



Office of the City Auditor

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Department of Public Utilities Contract Compliance Audit Report#: 2017-04



Issue Date: November 15, 2016

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Umesh Dalal, CPA, CIA, CIG
Richmond City Auditor

Richmond City Council

The Voice of the People

Richmond, Virginia

Office of the City Auditor

Executive Summary

November 15, 2016

Ms. Selena Cuffee-Glenn, Chief Administrative Officer

The City Auditor's Office has completed an audit of the Department of Public Utilities' (DPU) natural gas line leak and repair contract. Currently, Richmond has over 114,000 gas accounts and just over 1,900 miles of natural gas pipelines. Richmond's current gas distribution infrastructure is old, subjecting the City to greater risks, such as gas leaks or gas related emergencies.

The audited contract covers the general contracting services for the repair, renewal and retirement of gas mains and services for the gas distribution system in the City of Richmond, Henrico, Chesterfield, and Hanover counties. The contract also includes emergency repair services as needed by the City. The contract was initiated on January 15, 2013 for \$6.4 million with four one-year renewal options. The City is currently on its third contract renewal.

The audit observations indicated that DPU's payment process for this contract functions well. However, DPU does not have good controls over inventories used for this contract. The auditors were not able to evaluate the additional costs incurred by DPU on materials and supplies for this contract. The contractor's crews are not required to account for the parts used in the various repairs. Tracking the usage of inventory issued to the contractor is essential to ensure accountability of the supplies issued.

The City Auditor's Office made two recommendations in this audit and DPU management agreed with both. The City Auditor's Office appreciates the cooperation of DPU employees during this audit.

Sincerely,

Umesh Dalal

Umesh Dalal, CPA, CIA, CIG
City Auditor

cc: The Richmond City Audit Committee
The Richmond City Council
Mr. John Buturla, DCAO of Operations
Mr. Robert Steidel, Director of Dept. Public Utilities
Mr. Alfred Scott, Deputy Director II – DPU

COMPREHENSIVE LIST OF RECOMMENDATIONS

#		PAGE
1	The DPU Director needs to ensure that the inventories of supplies issued to each crew are periodically reconciled with supplies used on City projects and inventory remaining with the crew.	6
2	The DPU Director needs to ensure the duplicate payment is recovered from the contractor.	6

Introduction, Objectives, and Methodology

The City Auditor's Office has completed an audit of the Department of Public Utilities (DPU) natural gas line leak and repair contract. This audit assesses compliance with the contract for the 12-month period ended June 30, 2015. The objective of this audit was to evaluate compliance with deliverables, and the terms and conditions of the contract.

The 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 the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

Methodology

To complete this audit, the auditors performed the following procedures:

- Interviewed relevant DPU employees;
- Reviewed the vendor's deliverables for the contract selected;
- Reviewed paid invoices and tested for compliance with the terms and conditions of the contract, including whether the correct pricing was charged to the City for services provided;
- Reviewed paid invoices for duplicate payments; and
- Conducted other tests, as deemed necessary.

Management Responsibility

City 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.

Background

DPU provides many City services through its five divisions. "The Department operates five utilities: natural gas, water, wastewater, stormwater, and electric street lighting. DPU serves more than 500,000 residential and commercial customers in Richmond and surrounding metropolitan region." Currently, Richmond has over 114,000 gas accounts and just over 1,900 miles of natural gas pipelines. Richmond's current gas distribution infrastructure is old, subjecting the City to greater risks such as gas leaks or gas related emergencies.

The audited contract covers the general contracting services for the repair, renewal and retirement of gas mains, and services for the gas distribution system in the City of Richmond, and Henrico, Chesterfield, and Hanover counties. The contract also includes emergency repair services as needed by the City. The contract was initiated on January 15, 2013 for \$6.4 million with four one-year renewal options. The City is currently on its third contract renewal.

Year	Amount (Millions)	Total Spent (Millions)	Type of Modification
2013	\$6.40	N/A ¹	Original Contract
2014	\$6.40	\$3.1	Renewal
2015	\$6.40	\$3.5	Renewal
2016	\$6.40	Contract Year Not Completed	Renewal

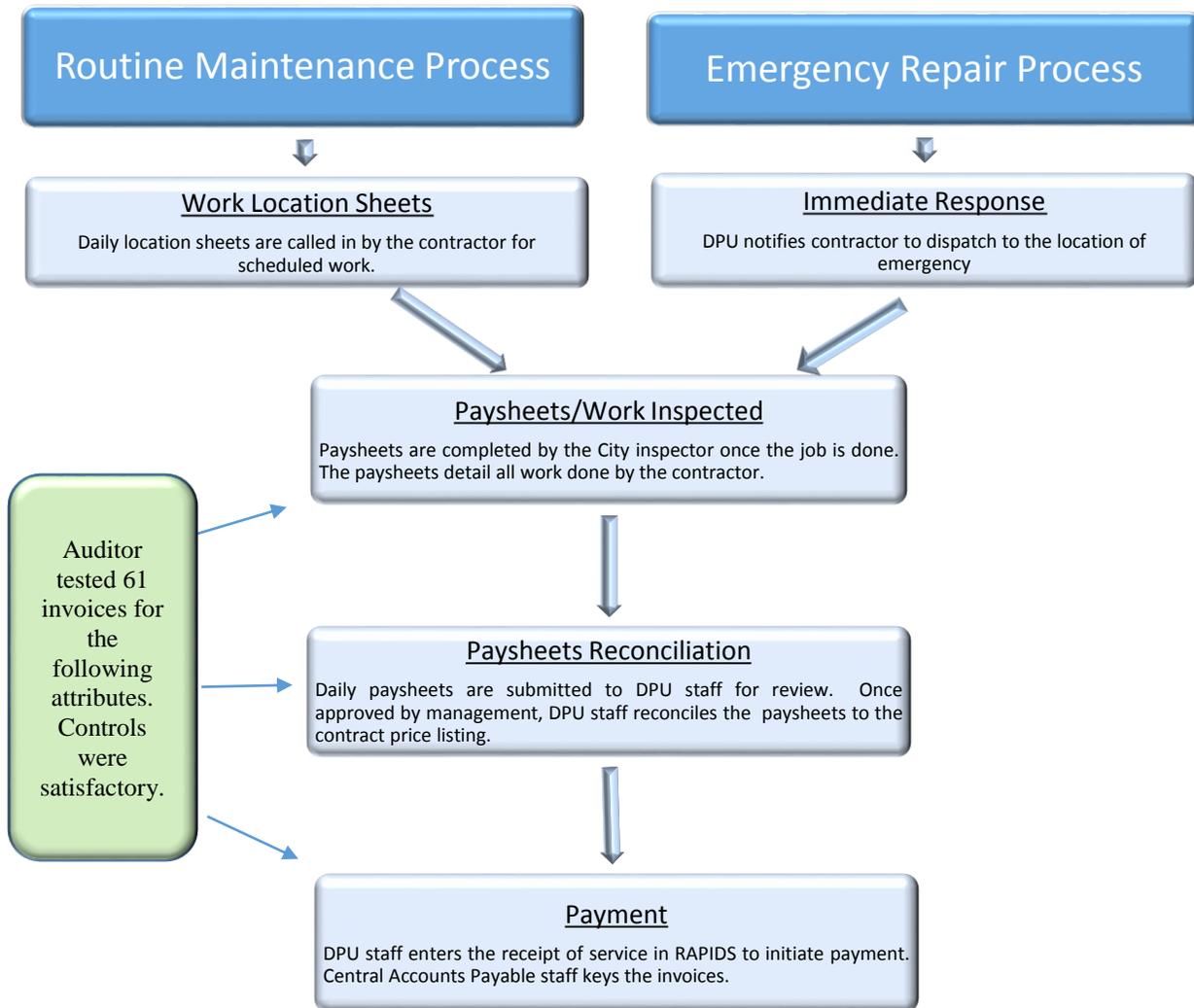
Source: City's financial system

WHAT WORKS WELL

Payment Process

The contract covers both routine and emergency maintenance. DPU uses a third party vendor to complete a leak survey based on federal standards to identify gas leak work needed. DPU prioritizes the needed repairs and assigns the work to the contractor. Emergency repairs occur when significant gas leaks are identified and immediate attention is required. Below is an outline of the Routine and Emergency Repair Payment Processes:

¹ Due to implementation of new financial system during late 2013, Auditor could not obtain data for entire 2013 calendar year.



IMPROVEMENTS NEEDED

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
- Compliance with laws and regulations

Based on the audit test work, the auditors concluded that DPU has strong internal controls in place to ensure payments are accurate and reflect services rendered. However, internal controls need improvement in the issuance of parts to the contractor as discussed below.

Processes Not in Place to Effectively Monitor Supplies Issued

According to the contract, the City is required to supply parts for the maintenance and repair work. DPU supplies the contractor with parts, as needed, to conduct its work. The supplies needed for the daily work are maintained in a City warehouse. Most parts are common supplies that the City keeps on hand for repairs. Some of the parts include:

- Couplings
- Gasket sealant
- Meters
- Pipes
- Risers

Parts are requested by the contractor/crews and supplied by the City. When supplies are needed, crews fill out an order sheet detailing what and how much material is required. The form is submitted to DPU staff to fulfill the order. Once the order is ready, the contractor's crews pick-up the material from the DPU warehouse.

The auditors noted that DPU does not have a process in place to track the inventory once it is issued to the contractor. The contractor's crews are not required to account

for the parts used in the various repairs. Tracking the usage of inventory issued to the contractor is essential to ensure accountability of the supplies issued. In addition, the auditors requested the value for supplies ordered by the contractor's crews during the audit scope, however, DPU staff could not provide the value as cost is not tracked.

Recommendation:

- 1. The DPU Director needs to ensure that the inventories of supplies issued to each crew are periodically reconciled with supplies used on City projects and inventory remaining with the crew.**

Duplicate Payment

The City's financial system, RAPIDS, has a built-in control to detect and prevent duplicate payments. However, based on an Accounts Payable (AP) audit conducted in 2015, it was discovered that the control could be circumvented by AP staff.

The auditors tested 77 invoices from FY15 to determine if any duplicate payments were made for this contract. The auditors found that one invoice totaling \$11,351.49 had been paid twice. The invoice number was altered by the AP staff in the Finance Department, which circumvented the system controls. Payments were issued for the original invoice and the re-entered invoice. The auditors reached out to the Accounts Payable and DPU staff to determine if the contractor had submitted a refund or issued a credit to offset the duplicate payment. However, the auditors did not receive a response. In addition, the auditors could not conclude whether an invoice for \$2,850.95 was paid twice as DPU did not provide the detailed invoices.

- 2. The DPU Director needs to ensure the duplicate payment is recovered from the contractor.**

**MANAGEMENT RESPONSE FORM
2017-04 DPU Contract Compliance**

APPENDIX A

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	The DPU Director needs to ensure that the inventories of supplies issued to each crew are periodically reconciled with supplies used on City projects and inventory remaining with the crew.	Y	<i>The Department of Public Utilities will work to implement formal inventory control processes with regards to parts issued to crews within its Gas Division.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Deputy Director		30-Jun-17
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	In Progress		N/A
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	The DPU Director needs to ensure the duplicate payment is recovered from the contractor.	Y	<i>The Director of Public Utilities will work with the Director of Finance to correct the overpayment to the contractor, and will continue to work with the Department of Finance to detect such issues.</i>
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director		30-Jun-17
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	In Progress		N/A