Subdivision Improvement District
28	Delgado Albania Plantation Commission	61	Hurstville Security and Neighborhood Improvement District
29	Department of Property Management	62	Industrial Development Board
30	Department of Public Works	63	Information Technology & Innovation
31	Department of Safety and Permits	64	Intergovernmental Affairs
32	District Attorney	65	Judicial Retirement Fund
33	Downtown Development District	66	Juvenile Court

67	Kenilworth Improvement District	101	New Orleans City Park Improvement Association
68	Kingswood Subdivision Improvement District	102	New Orleans Historic District Landmarks Commission
69	Lake Barrington Subdivision Improvement District	103	New Orleans Mosquito, Termite & Rodent Control Board
70	Lake Bullard Neighborhood Improvement District	104	New Orleans Museum of Art
71	Lake Carmel Subdivision Improvement District	105	New Orleans Public Belt Railroad Commission
72	Lake Forest Estates Improvement District	106	New Orleans Public Library
73	Lake Oaks Subdivision Improvement District	107	New Orleans Recreation Development Commission
74	Lake Terrace Crime Prevention District	108	New Orleans Recreation Development Foundation
75	Lake Vista Crime Prevention District	109	New Orleans Redevelopment Authority
76	Lake Willow Subdivision Improvement District	110	New Orleans Regional Aids Planning Council
77	Lakeshore Crime Prevention District	111	New Orleans Regional Business Park
78	Lakeview Crime Prevention District	112	New Orleans Regional Loan Corporation
79	Lakewood Crime Prevention and Improvement District	113	New Orleans Tourism Marketing Corporation
80	Lakewood East Security and Neighborhood Improvement District	114	New Orleans Workforce Development Board
81	Law Department	115	Neighborhood Housing Improvement Fund
82	Law Enforcement Management District of Orleans Parish	116	NOLA Business Alliance
83	Library	117	Non-Flood Protection Asset Management Authority
84	Louis Armstrong Airport	118	North Kenilworth Improvement and Security District
85	Mayor's Advisory Council for Citizens with Disabilities	119	Oak Island Neighborhood Improvement District
86	Mayor's Military Advisory Committee	120	Office of Community Development
87	Mayor's Office	121	Office of Independent Police Monitor
88	McKendall Estates Neighborhood Improvement District	122	Office of Performance and Accountability
89	Metropolitan Human Services District	123	Office of Resilience and Sustainability
90	Mid-City Security District	124	Orleans Parish Communication District
91	Milneburg Neighborhood and Improvement District	125	Orleans Parish Hospital Service District-District A
92	Miscellaneous - Core	126	Orleans Parish Law Enforcement District
93	Mosquito Control Board	127	Orleans Parish Law Enforcement Streamline & Accountability
94	Municipal Court	128	Orleans Parish Sheriff's Office
95	Municipal Yacht Harbor Management Corporation	129	Parish Hospital District for the Parish of Orleans
96	Neighborhood Conservation District Advisory Committee	130	Parking Facilities Corporation
97	New Orleans Access Television Board	131	Parks and Parkways
98	New Orleans Aviation Board	132	Police Department
99	New Orleans Building Corporation	133	Pressburg East Neighborhood Improvement and Security District
100	New Orleans Center for Creative Arts	134	Quality Assurance Review Advisory Committee for the OIG

135	Recreation	146	Southeast Louisiana Flood Protection Authority-West
136	Regional Planning Commission	147	Spring Lake Subdivision Improvement District
137	Regional Transit Authority	148	Tamaron Subdivision Improvement District
138	Registrar of Voters	149	Touro Bouligny Security District
139	Revenue Estimating Conference	150	Traffic Court
140	Sanford "Sandy" Krasnoff New Orleans Criminal Justice Council	151	Twinbrook Security District
141	Sanitation Department	152	Upper Audubon Security District
142	Seabrook Neighborhood Improvement and Security District	153	Upper Hurstville Security District
143	Service & Innovation	154	Vieux Carre Commission
144	Sewerage and Water Board of New Orleans	155	Vieux Carre Commission Foundation
145	Southeast Louisiana Flood Protection Authority-East	156	Workforce Investment