



## Chesterfield County, Virginia Internal Audit

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**GREG L. AKERS**  
Director

**DATE:** June 15, 2017

**TO:** Joseph P. Casey, Ph.D.  
County Administrator

**FROM:** Greg L. Akers  
Director of Internal Audit

**SUBJECT:** Utilities Right of Way Audit

The Office of Internal Audit completed an audit of Utilities Right of Way, and the final report is attached.

We would like to thank George Hayes, John Harmon, Dean Sasek, Renee Martin and staff for their cooperation and assistance during this audit.

Attachment

Copy: Bill Dupler, Deputy County Administrator for Community Development  
George Hayes, Director of Utilities  
John Harmon, Real Property Manager  
Cindy Smith, Director of Risk Management



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# Utilities Right of Way

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June 15, 2017



River Walk Land Acquisition

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June 2017

# Highlights

Internal Audit Report to the Board of Supervisors/School Board

## Why We Did This Review

Internal Audit conducted this review as part of our FY15 audit plan approved by the County Administrator and School Board Superintendent.

The audit focused on evaluating the adequacy of records, policies, and procedures pertaining to expenditures and Utilities' Right of Way projects. In particular, our objectives were to:

- Review and test expenditures for compliance with County policies and procedures.
- Review and test controls over easements, land acquisitions, leases and property rented, surplus real property, vacation of easements, subdivision plat reviews, and permits for work.
- Report results to the County Administrator.

## What We Recommend

- Finish updating and obtain management approval for written procedures to reflect current operations and processes.
- Develop a schedule to monitor policies and procedures to ensure a review is conducted periodically.
- Evaluate the need to renegotiate lease terms at renewal based on use and current market value.
- Monitor the property annually to ensure lessee is abiding by the lease and document continuing need for County to hold the property.



For more information, please contact  
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# Utilities Right of Way



## What We Found

### Background

Right of Way is a function inside the Utilities Department that is responsible for acquisition of land, easements, and rights of way for the County. Right of Way monitors leases for one property and multiple telecommunication antennas on top of County water towers. They also monitor properties the County rents which are mainly office space.

### Compliance with Policies and Procedures

We commend Utilities Right of Way (ROW) as all expenditures were created and approved by authorized employees, had adequate supporting documentation, complied with County policies and procedures, were for legitimate County business, and there were no duplicate payments or split purchases.

### Finalize Draft Policies and Procedures

Internal Audit noted Utilities ROW reviewed and updated their procedures in 2012, but the changes were not approved by management. Currently, the procedures are still in draft form and additional information such as: definitions of terms, responsibilities, associated forms and procedures, and review schedules have been added which supports the reader's understanding of each procedure.

### Actively Monitor Leased Property

1 of 10 (10%) properties tested was not actively monitored and has a questionable lease rate. The County acquired a 115-acre unimproved lot (in Powhatan County) in 1974 for possible future water supply use. The County currently leases the property for \$350 per year, possibly well below market value. The lease, signed in 1991, allows the lessee and other persons they permit to hunt on the entire property and farm 20 acres. There is no documentation noting that the property has been actively monitored by the County and lease terms are unchanged since inception.

Management concurred with 6 of 6 recommendations to be implemented from 7/31/17 to 7/1/18.

We appreciate the cooperation received from management and staff while conducting this audit.

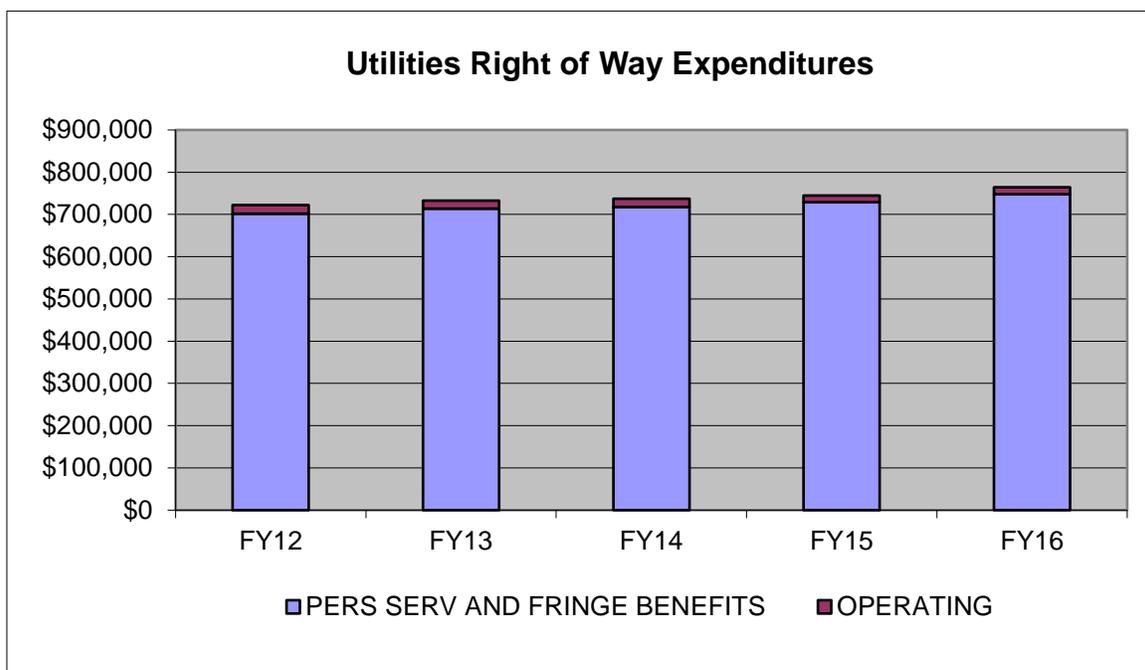
## INTRODUCTION

### BACKGROUND

The Utilities Right of Way (ROW) audit was a regularly scheduled audit on the FY15 audit plan approved by the County Administrator and School Board Superintendent. ROW Office is a function within the Utilities Department and is responsible for land transactions in the County. Specifically, the function processes the acquisition of easements and land for County use, reviewing site plans and subdivisions to ensure all necessary easements and rights of way are obtained, recording subdivision plats, processing vacations of easements and rights of way, permits to work in County easements, abandonment of state-maintained roads, conveyance of easements across County property, and sales of surplus real property. Right of Way monitors leases for one property and multiple telecommunication antennas on County water towers. They also monitor properties the County rents which are mainly office space.

In FY16 the Office processed a total of 522 easement acquisitions, 3 land acquisitions, 30 payments received for leased property, 1 surplus real property sale, 6 easement vacations, 45 subdivision plat reviews, and 54 permits to work (license agreements).

ROW Office expenditures in FY16 totaled \$764,509, including operating expenditures of \$16,958. As shown in the chart below, there has a minor (6%) increase in expenditures over the past 5 years. Expenditures have experienced minor fluctuations each year (ranging from a 1% increase to a 3% increase) from FY12 to FY16.



## **OBJECTIVES**

Objectives of the audit were to:

- Review and test non-payroll and non-capital expenditures for compliance with County policies and procedures.
- Review and test controls over easements, land acquisitions, leases and rented property, surplus real property, vacation of easements, subdivision plats, and permits for work.
- Report results to the County Administrator.

## **SCOPE**

Our audit work covered work and transactions processed in FY16 and the current operating environment.

We considered the following Policies and Procedures during our audit:

Accounting 1-1: Travel	Accounting 1-5: Bill Approval, Documentation and Payment
Accounting 1-15: Purchasing Card Policy	HRM 6-14: Employee Recognition Program
IST 7-11: Wireless Device Policy	Purchasing 12-1: Authority and Responsibility
Purchasing 12-3: Purchasing Cycle	Purchasing 12-7: Delegated Purchasing Authority
Purchasing 12-9: Blanket Purchase Orders	Purchasing 12-10: Small Purchase Procedures
Utilities 15-1: Acquisition of Private Property for Public Use	Utilities 15-2: Conveyance of Easements Across County Property
Utilities 15-3: Acceptance of Open Space Land and Easements	Utilities Procedures Manual

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. Stephanie Bookheimer, Staff Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

## **METHODOLOGY**

Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included the following:

- Performing an analytical review of expenditure data, testing a sample of non-payroll and non-capital expenditures including travel and credit card purchases, and reviewing for compliance with County Administrative Policies and Procedures.
- Obtaining land records to verify current ownership, easements, and land acquisitions are recorded in GIS system, County inventory lists properly updated, and land acquisitions are approved by appropriate County officials.
- Reviewing leases to ensure contracts are on file, requirements are being met, and payments are received or requested timely.
- Reviewing controls over surplus real property, vacation of easements, subdivision plats, and permits for work.
- Reviewing County and ROW policies and procedures to ensure office is in compliance.

## **INTERNAL CONTROL CONCLUSION**

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include 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; and
- Compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that internal controls were in place and there were minimal findings to question their ability to assist management in meeting its mission, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

## **CLOSING**

We would like to thank John Harmon, Dean Sasek, Renee Martin, and staff for their cooperation and assistance during the course of this audit.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Expenditures

(Point Sheet C-1.1)

#### **CRITERIA:**

County Administrative Policy (CAP) 1-5: Accounting – Bill Approval, Documentation, and Payment outlines the procedures for bill approval, documentation, and payment for goods or services. The policy includes the following requirements: maintaining supporting documentation for all expenditures, using proper procedures and tax exemptions, and creating and approving invoices through authorized personnel. It also describes the policy against split purchases and duplicate payments.

CAP 12-7: Purchasing – Delegated Purchasing Authority outlines the procedures for delegated purchasing authority for transactions of \$5,000 or less. The policy includes, but is not limited to, the following requirements: using departments/schools shall not split orders to keep the dollar level of several orders below \$5,000 to avoid sending a requisition to Purchasing.

CAP 7-11: IST – Wireless Devices Policy establishes procedures and responsibilities for the acquisition and use of County-issued and personal wireless devices. The policy states all employees who have access to or use a wireless device for County business are required to sign the Wireless Technology Usage Agreement. Once an employee has approval for the use of a wireless service, they will be directed to a training class for wireless device awareness. Training is mandatory for employees using County-issued or personal wireless devices for County business purposes.

#### **CONDITION(S):**

The following audit testing was performed for FY16 with immaterial, if any, discrepancies noted:

- All invoices were created and approved by the appropriate individuals.
- A sample of 25 non-payroll expenditures had adequate supporting documentation, complied with County policies and procedures, and were for legitimate County business.
- No duplicate payments and split purchases were found.
- All non-cash awards complied with County policies and procedures.

Wireless data services are provided for one employee. We reviewed all wireless expenditures for FY16 and tested for compliance to CAP 7-11, and the following was noted:

- The employee had not signed the Wireless Technology Usage Agreement.
- The employee had not taken the Wireless Device Awareness training.

#### **CAUSE(S):**

- Utilities Right of Way performed expenditure related tasks appropriately by following administrative policies and procedures.
- The employee has a wireless service card installed on his laptop. When the employee received his new laptop, he may not have been prompted by IST to complete the form and training.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Expenditures

(Point Sheet C-1.1 Continued)

#### **EFFECT(S):**

- Complying with administrative policies and procedures helps the County achieve its goal of being a model for excellence in government.
- The employee has not complied with CAP 7-11.

#### **ACTION(S) TAKEN:**

- As of October 12, 2016, the employee signed the Wireless Technology Usage Agreement and was approved by management.
- As of November 3, 2016, the employee completed the Wireless Device Awareness training.

#### **COMMENDATION(S):**

We commend Utilities Right of Way as all expenditures were created and approved by authorized employees, had adequate supporting documentation, complied with County policies and procedures, were for legitimate County business, and there were no duplicate payments or split purchases.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Right of Way (Point Sheet C-1.3)

#### **CRITERIA:**

Best practices indicate departmental procedures should be formalized in a written document, approved by management, and kept updated. Utilities Right of Way has developed the following procedures:

- Deed/Easement Preparation
- Acquisition of Private Property for Public Use
- Acquisition and Recordation of Easement/Rights of Way
- Eminent Domain (Condemnation) Action
- Subdivision Plat Review (Final Check, Prior Rights, and Recordation)
- Disposal of Surplus Real Property
- Vacation of Easements and Rights of Way
- Abandonment of State Maintained Roads
- Permits for Work in Streets, Highways, Public Rights-of Way or Other Areas Dedicated for Public Use
- Conveyance of Easements Across County Property
- Special Exceptions to the Water and/or Sewer Extension Policy

Each procedure includes a purpose, scope, and procedure steps. Procedures are used as a resource for staff with their everyday job duties.

#### **CONDITION(S):**

We performed audit testing in the following areas with immaterial, if any, discrepancies noted:

- Easement Acquisition
- Land Acquisition
- Surplus Real Property Acceptance/Disposal
- Vacation of Easements and Rights of Way
- Subdivision Plat Reviews
- Permits for Work (Licenses)

During testing it was noted Utilities Right of Way reviewed and updated their procedures in 2012, but the changes were not approved by management. Currently, the procedures are still in draft form. On the draft procedures additional information such as: definitions of terms, responsibilities, associated forms and procedures, and review schedule have been added which assists the reader/staff gain a better understanding of each procedure.

#### **CAUSE(S):**

- Utilities Right of Way performed related tasks appropriately by following Right of Way procedures.
- Final approval of the draft procedures did not occur.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Right of Way

(Point Sheet C-1.3 Continued)

#### **EFFECT(S):**

- Complying with administrative policies and procedures helps the County achieve its goal of being a model of excellence in government.
- Formalized policies and procedures help to establish internal controls, accountability, and consistency of operations. In addition, they are useful in training employees new to an area.

#### **COMMENDATION(S):**

Utilities Right of Way is commended for compliance with appropriate administrative policies and procedures.

#### **RECOMMENDATION(S):**

We recommend Utilities Right of Way:

1. Finish updating and obtain management approval for written procedures to reflect current operations and processes.
2. Develop a schedule to routinely monitor current policies and procedures to ensure a review is being conducted periodically to note any necessary updates.

#### **MANAGEMENT'S RESPONSE(S):**

1. *Concur. John Harmon, Real Property Manager is responsible for implementing by 7/1/18. The Utilities Department has formed a Policies and Procedures Committee to review and update all department procedures. The committee meets bi-monthly and reviews a number of policies or procedures. I currently chair the committee and will move forward with the review and updating of Right of Way procedures over the next year. County Policies 15-1 and 15-3 are currently being reviewed through county administration. There is no target date for completion of the review.*
2. *Concur. John Harmon, Real Property Manager is responsible for implementing by 7/1/18. All updated procedures will include a set date for review to incorporate any necessary updates.*

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Leases

(Point Sheet C-1.2)

#### **CRITERIA:**

A well-developed system of internal controls should ensure property the County leases or rents has a contract on file, all leased property is accurately monitored, contractual terms are being met, lease rates are reasonable and justified, lease payments are received or requested timely, and all lease revenue and expenditures are appropriately recorded in the County financial system.

#### **CONDITION(S):**

A sample of 10 properties (6 properties the County leases and 4 properties the County rents) was reviewed, and the following was noted:

- 1 of 10 properties was not actively monitored and has a questionable lease rate. The County acquired a 115-acre unimproved lot (in Powhatan County) in 1974 for possible future water supply use. The County currently leases the property for \$350 per year, possibly well below market value. The lease, signed in 1991, allows the lessee and other persons they permit to hunt on the entire property and farm 20 acres. There is no documentation noting property has been routinely monitored by County and lease terms are unchanged since inception. These items were noted in a prior audit report dated August 30, 2007.

#### **CAUSE(S):**

In response to a prior audit recommendation, Utilities Right of Way (ROW) and Risk Management inspected the 115-acre property on March 3, 2008. At that time, Risk Management advised hunting no longer be allowed on the property. Utilities ROW stated staff would notify the lessee hunting will not be allowed upon renewal of the lease. The lease has not been amended or renewed in the interim period.

#### **EFFECT(S):**

- By not monitoring the property, Utilities ROW is unaware if the lessee is abiding by the contract and only using 20 acres to farm.
- Since the lease has not been amended or renewed, the rent and allowable activities have stayed the same for 25 years.

## FINDINGS, RECOMMENDATIONS, RESPONSES

### Leases

(Point Sheet C-1.2 Continued)

#### **RECOMMENDATION(S):**

We recommend Utilities Right of Way:

3. Obtain current Risk Management input for allowable activities on this property and any potential requirements from the lessee.
4. Evaluate the current market value for the property use.
5. Evaluate need to renegotiate lease terms based on advice from Risk Management and current market value for property use.
6. Monitor the property at least once a year to ensure lessee is abiding by the lease and document continuing need for County to hold the property for potential future water supply use.

#### **MANAGEMENT'S RESPONSE(S):**

3. *Concur. John Harmon, Real Property Manager is responsible for implementing by 7/31/17. Will discuss any requirements for continued leasing of the property with Risk Management.*
4. *Concur. John Harmon, Real Property Manager is responsible for implementing by 7/31/17. Will obtain the current lease value of the property for updating the lease, if necessary.*
5. *Concur. John Harmon, Real Property Manager is responsible for implementing by 7/31/17. Will determine if revised lease is needed based on current lease value and Risk Management requirements. Will renegotiate lease prior to next renewal (5/31/18).*
6. *Concur. John Harmon, Real Property Manager is responsible for implementing by 12/31/17. Right of Way Staff will inspect the property annually to ensure use is consistent with the lease and evaluate the need to hold the property for a future water supply or other county use.*