

June 30, 2016

The Honorable Alan P. Krasnoff and
Members of the City Council
City of Chesapeake
City Hall – 6th Floor
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

We have completed our review of the Public Utilities (PU) Department for the period July 1, 2013 to April 30, 2016. Our review was conducted for the purpose of determining whether the Department was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable Federal, State, City, and Department regulations and procedures related to their water and sewer operations, management oversight, contract management, cash handling, payment processing, safety, security, information technology, and facility operations.

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 conclusion 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.

The Department provided essential services to the City of Chesapeake (City). Its primary purpose was two-fold: 1) to provide treatment and distribution of quality drinking water for Chesapeake citizens which met or exceeded minimum quality standards and, 2) to maintain and operate sanitary sewer infrastructure within City Utility Franchise areas. In order to provide this service, the Department maintained thousands of miles of pipeline to deliver potable water and receive wastewater. The Department treated its own raw water and serviced the majority of Chesapeake with City water while several private firms supplied water to a small percentage of City residents. The Department did not treat its own wastewater; rather the sewer lines delivered the wastewater from City fed lines to larger mains owned and operated by the Hampton Roads Sanitation District (HRSD), which treated the wastewater.

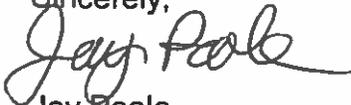
For Fiscal Year (FY) 2014-2015, the Department had an operating budget of slightly over \$61 million and an authorized compliment of approximately 212 personnel with the majority located in either Maintenance and Operations or Water Production. The Department operated as an enterprise fund for the sale and resale of water. As such it reported just over \$69 million in Gross Revenue and just under \$16.5 million in Operating Income for FY 2014-2015. The Department occupied offices on the second floor of the City Hall Municipal Building and the Executive Drive Maintenance and Operations Center. In addition, Public Utilities operated two water treatment plants and over 300 pump stations and other remote facilities.

To conduct this audit, we reviewed and evaluated City and Department policies and procedures, operations documents, and reports, both internal and external. We reviewed a consultant's evaluation of the Department's warehouse operation. We also reviewed standards and guidelines of the American Water Works Association (AWWA) and compared them to actual operations. We compared data in Maximo, the Department's inventory and time management system, against actual inventory and time data. We conducted tours of the various Department facilities. We discussed these audit areas and conducted interviews with the Director of Public Utilities, Fiscal Administrator, other Department administrators, superintendents, accounting staff, and various employees.

Based on our review, we determined the Department had accomplished its overall mission of providing the citizens of Chesapeake a reliable and sufficient supply of safe drinking water and a reliable wastewater collection system through responsive, efficient and cost effective operation. However, we did identify several areas of concern that needed to be addressed. Those areas included the pro rata program, contract administration, water production, inventory and warehouse operation, aging of meters, and policies and procedures.

This report, in draft, was provided to Department officials for review, and response, and their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Department management, supervisors, and staffs were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Sincerely,



Jay Poole
City Auditor
City of Chesapeake, Virginia

C: James E. Baker, City Manager
Robert Geis, Deputy City Manager
David Jurgens, Public Utilities Director