



June 27, 2019

Performance Audit

MWI, Inc.

Contract Audit – Vendor Report

Report No. 19-106



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

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

<u>TABLE OF CONTENTS</u>	<u>PAGE NO.</u>
Executive Summary	i
Introduction	1
Findings:	
1. MWI Should Ensure That it Bills in Full for all Work Performed and in Conformance with the Contract.	2
2. MWI Should Ensure That Employees Performing Line Location Services Possess a Valid New Mexico State Electrical License.	4
Conclusion	5
Appendix A – Objectives, Scope, Limitations, and Methodology	7

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

The Office of Internal Audit (OIA) conducted a citywide vendor audit of MWI, Inc. (MWI). The City paid MWI approximately \$1.6 million during the term of the contract.

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.

MWI is not billing in accordance with the City contract. The following billing issues were identified during the audit:

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

Under billings 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 the City verify the accuracy of billing submissions.

In addition, 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."

Recommendations

• • •

MWI, Inc. should:

- Ensure that they accurately bill the City for all line location services;
- Consider submitting invoices for unbilled line location services;
- Provide the NM811 utility spotting request information for each ticket when billing the City or work with the City to determine what information may be provided to verify the accuracy of line location billings; and
- Ensure that all employees who perform line location services for the City possess a valid New Mexico State Electrical License.

MWI agrees with the audit findings and has implemented all associated recommendations.



City of Albuquerque

Office of Internal Audit

June 27, 2019

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Vendor Audit - Citywide
MWI, Inc.
Audit No. 19-106

FINAL – Vendor 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. MWI SHOULD ENSURE THAT IT BILLS IN FULL FOR ALL WORK PERFORMED AND IN CONFORMANCE WITH THE CONTRACT.

MWI is not billing in accordance with the City contract. The following billing issues were identified during the audit and are further explained in the following subsections:

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

Under billings for Line Location Services

Sixty-three percent (63%) of invoices reviewed contained under billings 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 under billed 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). Section 29 of the contract states, “The Contractor shall submit an accurate invoice for each purchase.”

MWI is aware that it occasionally under bills the City. MWI stated that there are occasionally repeat or previously marked services tickets that it does not charge the City for and believes this helps maintain a good working relationship with the City.

Non-Submission of Utility Spotting Request Information

MWI is 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 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.

MWI management stated that they have not provided the information because the City has never requested the documentation. If complete documentation is not submitted and verified, MWI could incorrectly charge the City for line location services.

RECOMMENDATIONS

MWI should:

- Ensure that it accurately bills the City for all line location services.
- Consider submitting invoices for unbilled line location services.
- Provide the NM811 utility spotting request information for each ticket when billing the City **or** work with the City to determine what information may be provided to verify the accuracy of line location billings.

RESPONSE FROM MWI

“MWI, Inc. felt justified for the under billings for various reasons explained to the OIA; however, hence forward MWI, Inc. will bill in full for all services performed under the contract. Also, MWI, Inc. submitted said documents upon inception but was informed by COA that the documents were not necessary. Also, COA does have access to the NM811 tickets so MWI, Inc. didn’t see the need to duplicate efforts or create unnecessary work. Hence forward, MWI, Inc. will work closely with the COA to determine the appropriate documents to submit to ascertain billings are accurate.”

ESTIMATED COMPLETION DATES

“MWI, Inc. already has implemented the above recommendations and have been billing the COA for all work performed and is diligently working with the COA on the appropriate documentation to submit upon billing.”

2. MWI 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 who respond 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

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

RESPONSE FROM MWI

“Employee not licensed always had oversight and guidance from individuals that were licensed at MWI, Inc. Hence forward, all line locating and spotting work will be performed by a licensed individual.”

ESTIMATED COMPLETION DATE

“Line locating and spotting services are now being performed by an individual with a New Mexico State Electrical License.”

CONCLUSION

Invoice accuracy and contract compliance are key requirements of City vendors. The billing and employee license issues addressed in the report will help MWI improve and strengthen its contract compliance and relationship with the City.

We greatly appreciate the assistance, involvement, and cooperation of MWI's management and staff. Their time, assistance, involvement and cooperation are greatly appreciated.

REVIEWED:

Lawrence L. Davis, Internal Audit Manager
Office of Internal Audit

APPROVED:

Jim Thompson, City Auditor
Office of Internal Audit

APPROVED FOR PUBLICATION:

Ed E. Perea, Chairperson, Accountability in
Government Oversight Committee

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;
- Used statistical sampling at a 90 percent confidence level 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.