



Richmond City Council

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Richmond, Virginia

OFFICE OF THE CITY AUDITOR

REPORT # 2011-06

AUDIT

Of the

Richmond Department of Public Utilities, Shockoe Bottom Construction Contract

February 2011

OFFICIAL GOVERNMENT REPORT

Richmond City Council

OFFICE OF THE CITY AUDITOR

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*Committed to increasing government efficiency, effectiveness,
and accountability on behalf of the Citizens of Richmond.*

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City of Richmond
City Auditor

Executive Summary

February 17, 2011

The Honorable Members of Richmond City Council
The Richmond City Audit Committee
Mr. Byron C. Marshall, CAO

Subject: Department of Public Utilities, Shockoe Bottom Construction Contract Audit - Report 2011-06

The City Auditor's Office has completed an audit of the Department of Public Utilities, Shockoe Bottom Construction Contract. The audit was conducted in accordance with Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. The audit was conducted to evaluate the existence and effectiveness of internal controls, and the compliance with contract terms and conditions.

The auditor found internal controls to be adequate and operating effectively. In addition, the Department of Public Utilities complied with the City's procurement procedures and the terms of the contract.

The City Auditor's Office appreciates the cooperation of the DPU staff during the audit. Since the audit made no recommendations, a management response was unnecessary, and therefore not part of this report. Please forward all the questions or comments related to this report to the City Auditor's Office.

A handwritten signature in black ink, appearing to read "Umesh Dalal".

Umesh Dalal, CPA, CIA, CIG
City Auditor

City of Richmond Audit Report 2011-06

Department of Public Utilities

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Introduction and Scope

The City Auditor's Office has completed an operational audit of the Department of Public Utilities (DPU), Shockoe Bottom Construction Contract. This audit covers the procurement process administered and the managerial oversight conducted by DPU in regards to the project from inception to completion (September 18, 2008 through December 1, 2010). The audit was conducted in accordance with Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States.

Management Responsibilities

The management of the City of Richmond is responsible for maintaining relevant records and maintaining a system of internal accounting and management controls. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of the project and the control procedures.

Objectives and Methodology

The objectives of the audit were to:

- Evaluate the existence and effectiveness of internal controls, and
- Evaluate the compliance with contract terms and conditions.

Auditors employed the following methodologies to complete this audit:

- Reviewed procurement documentation to ensure compliance with policies and procedures governing the procurement process;
- Reviewed contract requirements and tested for compliance;
- Reviewed close out documentation and conducted a walkthrough of the construction site;
- Interviewed DPU personnel; and
- Conducted other tests, as deemed necessary.

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Background

DPU entered into a fixed price contract with a construction company which consisted of constructing a box sewer overflow structure and separation of the existing crossover structure. The purpose of the project was to allow combined sewage flows to divert to the Shockoe Retention Basin, and allow interior overland flooding to drain into the James River. The contract was originated on September 18th, 2008 for the amount of \$7,278,139, and was completed at a cost of \$6,089,660. The construction was managed by third party vendors while DPU provided oversight ensuring contractual compliance.

Internal Controls

According to Government Audit 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.

Based on the audit methodology employed, auditors concluded that the overall internal controls employed in managing the Shockoe Bottom Contract were adequate.

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Procurement Compliance

Services were properly procured

The City of Richmond has established procurement policies and procedures to ensure proper procurement of goods and services.

According to Policy, construction contracts require:

- Public advertising;
- Submission of at least three bids; and
- Analysis of bids received through a selection process.

The auditor noted that DPU complied with all of the above items in accordance with policy and procedures.

Compliance with Contract Terms

Concrete was the primary material used to complete the Shockoe Bottom construction project. Concrete costs represented a significant amount of the construction materials costs. Therefore, using concrete of the appropriate strength was critical. Auditors noted concrete testing was conducted by a third party vendor to ensure contractual compliance. Auditors reviewed all concrete tests and noted that all were in compliance with the terms and conditions of the contract.

Auditors also noted that DPU monitored contractual compliance through regularly scheduled meetings. The auditors reviewed all status meetings and noted that they occurred on a regular basis and were attended by all parties involved in the project. This is indicative of an appropriate contract monitoring process.

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Conclusion

DPU has adequately monitored the entire construction project process by ensuring compliance with the terms and conditions of the contract. The audit did not reveal any form of noncompliance. Internal controls appeared to be in place and worked effectively. The audit did not yield any negative findings or recommendations.