



**CITY of RICHMOND**  
**City Auditor's Office**

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**DATE:** August 17, 2022

**TO:** Lincoln Saunders  
Chief Administrative Officer

**FROM:** Louis Lassiter *LL*  
City Auditor

**SUBJECT:** DPU Contract Compliance Audit

The City Auditor's Office has completed the Contract Compliance audit and the final report is attached.

We would like to thank the Department of Public Utilities staff for their cooperation and assistance during this audit.

Attachment

cc: The Richmond Audit Committee  
The Richmond City Council  
Robert Steidel, DCAO of Operations  
April Bingham, Director of Public Utilities

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City of  
**RICHMOND**  
Office of the City Auditor

Audit Report# 2023-02  
**Department of Public Utilities**  
**Contract Compliance**  
August 17, 2022



**Audit Report Staff**

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## Highlights

Audit Report to the Audit Committee,  
City Council, and the Administration

### Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY2022 audit plan approved by the Audit Committee. The objective for this audit was to test internal controls regarding monitoring of quality of work and for compliance to contract terms and conditions.

### What We Recommend: The DPU Director:

- Develop and implement processes and procedures to properly administer the hydrant inspection program to ensure that the hydrants are inspected timely.
- Ensure that the lateral valves are exercised during the hydrant inspections and observations are documented.
- Develop and implement processes and procedures to properly administer the hydrant repairs and replacements to ensure that the hydrants are put back into service timely.
- Establish and implement a payment process that includes a defined billing time frame for completed work and a reconciliation process to ensure the billed quantities agree to the Inspector's pay sheets and contract rates prior to payment.
- Develop and implement a plan to address the Water Distribution Division's needs that are currently being fulfilled by the contractor's staff.

*We also issued additional recommendations related to internal controls and process improvements.*



## DPU Contract Compliance – Water Leak Repair and Meter Relocation Contract

### Background

The Department of Public Utilities (DPU) entered into the water leak repairs and meter installation contract in October 2019. The initial contract was for two-years with four one-year renewal options. The first contract renewal was exercised in October 2021. During the audit scope (July 1, 2020-December 31, 2021), contract expenditures totaled approximately \$ 6.9 million.

### What Works Well

- No duplicate payments were identified in the audit testing. Implementation of the recommended billing controls will further minimize any potential risk.
- Auditors tested 20 addresses with multiple service requests or repairs. It was generally noted that the additional visits were for different services/repairs. Therefore, the City was not inappropriately billed for work covered under the warranty.

### Needs Improvement

#### Finding #1 – Fire Hydrant Inspection Program

Thirty-five (35%) percent of the reviewed fire hydrants were not inspected timely in accordance with DPU's goal of completing an inspection cycle at least every 24-months. One-third of the overdue inspections were last inspected more than 2.5 years ago.

#### Finding #2 – Lateral Valve Inspections

Exercising the lateral valves is a critical portion of the fire hydrant inspections. However, the Contractor cannot exercise the valves unless under the supervision of a trained City employee. During the audit scope, City staff were not always with the contractor; therefore, the valves were not exercised. Per DPU staff, compensating controls were in place to mitigate this risk.

**Finding #3 – Fire Hydrant Replacements** One hundred thirteen (113) fire hydrants were marked out of service during the audit scope. The auditor tested 20 hydrants and noted they were not placed back into service timely. Per Fire and Emergency Services staff, they are aware of which hydrants are out of service and can access the next nearest hydrant in case of an emergency.

#### Finding #4 – Billing Process/Contract Compliance

Thirty-one (31) invoices totaling approximately \$642,000 were tested for compliance with the contract rates. The billed work and quantities did not match the supporting documentation for 12 (39%) of the reviewed invoices, with discrepancies that went both ways. Overpayments totaling at least \$8,700 were identified, of which DPU recouped approximately \$2,500 prior to the audit.

#### Finding #5 – Assistant Superintendent

DPU uses a retired City employee that currently works for the Contractor to complete various tasks for the City's Water Distribution Division. These tasks are outside the contract's scope of work and DPU is paying the Contractor more than the City would pay for a full-time employee with fringe benefits.

#### Finding #6 – Automation of Inspection Documentation

The inspection activities are tracked on paper forms and manually keyed into multiple systems. The current tracking practice creates redundancy that could lead to data errors and an incomplete inspection history.

Additional findings were also noted regarding materials tracking and policies and procedures. Management concurred with 16 of 16 recommendations. We appreciate the cooperation received from management and staff while conducting this audit.

## BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY, MANAGEMENT RESPONSIBILITY and INTERNAL CONTROLS

This audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objective.

### BACKGROUND

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DPU provides many City services through its various divisions. DPU operates five utilities: natural gas, water, wastewater, storm water, and electric street lighting serving more than 500,000 residential and commercial customers in Richmond and the surrounding metropolitan region. DPU maintains over 1,200 miles of water lines and approximately 6,500 active fire hydrants. Richmond's water distribution infrastructure is old, subjecting the City to greater risk for water leaks and emergencies.

The audited contract includes the general contracting services for water leak repairs and meter installation projects including investigating and repairing water service and main leaks and installing meters in the City's water distribution system. The contract also includes water service installations and retirements, and fire hydrant inspections, installations, and replacements.

The original contract was initiated on October 1, 2019, for approximately \$5.6 million with up to four one-year renewal options. The contract amount was increased effective April 1, 2021, due to an increase in services and sampling station costs. The City is currently on its first contract renewal. Contract expenditures totaled approximately \$6.9 million during the audit scope.

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Below is a history of the contract modifications.

<b>Year</b>	<b>Effective Date</b>	<b>Contract End Date</b>	<b>Contract Increase/(Decrease)</b>	<b>Contract Amount</b>	<b>Type of Modification</b>	<b>Modification/Change Order</b>
2019	10/1/2019	10/1/2021	\$ -	\$ 5,567,610	Original contract	
2021	4/1/2021	10/1/2021	\$ 1,500,000	\$ 7,067,610	Funds Request	Modification # 1
2021	10/2/2021	10/1/2022	\$ 4,533,805	\$ 11,601,415	Contract Renewal	Modification # 2

Auditor prepared using contract details

### **Process Overview**

#### **Assignment of Work**

Service orders are generated in the Customer Information System (CIS) and dispatched through Service Suites to the Contractor's crews to complete emergency and non-emergency (planned) work. Emergency work typically consists of consumers without water or water main breaks/leaks and are paid under force account. Non-emergency work consists of planned activities such as fire hydrant replacements and inspections and are paid per the bid line item. The Contractor provides daily reports that include the services and quantities completed, start and stop times, and work locations.

#### **Inspections**

During the audit scope, there were three DPU Inspectors assigned to oversee the Contractor's work to ensure compliance with the contract technical specifications. The Inspectors write pay sheets to document the completed work and quantities. The pay sheets are signed by the DPU Inspector and the Contractor's staff indicating agreement of the completed work and quantities.

#### **Payment and Closing Tickets**

Work assignments are paid as units or force account. Units are services such fire hydrant inspections or main and service repairs that are paid at a fixed per unit amount regardless of how long the job takes. A force account is an hourly or daily rate for personnel and equipment

that is paid for: tie-ins<sup>1</sup>, miscellaneous items (i.e., traffic control), and work for which there is no bid item.

When a job is completed, the daily logs and pay sheets are provided to other DPU staff to reconcile and review. Once reviewed, the service order is closed in the applicable systems and the paperwork is filed. Job details of completed work are input into DPU's internal Water Leak Database for recordkeeping purposes. Fire hydrant information is also input into City Works<sup>2</sup> and the Geographical Information System (GIS) for tracking purposes.

Per the Maintenance Analyst, he reconciles the Contractor's invoices to the pay sheets and then forwards them to the Operations Manager for approval. The approved invoices are processed by DPU's Finance Unit.

### **Purchasing and Tracking Materials**

DPU provides materials to the Contractor to conduct its work and to maintain stock on the crew trucks. The issued materials are tracked by job number. Materials for jobs such as hydrant replacements and new service installations are classified under the same job code and are not tracked by the individual service request or crew that was assigned the job. DPU pays the Contractor a 15% markup on any materials that they request the Contractor to purchase. Remaining materials are to be used for future jobs or returned to the City.

### **Fire Hydrant Inspections**

There are approximately 6,500 active fire hydrants within the City's water distribution system. DPU's current goal is to inspect all hydrants at least every 24 months. The Contractor's hydrant inspection crew logs the inspection results on paper inspection reports (paper form), which are submitted with the daily report and inputted into City Works and GIS.

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<sup>1</sup> Tie-ins are when new water infrastructure is connected to the active water infrastructure.

<sup>2</sup> One of the City's work order systems

## OBJECTIVE

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The objective of this audit was to examine a large contract in DPU and test internal controls regarding monitoring of quality of work and for compliance to contract terms and conditions.

## SCOPE

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All functions, expenses, inspections, repairs, and actions in relation to the contract under review for the eighteen months ended December 31, 2021.

## METHODOLOGY

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The Auditors performed the following procedures to complete this audit:

- Reviewed the contract terms and conditions and technical specifications
- Interviewed staff and performed walkthroughs to understand the contract, processes and procedures, and documentation processes
- **Fire Hydrant Testing:**
  - **Fire Hydrant Inspections Testing**
    - Obtained and reviewed the fire hydrant inspection data and conducted validation testing to conclude on the completeness, accuracy, and timeliness of inspections;
    - Compared the hydrant inspection form to applicable technical specifications and DPU's hydrant inspection procedures to ensure the inspection procedures were carried out by the Contractor; and
    - Conducted limited benchmarking with Chesterfield and Henrico Counties regarding their hydrant inspection programs.
  - **Fire Hydrant Replacements/Marked Out of Service**
    - Randomly selected 20 hydrants marked out of service and compared the dates marked out of service to the replacement dates and inquired about why hydrants were not repaired/replaced timely.



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- **Invoice Testing/Contract Compliance**
  - Judgmentally selected a sample of invoices paid during the audit scope based on the invoice amount, job codes, and payment amount. After taking the above criteria into account, the remaining sample was randomly selected.
  - Reviewed detailed invoices and supporting documentation for the following:
    - Billed rates agreed with the contract rates;
    - Billed work and quantities matched the supporting documentation;
    - Force account was appropriately used; and
    - Inspector's pay sheets were signed by both the Inspector and Contractor.
- **Duplicate Payment Testing**
  - Analyzed 829 invoices totaling approximately \$6.9 million that were paid during the audit scope to identify duplicate invoice numbers and amounts. Payments were also reviewed for evidence of altered invoice numbers.
  - Judgmentally selected 63 invoices for further review based on the invoice amount, job type, same work dates and addresses to determine if there were duplicate payments.
- **Duplicate Service Address and Warranty Testing**
  - Analyzed the completed jobs data for addresses with multiple repairs/service calls to determine if the City was charged more than once for work that was under warranty. Eighty-four addresses had multiple repair/service calls;
  - Judgmentally selected 20 addresses for further review based on the task type, crews, length of time between work dates and the repair comments/remarks;
  - Inquired with DPU staff if repairs/services were re-work that was still under warranty and reviewed documentation to determine if the City was improperly billed for warranty work.
- Conducted other tests, as deemed necessary.

## MANAGEMENT RESPONSIBILITY

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City of Richmond management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

## INTERNAL CONTROLS

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According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Based on the audit test work, the Auditors concluded the internal controls for the contract need improvement to enhance contract management and ensure compliance with the contract terms and conditions. Several improvement opportunities were identified including the below areas:

- Fire hydrant inspections and maintenance program;
- Invoice payments;
- Materials tracking;
- Inspection documentation; and
- Policies and procedures.

Details of these findings are discussed throughout the report.

## FINDINGS and RECOMMENDATIONS

### What Works Well

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- Sixty-three potential duplicate payments totaling approximately \$241,000 were tested, and no duplicates were identified. Implementation of the recommended billing controls will further minimize any potential risk.
- The completed jobs data was analyzed for addresses with duplicate repairs or service calls to determine if the City was charged more than once for work that was under warranty. Eighty-four addresses had multiple repair/service calls. The auditor tested 20 addresses and generally noted that entries were for multiple or different services/repairs at the same address and data entry errors. No instances were noted where DPU paid more than once for services and repairs under warranty. Implementation of the recommended billing controls will further minimize any potential risk.

### What Needs Improvement

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#### *Finding #1 – Fire Hydrant Inspection Timeliness*

##### Condition:

DPU is responsible for maintaining approximately 6,500 City-owned fire hydrants within the public water distribution system. DPU contracted with a third party to inspect the hydrants to ensure they are in good working condition and available for use during emergencies. The auditor analyzed the Geographical Information System (GIS)<sup>3</sup> hydrant inspection data to determine if the hydrants were inspected timely in accordance with DPU's goal of at least every 24-months.

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<sup>3</sup> GIS inspection data was used as this source was deemed the most complete and up to date.

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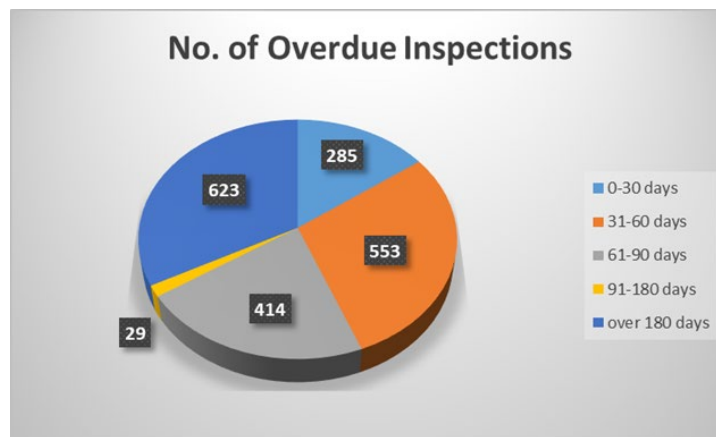
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As of the GIS report date (2/25/2022), the auditor was able to readily identify the last inspection date for 5,503 hydrants<sup>4</sup>. The last hydrant inspection completion dates were compared to the GIS data run date and it was noted that the last inspections were older than 24 months for approximately 35% (1,904) of the reviewed hydrants. Approximately, 33% of the overdue inspections were last inspected more than 2.5 years ago.

Below is an aging of the overdue inspections.



### **Criteria:**

The contract technical specifications denote there is an annual hydrant inspection program. The Contractor is required to adhere to DPU's Hydrant inspection program and the American Water Works Association (AWWA) Manual of Water Supply Practices (M17) for Installation, Field Testing, and Maintenance of Fire Hydrants when conducting the hydrant inspections. The AWWA recommends fire hydrants be inspected at least annually. Per DPU staff, the Department's goal is to inspect the hydrants at least every 24 months.

### **Cause:**

DPU did not have processes and procedures in place to properly administer the fire hydrant inspection program. The hydrants were not inspected based upon the last inspection date or in

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<sup>4</sup> GIS hydrant data only contains the last service date for the most recent completed service/work for each hydrant, which could include inspections, repairs, or replacements. As such, the auditor filtered the field comments to identify the inspections. The analysis only includes the hydrants for which the auditor could readily identify the last inspection date.

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sequential order. There is no reconciliation process in place to ensure that all the hydrants are inspected timely.

A complete centralized inspection and maintenance history for the hydrants is not readily available. As such, management does not have visibility of the hydrants that need inspections. The inspections are tracked on paper reports and manually keyed into three different systems that do not interface, causing inconsistencies such as:

- the latest inspection date is captured in one system but not another;
- the inspection activities for the 2020 program were not keyed into one of the systems;
- one system only captures the most recent work performed on the hydrants, which could be an inspection, repair or replacement; and
- the hydrant numbers are not captured in one of the systems and some of the hydrant addresses are keyed differently in the systems.

Additionally, there has been a lack of staffing continuity over the inspection program since its inception. Per the DPU staff, the initial inspection cycle was completed by a combination of City workers and the Contractor's staff. The Contractor's staff completed the second cycle and is in the process of completing the third cycle. Furthermore, the Contractor is required by the contract's technical specifications to have two 2-person crews to enable them to conduct the required inspection frequency. However, currently there is only one crew conducting the inspections.

### **Effect:**

Fire hydrants in need of repairs/replacements may not be identified in a timely manner resulting in a potential public safety issue. The hydrants may not be operational or functioning properly during an emergency.

Automating the hydrant inspection documentation and centralizing the tracking can improve the efficiency of the program by:

- eliminating redundancy and reducing the potential for clerical errors,

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- improving the reconciliation process for invoice billings,
- providing real-time updates and enhance reporting capabilities, and
- replacing the paper documentation that is being prepared and maintained.

### ***Recommendations:***

- 1. We recommend that the DPU Director develop and implement processes and procedures to properly administer the hydrant inspection program to ensure that the hydrants are inspected timely.*
- 2. We recommend that the DPU Director develop and implement a centralized tracking method to capture a complete maintenance and inspection history for the fire hydrants.*
- 3. We recommend that the DPU Director automate the documentation process for the hydrant inspections.*
- 4. We recommend that the DPU Director ensure the required hydrant inspection cycle is clearly spelled out in the contract specifications.*

### ***Finding #2 – Lateral Valve Inspection***

#### ***Condition:***

Exercising the lateral valves is a critical portion of the fire hydrant inspections. The valve controls the hydrant and provides a means for the City to isolate the hydrant if there are issues and affects the flow of the water at the hydrant. However, according to the contract, the Contractor cannot exercise the lateral valves unless they are under the supervision of a trained City employee. During the audit scope, City staff were not always with the Contractor; therefore, the valves were not exercised.

Per DPU staff, a City employee was permanently assigned to accompany the Contractor in late April or early May 2022, and the lateral valves are now being exercised. The auditor selected 10 hydrants inspected in May 2022 and 10 hydrants inspected June 2022 and noted that the lateral valve portion of the inspection forms was not completed. As such, the auditor cannot conclude

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if the valves are being exercised. However, per DPU management, mitigating controls are in place to determine if the lateral valve is not functioning properly. As part of the routine inspection, the inspection crew measures the static pressure of the water coming through the hydrant and conducts flow tests to determine the flow of the water. Low static pressure or low flow indicates that there is an issue with the hydrant. If low pressure or low flow exists, a service ticket is submitted so that the City hydrant crew can come out as soon as possible to investigate the issue and make repairs. Additionally, the Superintendent is required to be notified immediately.

### **Criteria:**

According to internal hydrant inspection procedures, the lateral valves are required to be exercised during the hydrant inspections to ensure they are fully functional and not broken. The observations are to be recorded on the hydrant inspection form.

### **Cause:**

The Contractor is not permitted to exercise the lateral valves unless they are under the supervision of a trained City employee. A City employee was not permanently assigned to the Contractor's crew during the audit scope. Even with the assigned City employee, there is still no evidence that the lateral valves are being exercised during the inspections. Per DPU staff, the lateral valves are currently being exercised but the forms are not being completed.

### **Effect:**

The fire hydrants are not fully inspected if the lateral valves are not exercised. The valves could be broken or not fully functional. If the valves are not fully open, fire fighters will get a restricted water flow. Also, if the valve is broken, DPU staff would have no way of isolating the hydrant from the main.

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Contracting out the fire hydrant inspections may not be the most efficient and effective means to carry out this function. The Contractor cannot fully inspect the hydrants unless accompanied by City staff. Currently, if the hydrant fails inspection due to needing a repair, the Contractor must submit a service request, then a City crew comes out later to complete the repairs. On average, during the audit scope, the Contractor inspected 22 hydrants daily. At the current rate of \$43.20 each, this equals approximately \$247,000 annually. The maximum salary range with benefits for a Maintenance and Operations Crew Supervisor<sup>5</sup> is approximately \$81,000 annually. It may be more beneficial to bring this function back in-house given the contractor's cost in addition to the salary and benefits of the City employee assigned to accompany the Contractor, and the fact that hydrants cannot be fully inspected if a City employee is not with the crew.

Chesterfield and Henrico County both use internal county staff to conduct fire hydrant inspections. Also, the American Water Works Association (AWWA) suggest the inspection crews be equipped to make repairs during the inspections to reduce labor. Bringing this function back in-house could allow for this.

### ***Recommendations:***

- 5. We recommend that the DPU Director conduct an assessment to determine if it would be more efficient and effective to bring the hydrant inspection function back in-house and proceed accordingly.***
- 6. We recommend that the DPU Director ensure that the lateral valves are exercised during the hydrant inspections and observations are documented.***

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<sup>5</sup> Position title for the City employee currently assigned to accompany the Contractor's hydrant inspection crew.



### *Finding #3 – Fire Hydrant Replacements*

#### Condition:

One hundred thirteen (113) fire hydrants were marked out of service during the audit scope. The auditor tested 20 hydrants and noted they were not placed back into service timely. Below is a summary of the audit observations.

- 14 out of 20 hydrants were not repaired/replaced and put back into service timely. The hydrants were marked out of service between 4 and 262 days. Ten of the hydrants were out of service for more than one week.
- 1 out of 20 hydrants was still out of service in June 2022 upon auditor following up with DPU staff. The hydrant has been out of service approximately 786 days awaiting a main replacement.
- Auditor could not conclude if 5 out of 20 hydrants were placed back into service timely due to lack of documentation. As of the latest inspection forms or comments in GIS, the hydrants were noted as back in service and properly functioning. However, DPU staff could not determine when the hydrants were repaired or replaced.

#### Criteria:

DPU's goal is to repair hydrants within 48 hours of being taken out of service when parts are available. If the hydrant is to be replaced, Miss Utility is notified, and it can take up to 72 hours for the utility markings to be completed and a replacement to be scheduled. If an out of service hydrant is in a hydrant desert, which is where there are no surrounding hydrants, this is deemed an emergency and it is placed back in service as quickly as possible.

#### Cause:

Process and procedures to properly administer the fire hydrant repairs and replacements were not in place. Specific reasons for the hydrant repair/replacement delays could not be provided as this information is not documented. However, DPU staff attributed the delays to potential factors such as unavailable parts and replacement hydrants, weather, lack of personnel, utility markings, holidays, 3rd party involvement (i.e., developers or VDOT), retiring the hydrant due to

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a new main, and competing work priorities. Based upon a query of the Miss Utility ticket search, auditor noted that the utility markings were completed on the same day that six hydrants were taken out of service; therefore, it did not contribute to the delays. Also, a complete history of the hydrant repairs and replacements is not maintained.

### **Effect:**

Fire hydrants that are not operational or properly functioning during an emergency may create a public safety issue. Per the City's Fire Department staff, the fire company is aware of the hydrants that are out of service and go to the nearest in-service hydrant in an event of a fire. The hoses on the fire engines can reach the surrounding hydrants.

### **Recommendations:**

- 7. We recommend that the DPU Director develop and implement processes and procedures to properly administer the hydrant repairs and replacements to ensure that the hydrants are put back into service timely including:*
  - a. Establishing a formal goal for hydrant repairs/replacements when utility markings are required; and*
  - b. Documenting any encountered delays.*
- A recommendation regarding capturing a complete maintenance history for the fire hydrants was already issued under the Hydrant Inspection Timeliness section.*

### ***Finding #4 – Billing Process/Contract Compliance***

#### **Condition:**

**A. Billing Sample** - Thirty-one (31) invoices totaling approximately \$642,000 were tested for compliance with the contract rates. The billed work and quantities did not match the supporting documentation for 12 (39%) of the reviewed invoices, with discrepancies that went both ways.

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Incorrect rates were billed for four (13%) invoices resulting in overpayments totaling approximately \$8,700. DPU identified and recouped approximately \$2,500 of the overpayments prior to the audit. Below is a summary of the overpayments by type.

Overpayment Type	Description	Amount
Incorrect rates due to change in contractor's billing system	The contractor changed its billing system resulting in the incorrect rates being used. This billing errors were identified and corrected prior to the audit. DPU received an invoice credit for the overbillings.	\$ 2,550
Incorrect markup rate charged for materials	The City supplies and pays for all materials necessary to complete the work specified in the contract. The contractor is paid a 15% markup on materials/supplies that the City requests them to purchase.	\$ 4,171
Inappropriate differential pay	The permanently assigned night crew receives a 10% pay differential. The night crew completed day work during the weekends. The contractor billed for the pay differential for the day work.	\$ 882
Revised contract rates paid for work prior to the effective date	The contract rates increased by 8% effective on 10/2/2021 as a part of the contract renewal process. The increased rates were billed when work prior to 10/2/2021 was invoiced after that date.	\$ 1,111

**B. Revised Contract Rates** – The auditor selected two additional invoices to confirm if the revised contract rates were paid for work prior to the effective date resulting in an additional overpayment totaling approximately \$2,000. An additional 29 invoices may have also been inappropriately paid resulting in a potential overpayment of approximately \$10,000.

**C. Inspector Pay Sheets** - This contract consists of both unit costs and force account bid items. Sufficient information was not captured on many of the reviewed Inspectors' pay sheets to readily determine why force account was used instead of unit line items.

**D. Force Account** - Generally, it was noted that force account was used in accordance with the contract terms or the Department's current practice. However, instances were noted where potential units were charged as force account due to being assigned outside normal working hours. The contract specifications and addendums indicate work outside of normal business

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hours are compensated as units or force account depending on the nature of the work. The language in the contract/addendums is not specific as to the type of work, therefore leaves room for interpretation. This is evident as the Contractor asked for clarification after the contract was signed into effect and was advised that work outside of normal work hours would be paid as force account.

**E. Billing Period** - There is no defined billing period in place. The Contractor billed for completed work between 3-193 days after completion.

**F. Other Contract Areas** - There are other areas in the contract that are unclear such as:

- Addendum 1 that was issued for the posted solicitation indicated that service tie-ins and main installations larger than 2" would be paid under force account. However, per the Operation Manager and the bid line explanation document provided to Audit, all tie-ins are paid under force account.
- Section 2.8 of the Technical Specifications states the preparation of as-built documentation is incidental work and will not be paid by the City. The cost of the equipment, material and labor required for the preparation of the as-built documentation shall be at contractor's expense. The Operations Manager advised that the as-builts not measured for payment are related to units only.

### **Criteria:**

Work should be invoiced in accordance with the contract and in a timely manner. It is the Water Distribution Division's policy to pay the quantities on the Inspector's pay sheets. There should be a defined timeframe for accepting invoices for completed work. This would allow the Division to better track what work has been invoiced and paid. The contract should clearly spell out the contract terms and conditions with limited areas that are open to interpretation.

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### **Cause:**

There was no formal reconciliation process in place to ensure that the Contractor billed only for what was on the Inspector's pay sheet. Additionally, there are no formal written policies and procedures on the billing and invoice process, including reconciliations. There is also no defined time frame for billing, making it difficult to identify work that was not billed in a timely manner.

According to the Operations Manager, this was the Water Distribution Division's first-time using bid items for this type of contract. They used standard language from previous contracts.

### **Effect:**

Without a defined billing timeframe and an adequate reconciliation process, it can be difficult to keep track of the billed work and ensure the billings are correct; thereby, increasing the risk of inaccurate and duplicate payments. This can cause loss of City funds and inefficient use of City resources.

Without clearly defined force account hours and work in the contract, there are sections in the contract that can be interpreted multiple ways. This can cause incongruous billing among the Inspectors or conflict with the Contractor on how items are billed, again causing inefficient use of City resources.

### ***Recommendations:***

- 8. We recommend that DPU Water Distribution Division Operations Manager recoup the identified overpayments and research the invoices dated on or after October 2, 2021, for work prior to that date to determine if the proper rates were applied and recoup any overpayment.*
- 9. We recommend that the DPU Director establish and implement a payment process that includes a defined billing time frame for completed work and a reconciliation process to*

*ensure the billed quantities agree to the Inspector's pay sheets and contract rates prior to payment.*

*10. We recommend that the DPU Director review and update the language in the upcoming contract to remove any ambiguities and clarify the use of force account as much as possible.*

### *Finding #5 – Assistant Superintendent*

#### Condition:

DPU uses a retired City employee that currently works for the Contractor to complete various tasks for the City's Water Distribution Division such as:

- training City personnel (i.e. repair and maintenance of fire hydrants and valves);
- onboarding new DPU employees; and
- developing and working on the City's new Flushing and Valve Inspection Programs.

However, the duties described above fall outside of the scope of work for this contract. Also, DPU is currently paying the Contractor more than the City would pay for a full-time Richmond Gas and Water Field Superintendent including fringe benefits. The Contractor bills the City at the Assistant Superintendent hourly rate, which was originally \$60.00 per hour and increased to \$64.80 per hour effective at the contract renewal date of 10/2/2021. Per the Program and Operations Manager, who also serves as the Contract Administrator, this employee typically works every day, and all hours are billed under this contract.

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A cost comparison is summarized below.

	<b>Contractor - Assistant Superintendent</b>		<b>City - Superintendent</b>
	<b>Original</b>	<b>Effective 10/2/2021</b>	<b>Effective 10/9/2021</b>
Hourly Rate	\$ 60.00	\$ 64.80	\$ 36.57
Annual Amt	\$ 124,800.00	\$ 134,784.00	\$ 76,075.00
Fringe Benefits (30%)	-	-	\$22,822.5
<b>Total</b>	<b>\$ 124,800.00</b>	<b>\$ 134,784.00</b>	<b>\$ 98,897.50</b>
Annual amount = 40 hours per week @ 52 weeks X hourly rate			
Contractor rates were obtained from the contract bid line amount.			
City's rate was obtained from the FY2022 Compensation plan that was effective 10/9/2021.			

**Criteria:**

The contract scope of work includes the:

- investigation, location, and repair of water leaks; and
- installation of water meters in the City of Richmond water distribution system.

The contract also indicates that the “work covered shall also include replacement service, joint encapsulation, renewal of limited sections of main on a limited as needed basis, and any other water meter related emergency or maintenance services as the Contractor may be able to provide.”

The technical specifications lay out specific requirements and expectations regarding the Superintendent, foreman, and crew members; however, the Assistant Superintendent is not mentioned in the document. The bid line explanation indicates this position is used as directed by Operations Manager or their designee during emergency situations.

**Causes:**

There was no transition plan in place to transfer institutional knowledge during staff turnover. Per the current Program and Operations Manager, when he came on board,

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- there was a high vacancy rate and the experience level in the department was less than five years and
- knowledge was lost when the water department was restructured, and experienced employees left the City.

As a result, he obtained permission from his former Deputy Director to bring the Contractor's employee on board, who is also a retired City employee with 30 years of experience. The Program and Operations Manager further indicated that this is not a permanent solution and DPU hopes to phase out the Contractor's employee services within the next two years.

### **Effect:**

The services provided by this individual are outside of the contract scope of work. Additionally, this may not be the most efficient way to fill the Division's needs. The amount paid for these services is more than a full-time City employee would be paid as a Gas and Water Field Superintendent with fringe benefits. Also, the efficiency and effectiveness of City operations are impacted when an adequate transfer of institutional knowledge is not in place during staffing turnover.

### **Recommendations:**

- 11. We recommend that the DPU Director develop and implement a transition plan, to retain knowledge during staffing turnover.*
- 12. We recommend that the DPU Director develop and implement a plan to address the Water Distribution Division's needs that are currently being fulfilled by the Contractor's staff.*

### **Finding #6 – Automation of Inspection Documentation**

#### **Condition:**

The DPU Inspectors for the Water Distribution Unit are responsible for monitoring the projects to ensure that the Contractor completes the work in accordance with contract terms and conditions and applicable standards. DPU currently uses a manual paper-based approach to



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track the inspection activities and completed quantities for the contract under review. Service orders for non-hydrant work for this contract are created in the Customer Information System (CIS) and the work is distributed to the crews through the department's dispatching system. Job details for completed work are input into the Unit's Water Leak Database for recordkeeping purposes. CIS and the service order dispatching system are the only systems that interface with each other. The current process creates redundancy in tracking the completed work and could increase the risk of clerical errors during data entry.

### Criteria:

It is a good practice to automate the inspection documentation process and centralize tracking of work to maintain a complete and update history.

### Cause:

The current practice uses a manual process to document the inspection activities and track the completed quantities and the service orders are recorded in multiple systems.

### Effect:

The current manual, paper-based process is time consuming and increases the risk of errors due to the volume of paper involved. Additionally, some work is entered into multiple databases/spreadsheets by multiple employees causing duplication of work and inefficient use of City resources. Documents can be lost causing some information not to be captured, creating inaccurate information for future work priority and budget decisions.

Automating the inspection documentation can improve the efficiency of the tracking process by:

- eliminating redundancy and reducing the potential for clerical errors,
- improving the reconciliation process for invoice billings,
- providing real-time updates and enhance reporting capabilities, and
- replace the paper documentation that is being prepared by the Inspectors.

**Recommendation:**

- 13. We recommend the DPU Director automate the inspection documentation process and centralize the tracking for non-hydrant work.*

**Finding #7 – Materials Tracking**

**Condition:**

The City is responsible for purchasing and providing the Contractor all materials necessary to complete the contract work. DPU provides the materials to the Contractor, as needed and when available, to conduct its work and to maintain stock on the crew trucks. A report can be created in RAPIDS for a specific time period that provides what was ordered and by whom. However, the cost of materials is not included. Additionally, materials for jobs such as hydrant replacements and new service installations are classified under the same job code and are not tracked by the individual service request or crew that was assigned the job. DPU does not have a process in place to track the inventory once it is issued to the Contractor. The cost and materials used for work under this contract could not be readily identified.

**Criteria:**

It is a good practice for an organization to track and account for its inventory. DPU should track the inventory used by the Contractor.

**Cause:**

Per the Contract Administrator for this contract, the required materials are determined by DPU staff and issued to the Contractor based upon the job or project. There should be no items remaining except for the copper piping, which is issued in 60- or 100-foot rolls. Any remaining material should be used for other jobs/projects or returned to the City. Also, materials are issued to the Contractor to stock the crew trucks for repairs as needed. However, an internal process is not in place to track and reconcile the materials issued and used.

**Effect:**

Tracking the usage of materials issued to the Contractor is essential to ensure accountability of the supplies issued. A lack of tracking and reconciliation could result in the misappropriation or inefficient use of City owned materials. Additionally, quantities and the value of materials can be used to estimate future costs. Management is aware of the need to track the issued materials and is currently working on developing and implementing a process.

**Recommendation:**

- 14. We recommend that the DPU Director continue to develop and implement a process to track and reconcile the materials issued to and used by the Contractor.*

**Finding #8 – Inspection Policies and Procedures**

**Condition:**

Written policies and procedures are not in place to guide and aid the Inspectors in carrying out their job duties. The Inspectors are using on the job training and years of experience to conduct their work. Also, during discussions with DPU staff, it was noted that the inspector meetings, which were held to discuss the contract requirements/specifications, are no longer conducted on a regular basis.

**Criteria:**

It is a good practice for an organization to have written policies and procedures in place to provide guidance for employees to allow them to carry out their job duties consistently, efficiently, and effectively and ensure that management expectations are carried out.

**Cause:**

Written policies and procedures have not been developed and implemented for conducting inspections of the Contractor's work. Per the Operations Manager, regular inspector meetings were happening more frequently when the contract was new versus now. However, he still meets with new Inspectors on the job or whenever an Inspector has a question regarding the

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contract. If multiple Inspectors come in with the same questions, he will call a meeting to discuss.

**Effect:**

Without adequate guidance, employees may not consistently, efficiently and effectively carryout their job duties and meet management expectations. The contract requirements may be inconsistently interpreted by the different Inspectors resulting in non-compliance and billing discrepancies. Reinstating the regular inspector meeting will be important given that these services will be resolicited, and a new contract will be entered into in the near future.

**Recommendations:**

- 15. We recommend that the DPU Director develop and implement written inspection policies and procedures for the Water Distribution Division.*
- 16. We recommend the Operations Manager reinstate the regularly scheduled inspector meetings.*

**APPENDIX A: MANAGEMENT RESPONSE FORM**

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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	We recommend that the DPU Director develop and implement processes and procedures to properly administer the hydrant inspection program to ensure that the hydrants are inspected timely.	Y	Water Distribution is presently developing an overall hydrant inspection program, which includes an administrative SOP detailing the process to ensure all the hydrants are inspected within an adopted 24 month inspection cycle.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		SOP scheduled for completion by 11/30/22
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	We recommend that the DPU Director develop and implement a centralized tracking method to capture a complete maintenance and inspection history for the fire hydrants.	Y	Coordination (internally) via the Cityworks application to track all repairs and maintenance activities. The goal is to migrate towards an electronic work management, maintenance tracking application such as Cityworks for all water distribution activities. This is a phased process, which will include the identification of all WD work activities, documented SOP's, development of the applications\tools, training and implementation. The hydrant inspection program is the first activity which will be developed within the Cityworks application.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		12/31/2023
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
	None Known		In Progress
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	We recommend that the DPU Director automate the documentation process for the hydrant inspections.	Y	The hydrant inspection documentation already exists within Cityworks. DPU is currently developing application and ensuring dedicated staff are using application. Go live for contractor\city use Cityworks application for Hydrant inspection planned for start of next inspection cycle, 1st Quarter CY23.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		1st Quarter CY23
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
	None Known		In progress

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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	We recommend that the DPU Director ensure the required hydrant inspection cycle is clearly spelled out in the contract specifications.	Y	The contract language will be revised when the contract is rebid in CY23 to specifically state\require a two year inspection cycle from all potential bidders.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		1st draft of new contract by 8/31/22, plan for rebid 1st quarter CY23
			<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	We recommend that the DPU Director conduct an assessment to determine if it would be more efficient and effective to bring the hydrant inspection function back in-house and proceed accordingly.	Y	An assessment was performed at the time the program was initially developed. It was determined at that time to be more costly and prohibitive to maintain. DPU will continue to evaluate all possibilities which involve financial health & stability measures as well as business continuity.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		Continuous
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
			Part of annual program evaluation
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
6	We recommend that the DPU Director ensure that the lateral valves are exercised during the hydrant inspections and observations are documented.	Y	DPU has assigned a full time inspector to this task. Starting with the FY23 Hydrant Inspection, hydrant lead valve inspections will also be captured within the Cityworks Application.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		July 1, 2022
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
			DPU Inspector completing paper forms since 7/01/22, Cityworks will start with FY23 hydrant inspections scheduled to start 1st quarter CY23

**APPENDIX A: MANAGEMENT RESPONSE FORM**

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#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
7	We recommend that the DPU Director develop and implement processes and procedures to properly administer the hydrant repairs and replacements to ensure that the hydrants are put back into service timely including: a. Establishing a formal goal for hydrant repairs/replacements when utility markings are required; and b. Documenting any encountered delays.	Y	DPU is in the process of developing an Administration SOP which will detail service delivery goals. Cityworks Applications will be developed to maintain historical repair history.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		SOP complete by 11/30/22
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
8	We recommend that DPU Water Distribution Division Operations Manager recoup the identified overpayments and research the invoices dated on or after October 2, 2021, for work prior to that date to determine if the proper rates were applied and recoup any overpayment.	Y	Research Completed 8/8/22 Total Value Invoices Reviewed = \$1,832,832.82 Total Overpayment Value = \$7,676.09 (0.418%) WD working with financial ops and contractor to recoup funds
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		Week of 8/8/22
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
	None Known		See Above

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
9	We recommend that the DPU Director establish and implement a payment process that includes a defined billing time frame for completed work and a reconciliation process to ensure the billed quantities agree to the Inspector's pay sheets and contract rates prior to payment.	Y	On 6/1/22 DPU WD started using the same tracking database that the DPU new construction team is presently using and also a new excel spreadsheet. The spreadsheet supports the reconciliation process (end-to-end) and quickly identifies adjustments real time. DPU is also reviewing contract language to ensure clarity around the defined billing time frame. All changes/edits will be documented in the administrative SOP for the department.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		6/1/2022
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
			See above

**APPENDIX A: MANAGEMENT RESPONSE FORM**

**2023-02 DPU Contract Compliance audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
10	We recommend that the DPU Director review and update the language in the upcoming contract to remove any ambiguities and clarify the use of force account as much as possible.	Y	Contract language is under review. First draft expected by 8/31/22.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		In progress - Rebid CY23
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
11	We recommend that the DPU Director develop and implement a transition plan, to retain knowledge during staffing turnover.	Y	Several workforce development initiatives are underway within DPU. Specific focus on succession planning for critical job duties and positions as well as professional development. There are parallel initiatives geared towards cross training opportunities, which include and support knowledge transfer, job shadowing, talent retention and knowledge retention efforts.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	DPU Director		Continuous
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
12	We recommend that the DPU Director develop and implement a plan to address the Water Distribution Division's needs that are currently being fulfilled by the Contractor's staff.	Y	DPU remains focused on strategic initiatives that promote financial health & stability, innovation, efficacy and the customer focus. However, DPU's dependency on contractors is geared towards regulatory and compliance requirements across the 5 utilities. Regardless of available resources there are certain activities that must occur at the time of need without delay. For this reason, a balance between of inhouse staff and contractors are used to fulfill such commitments. Data supports WD accomplishes more with contractor utilization, but DPU will remain open to synergies where applicable.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	DPU Director		Ongoing
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>



**APPENDIX A: MANAGEMENT RESPONSE FORM**

**2023-02 DPU Contract Compliance audit**

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
13	We recommend the DPU Director automate the inspection documentation process and centralize the tracking for non-hydrant work.	Y	DPU is working with its EAM team and consultants to automate all WD work management\maintenance activities via Cityworks
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		12/31/2023
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
14	We recommend that the DPU Director continue to develop and implement a process to track and reconcile the materials issued to and used by the Contractor.	Y	A material tracking process has been developed. Additionally, a material list and sign off sheet has been developed for the contractor.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		Complete inventory of all contractor trucks by the end of August and implement by 9/1/22.
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
15	We recommend that the DPU Director develop and implement written inspection policies and procedures for the Water Distribution Division.	Y	WD to develop written inspection procedures
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Deputy Director, Sr.		2/28/2023
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
16	We recommend the Operations Manager reinstate the regularly scheduled inspector meetings.	Y	Regularly scheduled meetings for the inspectors were reinstated in July 2022 and will continue bi-weekly. Monthly staff meetings will be confirmed through recurring calendar invites along with sign-in sheets and defined agenda topics.
	<b>TITLE OF RESPONSIBLE PERSON</b>		<b>TARGET DATE</b>
	Program & Operations Manager - WD		8/15/2022
	<b>IF IN PROGRESS, EXPLAIN ANY DELAYS</b>		<b>IF IMPLEMENTED, DETAILS OF IMPLEMENTATION</b>