May 20, 2016

David L. Hansen, City Manager
Municipal Center, Building 1
2401 Courthouse Drive
Virginia Beach, VA 23456

Subject: Erroneous Payment of Dominion Virginia Power Account

Summary of issue

Based upon a departmental review of the Energy Consumption by Building report on Beachnet, it was discovered that the City was paying for a Dominion Virginia Power account (H3970100008) that did not belong to the City. Upon this discovery, the Office of the City Auditor was notified by the City’s Energy Management Administrator to further look into this matter and help determine if it was possible to recover the overpayment.

Background

The City of Virginia Beach currently pays more than $23 million annually for energy. For years, the City operated under a decentralized bill review model that limited the measurement and control of energy costs. It was a cumbersome paper-based payment process with built-in keying redundancies, coupled with utility vendor delays in remittance processing. Departmental staff assigned to pay the bills did not have the tools to audit them.

The City of Virginia Beach created the Energy Office in 2010 in response to rising energy prices. While staff knew the dollar amount we were paying each of our energy vendors - staff did not have a comprehensive city-wide view of all of the energy being consumed. Tracking and auditing of the bills was challenging, approximately 17,000 utility bills are processed annually.

In 2013, the City received Department of Energy grant funds to purchase and implement a utility payment software program. This program provides:

- Increased energy reporting
- Use of electronic bills from Dominion and Virginia Natural gas
Improvements in internal control processes
Large reductions in time and data entry keying errors
Electronic audits of bills to catch utility billing errors
Staff time to focus on bill exceptions or anomalies
Reductions in late payments

The Energy Office, working with Information Technology, created a new Intranet site to facilitate each department’s review of their energy consumption. Each quarter, the Energy Office uploads over 80 energy reports so that staff may see each department’s vendor payments and usage of electric, natural gas, propane and fuel. These reports also list every facility’s name and location. Energy goals are created by the Joint Energy Committee and the departments can review and determine if they are on track to meet them. Some other key functions performed by the Energy Office:

- Distribution of facility charges and energy usage information
- Elimination of zero use energy meters
- Elimination of late fees due to delays in processing and lost payments
- Energy retrofit analysis
- Elimination of incorrect taxes and other charges
- Verification of rate schedules

In addition to the use of the utility payment software, the Energy Office has partnered with our office to complete third-party bill audits. The 2013 audit of Dominion Power and Virginia Natural Gas resulted in over $80,000 in savings from rate schedule changes and refunds.

A second third-party audit is currently underway and includes Dominion, Virginia Natural Gas, Compass Energy (Natural Gas) and Hampton Roads Sanitation District (HRSD).

**Scope**

As part of our review into this matter, we performed the following:
- Met with management from Public Works and Energy Management Office
- Met with City Attorney’s Office
- Reviewed Dominion Virginia Power bills
- Reviewed pertinent city leases obtained from City Attorney’s Office
- Reviewed pertinent city leases obtained from City Clerk’s Office
- Reviewed available supporting documentation (emails with leasing management company, staff, etc.)
- Visited site at 397 Little Neck Road, Building 3300
Issue: Erroneous payment of Dominion Virginia Power account

As the result of a departmental review of the Energy Consumption by Building energy reports on Beachnet, a Dominion Virginia Power account was identified that was not a city account.

Based upon our review we determined that the account in question was related to the following lease agreement:

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<th>Lease Agreement Information</th>
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<td>Date of Lease Agreement</td>
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| Location of Leased Space    | 3300 Building - 397 Little Neck Road  
                              | Virginia Beach, VA 23452 |
| Lease Term                  | Five (5) year(s) beginning January 1, 1986 and ending December 31, 1990 |
| Initial Landlord            | S & H Company |
| Tenant                      | City of Virginia Beach |
| Use of Building             | Housing Community Development Offices (now known as Housing and Neighborhood Preservation), and Community Development Corporation offices |
| Electrical Service (as stated in Addendum to Lease Agreement) | "During the term of this Lease, Landlord shall furnish, at its expense, electrical service for the second floor portion of the Demised Premises, and Tenant, at its expense, will furnish electrical service for the first floor portion of the demised Premises."

When the lease ended on December 31, 1990, Housing and Community Development did not renew the lease and moved to another location. However, per a Lease Amendment Letter dated August 21, 1989 it was determined that the lease was amended to house office space for the City Treasurer and the Police Crime Prevention Unit. These were the last known city tenants and no other lease amendments have been identified.
At the expiration of the amended lease on December 31, 1995, the account for electrical services was never disconnected and this error was not discovered until years later in February 2016. As a result of this error, the City has erroneously paid for electrical services for space they did not lease for the last 20+ years. The amount of the overpayment is approximately $144K computed as follows:

| Estimated years paying on account for space City no longer occupied (January 1, 1996 to February 3, 2016) | 20 years, 1 mos. (241 months) The last bill paid on this account was for services through February 3, 2016 |
| Approximate amount of monthly bill | $597 per month ($7,164 average annual bill / 12 months) |
| Estimated amount of overpayment | $143,877 ($597 x 241 months) |

Dominion Virginia Power Acct Information

- Account # 3970100008
- Meter 0200052468
- City of Virginia Beach
- 397 Little Neck Rd #3300
- Virginia Beach, VA 23452

Estimated Annual Cost Avoidance going forward : $7K

Note: The Office of the City Auditor is working with the necessary parties to try to recover as much, if any, of the overpayment.

Based on this information we make the following recommendations:

The City Manager should:

1. Issue a memo to all Department Directors requiring the immediate review of ALL Energy Consumption by Building reports assigned to their department to ensure that all accounts are in fact a City account and the account belongs to their department. Any unassigned accounts should be investigated by the Energy Management Administrator.
2. Issue a memo annually to the Department Directors requiring locations listed on the Departmental *Energy Consumption by Building* report be reconciled to the respective facilities that their department occupies. **Note:** Upon completion, the Energy Management Administrator through the Director of Public Works should provide certification to the City Manager that this reconciliation has been completed.

3. Develop a process to centralize into one database a comprehensive listing of all buildings owned / or spaces leased by the City. Important data should be included in this centralized database to include location, department(s) occupying space, leasing information as it relates to utility charges, to include start and stop dates, and any other pertinent information. This process should be a collaborative effort involving Public Works/Facilities Management, Public Utilities, Parks and Recreation, Finance, Risk Management, ComIT and other necessary stakeholders.

The issue discussed in this memorandum is not the result of an audit performed in accordance with generally accepted auditing standards. Had we performed such an audit, additional issues may have been reported.

We would like to thank the Energy Management Administrator for bringing this matter to our attention and the prompt assistance of all City management and staff during the course of our review.

Should you have any questions, please do not hesitate to contact me at 385-5872 or via e-mail at iremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

Isr/jd

c: City Council Members
   Audit Committee Members
   Thomas M. Leahy, Ill, Acting Deputy City Manager
   Phil A. Davenport, Director, Department of Public Works
   Thomas C. Nicholas, Facilities Engineer, Public Works
   Lori J. Herrick, Energy Management Administrator
INTER-OFFICE MEMORANDUM

DATE: May 18, 2016

TO: Lyndon Remias, City Auditor

FROM: Thomas M. Leahy, III, Interim Deputy City Manager

SUBJECT: Response to Draft Audit – Erroneous Payment of Dominion Power Account

Public Works has reviewed the draft audit report, dated May 17, 2016. The Public Works Office of Energy Management discovered that one of the City's 963 billed Dominion Power accounts was for office space in a commercial building that the City has not leased for 20 years. After discovering the error, Public Works notified your office to seek assistance with recovering some portion of the overpayment.

At this point, there is no way to know what errors (human or process) led to this, but in terms of present day dollars, the City inadvertently paid approximately $7,200 per year for 20 years (about $144,000). Although this is only three-one hundredths of one-percent of the annual energy expenditure, it should not have happened.

Your memo contains three recommendations. The recommendations and the implementation status of each are summarized below:

1) Require Department Directors to review all of the Energy Consumption by Building reports assigned to their respective department to ensure that all accounts are in fact a City account and that the account belongs to their department. Any unassigned accounts should be investigated by the Energy Management Administrator.
   **Response:** This action is underway and will be completed in June.

2) Annually require Department Directors to reconcile locations listed on their departmental Energy Consumption by Building report with the respective energy using structure or infrastructure. Upon completion, the Director of Public Works should certify that this reconciliation has been completed.
   **Response:** This recommendation or a functional equivalent will occur going forward.
3) Develop a process to centralize into one database a comprehensive listing of all buildings owned or spaces leased by the City. Important data should be included in this centralized database to include location, occupant, leasing information, utility charges, and other pertinent information.

Response: Public Works, in collaboration with Risk Management, Finance, ComIT, Public Utilities and Parks and Recreation has completed a draft listing of all City owned facilities and facilities related assets. A working group has been established to review and refine this document, with the goal of having it complete and accurate by July 1, 2016. Public Works Facilities Management has a complete and accurate listing of all leased facilities, including details regarding who is responsible for utility payments and the start/stop dates of each lease. Facilities Management will be working with Energy Management to ensure that all leased facilities information is accurately recorded in EnergyCAP.

I would like to thank the Office of the Auditor for their assistance in this matter. I also commend the Office of Energy Management for finding what amounted to a needle in a haystack.

TML/s

c: David L. Hansen, City Manager
Phillip A. Davenport, Director of Public Works
Thomas Nicholas, Public Works Facilities Engineer
Lori J. Herrick, Public Works/Energy Management Administrator
Mark Podolinsky, Public Works/Energy Management/Business Center