



June 27, 2019

Performance Audit

MWI, Inc.

Citywide Contract Audit – City Report

Report No. 19-106



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

PERFORMANCE AUDIT REPORT
MWI, INC. – CONTRACT AUDIT
CITYWIDE – VENDOR AUDIT
REPORT NO. 19-106

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The purpose of this audit was to review and report on MWI, Inc.'s contract and billing compliance for the period May 2016 through August 2018.

Executive Summary- City Report

The Office of Internal Audit (OIA) conducted a citywide vendor audit of MWI, Inc. (MWI). Vendor audits are included on OIA's fiscal year (FY) 2019 audit plan and MWI was selected.

MWI is a locally owned company that was founded in 2007 and specializes in the installation, upgrade, and maintenance of traffic signals, roadway lighting, and intelligent transportation systems.

The City paid MWI approximately \$1.6 million during the term of the contract. The City's Department of Municipal Development (DMD) provides contract oversight and also reviews and approves all MWI invoices.

DMD is not sufficiently reviewing invoices from MWI for accuracy prior to authorizing payment. The following billing issues were identified during the audit:

- Underbillings for line location services, and
- Non-submission of utility spotting request information.

Underbillings for spotting request tickets and the number of feet marked at line location sites were noted during the audit. The inclusive undercharge estimate for the audit period is \$89,712.

MWI is also not submitting the NM811 utility spotting request information when billing the City. The contract states that the billing for utility spotting activities performed by the contractor must be accompanied by proof of receipt and mandates the inclusion of specific billing details. The specific details are intended to help DMD verify the accuracy of billing submissions.

Recommendations



DMD should:

- Verify the accuracy of MWI line location service billings prior to approval;
- Consider allowing MWI to submit invoices for unbilled line location services; and
- Ensure MWI provides the NM811 utility spotting request information for each ticket when billing the City or work with MWI to determine what information may be provided that would enable DMD staff to verify the accuracy of line location billings.

DMD agrees with the findings and recommendations



City of Albuquerque

Office of Internal Audit

June 27, 2019

Accountability in Government Oversight Committee
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FINAL – City Report

INTRODUCTION

The Office of Internal Audit (OIA) conducted a citywide vendor audit of MWI, Inc. (MWI). Vendor audits are included in OIA's fiscal year (FY) 2019 audit plan and MWI was selected. Information pertaining to the audit objectives, scope and methodology can be found in **Appendix A**.

MWI is a locally owned company that was founded in 2007 and specializes in the installation, upgrade, and maintenance of traffic signals, roadway lighting, and intelligent transportation systems. The audited contract began on May 16, 2016 and extended through August 4, 2018.

The City of Albuquerque (City) contracts with MWI to provide line location services for New Mexico 811 (NM811) calls placed throughout the City. NM811 is a communication medium between citizens and businesses, and the various utility companies with cables and other facilities buried underground. NM811 dispatches locators from the utility companies to mark the buried lines before any digging occurs. In order to expedite the procurement process, the City used the State of New Mexico's price agreement No. 40-805-14-11630 to contract with MWI.

The City's line location service contract with MWI began on May 16, 2016 and ended August 4, 2018. The City paid MWI approximately \$1.6 million during the term of the contract. The City's Department

of Municipal Development (DMD) provides contract oversight and also reviews and approves all MWI invoices.

All line location spotting request tickets within the City boundaries are dispatched to MWI by NM811. From the time the spotting request ticket is received, MWI has forty-eight hours to clear the ticket for non-emergency requests and two hours to clear an emergency requests. Once MWI receives a spotting request ticket, research is performed to determine if underground utility lines are at the location. If MWI's research determines there are no underground utility lines at the location, MWI documents the results of their research and clears the open ticket on the NM811 system. If MWI's research identifies that there are underground utility lines, an MWI employee goes to the location and locates, marks the lines, and then clears the open ticket as marked on the NM811 system.

Under the contract MWI is authorized to charge \$30 per ticket for the line location review to determine if utility lines are present at the location and an additional \$60 per ticket plus \$1 per foot marked if they have to mark the underground utility location on site.

FINDINGS

The following findings address areas that OIA believes could be improved by the implementation of the related recommendations.

1. DMD SHOULD VERIFY THE ACCURACY OF THE BILLINGS SUBMITTED BY THE VENDOR PRIOR TO AUTHORIZING PAYMENT.

DMD is not sufficiently reviewing invoices from MWI for accuracy prior to authorizing payment. The following billing issues were identified during the audit and are further explained in the following subsections:

- Underbillings for line location services, and
- Non-submission of utility spotting request information.

Underbillings for Line Location Services

Sixty-three percent (63%) of invoices reviewed contained underbillings for line location services. From a statistical random sample of 19 invoices, 12 invoices contained 80 unbilled spotting request tickets. Applying the error rate of 1.725 percent (80/4,638 sample population) to the inclusive billed ticket population, the estimated undercharge for the audit period is \$11,089 (1.725%*21,430*\$30).

MWI also underbilled the City for the number of feet marked at line location sites. From a

statistical random sample of 24 feet marked tickets, MWI did not bill the City for 424 of feet marked. MWI charges \$1 per foot marked. Applying the error rate of 12.888 percent (424/3,290 sample population) to the total feet marked population, the estimated undercharge for the audit period is \$78,623 (12.888%*610,047*\$1).

Administrative Instruction 3-7 states that operating departments must “Ensure that procedures currently in place within the departments for purchase/receipt/payment approval are reviewed to eliminate bottlenecks and speed up the payment process. The emphasis should be on the proper approval of the purchase prior to receipt of goods or services and evidence of receipt of the goods or services.”

Non-Submission of Utility Spotting Request Information

MWI is not submitting the NM811 utility spotting request information when billing the City and DMD is not requesting the documentation. The contract states that the billing for utility spotting activities performed by the contractor must be accompanied by proof of receipt from NM811. The request must detail the following:

- Date and time of receipt,
- Date and time of response,
- Date and time of completion,
- Field location of requested spotting,
- Originator of spotting request,
- Work performed to obtain clearance (survey and map review, or field survey), and
- When performed - results of the field survey.

DMD engineer staff responsible for approving MWI invoices stated that DMD has access to the NM811 information but has not verified the accuracy of MWI’s billed tickets because MWI has not proved the required ticket information with each invoice. As a result, DMD staff approves MWI’s invoices without verifying the accuracy of submitted billings.

RECOMMENDATIONS

DMD should:

- Verify the accuracy of MWI line location service billings prior to approval.
- Consider allowing MWI to submit invoices for unbilled line location services.
- Ensure MWI provides the NM811 utility spotting request information for each ticket when billing the City **or** work with MWI to determine what information may be provided that would enable DMD staff to verify the accuracy of line location billings.

RESPONSE FROM DMD

“DMD believes the vendor’s business decision to exclude some charges for line location services as well as some of the line location footage is within their discretion. DMD has not requested under billing nor do we understand the basis for their business decision. We do however appreciate their conservative billing practices. DMD agrees that billings should contain the contractually required supporting documentation.

“DMD will review NM811 system options for reporting line spotting requests and will develop procedures for compare billing to requests. Additionally, DMD will work with MWI to obtain the contractually required ticket information for billing submitted to the City.”

ESTIMATED COMPLETION DATES

“Projected completion date is July 2019.”

2. DMD SHOULD ENSURE THAT EMPLOYEES PERFORMING LINE LOCATION SERVICES POSSESS A VALID NEW MEXICO STATE ELECTRICAL LICENSE.

An unlicensed MWI employee is performing line location services for the City. The contract states, “All employees of the contractor who will perform related work must have a valid New Mexico State Electrical License.” MWI currently has one licensed and one unlicensed locator that responds to spotting requests.

MWI believes that an experienced employee under a licensed electrician's oversight is adequate and was unaware of the contract language. The City was unaware that there was another unlicensed MWI employee performing line location services.

Work performed by an unlicensed employee is considered non-compliance with the contract and could lead to contract termination. In addition, unlicensed work increases the liability risk for MWI and the City should any issues arise from the work performed. For example, significant liability may be assigned if an individual hits an unidentified electrical power line but was assured that no line existed by a non-licensed employee.

RECOMMENDATION

DMD should ensure that all MWI employees performing line location services for the City possess a New Mexico State Electrical License.

RESPONSE FROM DMD

“DMD acknowledges that the statewide price agreement for line spotting services contains a qualifications clause that requires a JE98 license for all employees of the contractor who will perform related work.

“DMD has been advised that MWI was notified about this requirement through the course of this audit. DMD will work with the vendor to ensure compliance with the contractual requirements.”

ESTIMATED COMPLETION DATE

“Immediately.”

CONCLUSION

Invoice accuracy and contract compliance are key requirements of City vendors. The billing and employee license issues addressed in the report will help the City ensure MWI's contract compliance and verify the accuracy of billings.

We greatly appreciate the assistance, involvement, and cooperation of DMD. Their time, assistance, involvement and cooperation are greatly appreciated.

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REVIEWED:

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Office of Internal Audit

APPROVED FOR PUBLICATION:

Ed E. Perea, Chairperson, Accountability in
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APPENDIX A

OBJECTIVE

The audit objectives were to determine:

1. Are the vendor's billings accurate and in conformance with the contract?
2. Is the vendor in compliance with the insurance, bonding, and licensing requirements of the contract?

SCOPE AND LIMITATIONS

Our audit did not include an examination of all functions and activities related to MWI's contract. Our scope was limited to the objectives above.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on May 13, 2019 and does not reflect events or accounting entries after that date.

In performance audits, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met. In the performance audit requirements, the term significant is comparable to the term material as used in the context of financial statement engagements. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Our consideration of internal control was for the limited purpose described in our audit objectives and was not designed to identify all deficiencies in internal control. Therefore, unidentified deficiencies may exist. Accordingly, we do not express an opinion on the effectiveness of MWI's internal control.

As part of the performance audit, we tested MWI's compliance with certain provisions of laws, regulations, contracts, and agreements and noncompliance with which could directly and significantly

affect the objectives of the audit. However, opining on compliance with those provisions was not an objective of the performance audit and accordingly, we do not express an opinion.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following:

- Reviewed procurement contract, statewide purchasing agreement, and corresponding General Instructions, Terms and Conditions;
- Determined the population of paid invoices during the audit period;
- Identified contractual and non-contractual requirements;
- Statistical sampling at a 90 percent confidence level was used to test contract pricing compliance and mathematical accuracy of invoices;
- Tested the samples of invoices for billing compliance with the contract, rules, regulations, and policies and procedures;
- Recalculated invoices to verify that all are mathematically accurate; and
- Other methodologies as needed.