

## Summary of Elevator Contractor Compliance Internal Audit

In February 2022, the Department of Management and Finance, Internal Audit initiated a contract compliance audit for the National Elevator Inspection Services contract managed by the Department of Community Planning, Housing, and Development's (CPHD) Inspection Services Division (ISD). The goal of the audit was to ensure the County has effective contract administration and monitoring to ensure the contractor is in compliance with the terms and conditions of the contract.

Since the audit report was finalized, the County has taken several actions to ensure contract compliance and strengthen the elevator inspection program. Many of the actions have focused on the recent implementation of Permit Arlington to facilitate better oversight and the move away from ePlan and Permits Plus software. The County has also provided additional direction to the contractor. Internally, CPHD is looking at its staffing, technology, and procurement of a new contract to provide the right oversight to the Elevator Inspection Program.

### **Key Audit Findings**

- **Thirty-seven percent of active elevator systems are considered non-compliant due to unpaid fees, even if the permit is active, (14%) or failed inspections (23%).** *Inspections can fail for a variety of reasons, including lighting, use of the elevator machine room for an office, etc. It is the responsibility of the property owner to correct the deficiencies and contact the County for reinspection. Any elevator that fails inspection for any unsafe condition is immediately taken out of service. Since the audit, CPHD has required the contractor to provide additional transparency on the reasons for the failed inspections.*
- **The contractor schedules and completes inspections before the County's fees have been paid by the building owner. There are more than \$259,000 in unpaid permit fees owed to the County.**

*With the implementation of Permit Arlington in June 2022, inspections are now scheduled only after the annual certification fees are paid. Although the unpaid fees occurred under the previous systems, the County did not issue any final certification until the yearly fees were paid. CPHD – Inspection Division is pursuing recoupment of unpaid fees.*

- **Billing rates charged to the County on NEIS invoices do not match the fee schedules in the contract, and the CPHD – Inspection Division does not have a formal process to review invoices. The length and format of the contractor's invoices also make it difficult to determine the accuracy of the invoices and billing rates.**

*The contractor has been directed to submit their invoice in the same format and pricing consistent with the rider contract and are now doing so. The contractor has also been directed to review the previous invoices that were subject to the audit so the County can recoup any fees that were not properly collected and this is in process.*

- **Limitations to the ePlan and Permits Plus software systems used by the County could lead to additional issues with inspections, permits, violations, etc. The audit does acknowledge the ongoing, multi-year implementation of Permit Arlington.**

*Permit Arlington was implemented in June 2022. The contractor has been directed to input all their inspection results in Permit Arlington, which will minimize some of the issues identified in the audit.*

- **The contractor does not provide monthly reports on upcoming scheduled inspections or prior inspections completed as required by the contract.**

*Based on the existing contract, the contractor has been directed to provide monthly reports which they have begun. However, with the implementation of Permit Arlington those reports can also be generated directly from the system so the contractor's reports will not be necessary.*

### **Additional CPHD Planned Actions**

1. **Initiate a County-led procurement process rather than riding a contract from another County.** This will allow the County to include provisions specific to Arlington and requirements related to Permit Arlington. **The RFP has been submitted to purchasing.** Contract issuance will occur in 2023.
2. **Add an Elevator Program Lead.** This position would supervise the existing permit processing specialist and more closely monitor inspections and operations of the Elevator Inspections Program and contractor. Position will be filled late 2022/early 2023.
3. **Study reallocation of invoice reconciliation duties.** CPHD will study whether the permit processing specialist position could be reclassified, and the responsibilities adjusted, to manage the reconciliation of the contractor's billable tasks with the actual work performed. The study will be completed by December 2022.
4. **Procure technology resources needed for the program.** In July 2022, in coordination with the Department of Technology Services, staff implemented new technology to more quickly run reports that automate inspection data from the County's Permit Arlington system.



**ARLINGTON**  
VIRGINIA

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# Internal Audit Report: Contract Compliance

Department of Community Planning, Housing and Development:  
National Elevator Inspection Services, Inc.  
Rider Contract No. 19-090-R

Report Date: February 23, 2022

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# TRANSMITTAL LETTER



February 23, 2022

Claude Williamson  
Director, Department of Community Planning, Housing and Development

Maria Meredith  
Director & CFO, Department of Management and Finance

Arlington County, Virginia  
2100 Clarendon Blvd  
Arlington, VA 22201

Pursuant to the contract and related statement of work for Arlington County, Virginia (“the County”), we hereby present this contract compliance internal audit report for the County’s Department of Community Planning, Housing and Development (“CPHD”): Inspection Services Division (“ISD”) – National Elevator Inspection Services, Inc. (“NEIS”) Rider Contract Agreement No. 19-090-R (“Contract”), which is a rider agreement in coordination with an existing contract through Loudoun County, Virginia. Our report is organized in the following sections:

<b>Executive Summary</b>	This section includes a background summary of the function, the objectives and approach, and a detailed description of the observation(s) noted during this audit. Identified with each observation is the recommended action(s), and management’s corrective action plan, including the responsible party and estimated completion date.
<b>Background</b>	This section provides an overview of the function within the process and pertinent operational control points and related compliance requirements.
<b>Objectives and Approach</b>	The audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.
<b>Process Maps</b>	This section illustrates process maps, which depict data flow, key control points and any identified gaps.

As described in our objectives and approach outlined on pages 18 and 19 of this report, the observations noted are based on our analysis of the processes, documents, records and information requested and provided to us by the County. This contract compliance audit focused on evaluating the soundness of internal control policies over elevator system inspections and on reviewing compliance with County policies and the Contract. We offer no assurances that schemes or fraudulent activities have not been or are not currently being perpetrated by any person within the areas reviewed.

We would like to thank the staff and all those involved in assisting RSM US LLP with this contract compliance audit.

Respectfully Submitted,

*RSM US LLP*

**RSM US LLP**

## EXECUTIVE SUMMARY

### Background

Contract compliance monitoring is an integral piece of the County’s control environment. Contract compliance and monitoring are the responsibility of the individual departments / bureaus.

Effective January 1, 2017, and as updated in March 2020, the County implemented a *Contract Administration Policy* for all contracts, regardless of their procurement methodology or dollar value. The purpose was to define and implement a standard policy and process for the administration of contracts and define roles and responsibilities for County personnel that monitor and manage contractual relationships.

The National Elevator Inspection Services, Inc. (“NEIS”) contract that was selected for this contract compliance audit is managed by a Project Officer in the Department of Community Planning, Housing and Development (“CPHD”) – Inspection Services Division (“ISD”). Rider Agreement No. 19-090-R (“Contract”) is a services contract to manage and perform the elevator inspections and review plans for new equipment installations for the County, including residential, industrial, commercial, and County/government elevators. The Contract is a rider agreement of a contract competitively procured and awarded to NEIS by Loudoun County, VA (Contract #189801, effective December 1, 2017) and extended by NEIS to the County on the same terms and conditions as NEIS’ agreement with Loudoun County. Rider Agreement No. 19-090-R went into effect on February 21, 2019. There have been two amendments related to the Contract, effective December 1, 2019 and December 1, 2021, which extended the Contract term through November 30, 2021 and November 30, 2023, respectively, under the same terms. There are two (2) additional two-year renewal periods available to extend the term from December 1, 2023 through November 30, 2027.

For fiscal year-end 2021, the County received 145 building permit applications for new or significant modifications and collected associated building permit fees of approximately \$475k. For the same period, 2,937 active systems were required to comply with annual inspection requirements, for which the County collected associated inspection permit fees of over \$1.3M. The County incurred third party expenses for NEIS’ inspection services in the amount of \$722k.

### Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or ‘brand’ risk.

### Objective and Scope

The scope of this contract compliance audit encompassed one (1) contract from the Department of CPHD: NEIS Rider Agreement No. 19-090-R. The objective of this internal audit was to assess whether the system of internal controls is adequate and appropriate for effective contract compliance with selected provisions of the Contract as it relates to policies over elevator system review and approvals, inspections and permits, and identified contract terms.

The audit period was July 1, 2020 through June 30, 2021. As part of our review, we conducted various walkthrough discussions of the County’s processes and procedures as they relate to requests for new elevator permits, the annual inspection and certification process, as well as the systems utilized by the County. The County utilizes ePlan Review (“ePlan”) to track and approve new elevator permit applications and Permits Plus software system to track and approve new installations, alterations and annual inspections for existing systems. The County’s Department of Technology Services (“DTS”) provided data files containing certain fields related to new building plan reviews from ePlan and annual inspection renewal data from Permit Plus that we utilized in our testing.

We performed certain data analytics on the population of new building permit applications and the annual inspection and permit compliance process. We judgmentally selected 25 samples of new building permit applications and 25 samples of annual inspections for detailed testing and requested additional supporting documentation, as needed. We reviewed all twelve months of NEIS’ invoices submitted to the County during the audit period.

Fieldwork was performed October 2021 through December 2021.

### Number of Observations by Risk Rating

(See page 20 for rating definitions)

	High	Moderate	Low
Contract Compliance Audit: NEIS	3	3	-

## EXECUTIVE SUMMARY (CONTINUED)

### Management Comments

In December 2021, CPHD staff started an internal program evaluation of the Elevator Inspection Program in conjunction with the DMF on-going audit. The intent of the in-house program evaluation was to look at gaps and bring about recommendations to ensure an efficient and effective Elevator Inspection Program. This evaluation concluded with a recommendation to continue to use a third-party service provider for elevator inspections; however, several improvements were recommended to improve program performance. These recommendations/management actions are included on page 16 of this report and are also noted in the management responses to each finding, where applicable.

The root cause for some of the observations found in this report relate to using the outdated Permits Plus system. Over the past several years, CPHD has been working to migrate the elevator inspection program to Permit Arlington. CPHD is working with the Department of Technology Services (DTS) to complete this migration by June 2022.

The Permit Arlington system will run more quickly and will likely reduce the data input time, but it will not remove the need for staff to manually enter data into the system (if the County continues to ride Loudoun County's contract), which is a need that will continue to grow as more elevators are added to the portfolio. A new contract is required to make this process more efficient and effective. (See page 16)

In response to the monitoring issues addressed in this report, ISD has not historically performed Quality Assurance/Quality Control (QA/QC) for code enforcement-related items, including elevator inspections. This is partly due to lack of subject matter expertise in-house to perform such QA/QC and thus has inhibited staff from monitoring elevator installations and operations more closely and ensuring NEIS' inspection performance is adequate. However, in June 2021 ISD Code Enforcement became accredited by International Accreditation Services as the first code enforcement agency in Virginia for code enforcement/property maintenance. As part of the accreditation, code enforcement must perform QA/QC for code enforcement activities. To roll this out for the elevator program, ISD will need to hire an Elevator Program Supervisor to perform QA/QC for the team.

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations

Observation	1. Non-compliant/Expired Elevator Systems																														
<b>High</b>	<p>NEIS is non-compliant with provisions of the Contract that require them to monitor minor non-life-threatening elevator system deficiencies and corrective timelines. For life threatening deficiencies, the contractor is required to remove the equipment from service. (See Background pages 13-14 for details on the new and annual inspection processes). The County is not monitoring NEIS' obligations related to this provision of the Contract, nor is the County independently monitoring non-compliant elevators. For the purposes of this audit, if an elevator system did not have a valid (unexpired) permit, it was considered non-compliant. The County operates its certification process by a system of prepayment of annual inspection fees, prior to the initial inspection. Elevator systems may be non-compliant if the annual inspection failed and/or if the building failed to pay the associated fees due to the County prior to the previous permit expiration date. 1,086 of 2,937 (37%) active elevator systems were considered non-compliant<sup>1</sup> (as of November 17, 2021) due to unpaid fees and/or failed inspections<sup>2</sup>. The following data table utilizes data provided by DTS to reflect the status of the active elevator systems during our audit period:</p> <div style="text-align: center; background-color: #e0e0e0; padding: 5px;"> <b>Summary of active elevator systems during audit period</b> </div> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="border-bottom: 1px solid black;">Status</th> <th style="border-bottom: 1px solid black;"># of systems compliant</th> <th style="border-bottom: 1px solid black;"># of systems non-compliant</th> <th style="border-bottom: 1px solid black;">total active systems</th> <th style="border-bottom: 1px solid black;">% of non-compliant systems</th> <th style="border-bottom: 1px solid black;">uncollected fees (as of 11/17/21)</th> </tr> </thead> <tbody> <tr> <td>Compliant - active permits</td> <td style="text-align: center;">1,851</td> <td></td> <td style="text-align: center;"><b>1,851</b></td> <td></td> <td></td> </tr> <tr> <td>Non-compliant - unpaid fees</td> <td></td> <td style="text-align: center;">410</td> <td style="text-align: center;"><b>410</b></td> <td style="text-align: center;">14%</td> <td style="text-align: right;">\$ 259,421</td> </tr> <tr> <td>Non-compliant - failed inspection</td> <td></td> <td style="text-align: center;">676</td> <td style="text-align: center;"><b>676</b></td> <td style="text-align: center;">23%</td> <td></td> </tr> <tr style="border-top: 2px solid black; border-bottom: 2px solid black;"> <td></td> <td style="text-align: center;"><b>1,851</b></td> <td style="text-align: center;"><b>1,086</b></td> <td style="text-align: center;"><b>2,937</b></td> <td style="text-align: center;"><b>37%</b></td> <td></td> </tr> </tbody> </table> <p>*Notes:                      Systems were categorized and counted based on data provided by DTS as of 11/17/21. Since that date, it is possible that system status has changed and/or additional fees have been collected.</p> <p>If the system is expired and shows a "balance due", the status is assumed to be "non-compliant - unpaid fees." However, it is possible a system could be both non-compliant with unpaid fees and a failed inspection.</p> <p>The amount of uncollected fees is calculated for systems that expired before 11/17/21 and had not paid the associated fees by 11/17/21. The amount related to systems that expired on 6/30/21 or before (the review period) is \$229,858.</p>	Status	# of systems compliant	# of systems non-compliant	total active systems	% of non-compliant systems	uncollected fees (as of 11/17/21)	Compliant - active permits	1,851		<b>1,851</b>			Non-compliant - unpaid fees		410	<b>410</b>	14%	\$ 259,421	Non-compliant - failed inspection		676	<b>676</b>	23%			<b>1,851</b>	<b>1,086</b>	<b>2,937</b>	<b>37%</b>	
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<sup>1</sup> Based on a review of data provided by DTS

<sup>2</sup> Over 50% of the non-compliant permits have been expired for over one year.

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	1. Non-compliant/Expired Elevator Systems (continued)
	<p>Based on the above information, we have the following observations for the audit:</p> <ol style="list-style-type: none"> <li>1. The Contract<sup>3</sup> states, "The Contractor shall monitor any such [compliance] deficiency and corrective timeline" as it relates to minor deficiencies. Based on the County's data, it does not appear that NEIS is monitoring failed inspections and is, therefore, not in compliance with this provision of the Contract.</li> <li>2. The County does not have an effective process in place to monitor and pursue resolution of non-compliant elevator systems. Consequently, the County does not pursue legal violations on non-compliant elevator systems consistently.</li> <li>3. The reason for failed inspections is not tracked manually or systematically and Permits Plus currently does not have the capability/data fields to track reasons for failed inspections. The County has no insight into whether elevator systems are non-compliant because of failed inspections / violations (that may potential be or become safety issues) or due to unpaid fees.</li> <li>4. As of November 17, 2021, unpaid inspection fees were greater than \$259k. Unpaid fees are not entered into the County's accounts receivable system and actively pursued through collections activities.</li> </ol> <p>Without the County and NEIS monitoring and pursuing non-compliant/expired elevator systems, the County has no insight into whether potentially unsafe elevator systems are operating in the County. The County is at risk of revenue loss from untimely and/or unpaid fees, while the County is still responsible for paying NEIS its fees for performing the inspections.</p>
<p><b>Recommendation</b></p>	<p>Related to the observations detailed above, we recommend the following:</p> <ol style="list-style-type: none"> <li>1. The County should work with NEIS to ensure NEIS has processes and procedures in place to monitor and follow-up on deficiencies/failed inspections, as required by the Contract.</li> <li>2. The County should implement processes and procedures to actively track, monitor and pursue resolution of non-compliant permits.</li> <li>3. The County should implement system-driven tracking of the type of violation (i.e., reason codes within Permits Plus with capability to query reports), as well as whether each violation is considered (or could become) a safety concern and whether the elevator was locked-out by NEIS for a safety concern. (For life threatening deficiencies or where other deficiencies are not corrected promptly, NEIS is required to remove the equipment from service.) When necessary and appropriate, the County should pursue court action against non-compliant buildings.</li> <li>4. Accounts receivables related to inspection fees due to the County should be fed from Permits Plus into the County's accounts receivable system to track, monitor and pursue payments to the County.</li> </ol>

<sup>3</sup> Section 1.2.D.3

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	1. Non-compliant/Expired Elevator Systems (continued)
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> <u>We agree with these recommendations.</u></p> <p><b>Recommendation #1 and #2</b></p> <p>Non-payment and failed inspections do not necessarily constitute unsafe equipment regarding the State construction and maintenance codes, however, the reason for failure cannot be easily tracked in Permit Plus. The ability to track failed inspections will improve under Permit Arlington.</p> <p>The County is in the process of including the elevator inspection program under Permit Arlington, an enterprise-wide data management program that supports payment portals, document management, and workflows for elevator trade permits and the annual inspection certifications. Permit Arlington replaces Permits Plus, an aging '90's era database which is limited in its ability to adapt to the current needs and requirements of the County. The phased implementation of elevator permits and annual inspection certifications to Permit Arlington is planned to be completed by June 2022.</p> <p>The County's performance administration is limited by its current database and an adopted contract that poorly aligns with service needs. The adopted Loudoun County contract does not perfectly align with the service needs of the County. The County's use of third-party inspectors is limited to inspection and plan review services, with the County providing code administration, certification management, service notifications, and payment processing. A new contract is required to make this process more efficient and effective. (See page 17)</p> <p>Inspection Services Management met with NEIS on March 28, 2022, to discuss the quality of inspection reports and general contract performance concerns. Beginning in May 2022, the County will provide a list of unpaid equipment inspections monthly to NEIS. Those inspections, for which a payment has not been made, will be cancelled, and rescheduled at a future date. Rejected inspections will be re-inspected by NEIS within 30 days. A second failed inspection will trigger enforcement action by the County. The future Elevator Program Lead position will be responsible for monitoring NEIS' follow-up with failed inspections and ensure that all unpaid equipment inspections are either brought into compliance or put out of service (see page 17 for additional information about this position). When a system is placed out of service due to a safety issue, the current process requires NEIS to issue an action report prompting monitoring by the County. It will be the responsibility of the new Elevator Program Lead position to track and monitor NEIS's compliance with the contract requirements.</p> <p><b>Responsible Party:</b> CHPD Permit Arlington Program Manager, CHPD Inspection Services Division Chief</p> <p><b>Target Date:</b> May 2022 for new report for Unpaid Inspections being provided to NEIS. June 2022 for migration to Permit Arlington. December 2022 for establishing new Elevator Program Lead. First quarter of CY 2023 for new Elevator Inspection Contract.</p> <p><b>Recommendation #3</b></p> <p>The Permit Arlington program office has advised CHPD that Permit Arlington can be designed to include a system-driven tracking based on the type of violation and whether the failed system was a safety concern and was locked-out by NEIS. This action will take some time with an expected completion by June 2023.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	1. Non-compliant/Expired Elevator Systems (continued)
<b>Management's Action Plan (continued)</b>	<p><b>Responsible Party:</b> CHPD Permit Arlington Program Manager, CHPD Inspection Services Division Chief</p> <p><b>Target Date:</b> June 2023</p> <p><b>Recommendation #4</b></p> <p>CPHD will study the value of establishing a unique general ledger account for this effort and will study the feasibility to link the accounts receivable process for inspections from Permit Arlington to PRISM when it is upgraded. It will be the responsibility of the new Elevator Program Lead to track, monitor and pursue payments to the County.</p> <p><b>Responsible Party:</b> CHPD Permit Arlington Program Manager, CHPD Inspection Services Division Chief</p> <p><b>Target Date:</b> December 2022</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	2. Payment to the County for Annual Inspections																
<b>High</b>	<p>The County requires that elevator systems be inspected annually<sup>4</sup> and that building owners pay inspection fees to the County<sup>5</sup> prior to NEIS conducting inspections. The County distributes notifications to building owners 90 days before elevator permit expiration, detailing the fees due and a web-link to submit payment. Below is a table of the elevator permit and inspection fees<sup>6</sup> applicable during the audit period.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="background-color: #e0e0e0;">Elevator Permit and Inspection Fees</th> </tr> <tr> <th style="border-bottom: 1px solid black;">Periodic Inspections</th> <th style="border-bottom: 1px solid black;">Fee</th> </tr> </thead> <tbody> <tr> <td>Passenger or freight base fee</td> <td>\$292.00 per elevator, plus additional per floor</td> </tr> <tr> <td>Passenger or freight additional fee</td> <td>\$14.00 per floor</td> </tr> <tr> <td>Escalator</td> <td>\$292.00 each</td> </tr> <tr> <td>Dumbwaiter</td> <td>\$35.00 each</td> </tr> <tr> <td>Temporary certificate (valid for 6 months)</td> <td>\$351.00 for each elevator</td> </tr> <tr> <td>Additional fees apply to each permit covered under the ordinance:</td> <td>a. 2% fee levy as authorized by USBC for Code Academy activities; b. 10% automation enhancement surcharge c. 15% indirect cost surcharge</td> </tr> </tbody> </table> <p>NEIS schedules inspections independent of the County and does not confirm that inspection fees have been paid by the building owners to the County prior to conducting the inspections. This process can result in NEIS completing the inspection(s) and charging the County for the inspection prior to the County collecting inspection fees from the building.</p> <p>In 14 of the 25 samples tested, inspection fees (totaling \$20,372) were not paid to the County prior to the inspection being performed by NEIS; additionally, 11 of those 14 samples had outstanding balances as of November 17, 2021 (totaling \$17,861). As noted in Observation #1, there is over \$259k in unpaid permit fees due to the County.</p> <p>Additionally, if an initial inspection fails due to a violation(s), NEIS does not notify the County that additional inspections will be conducted (for either annual inspections or for new elevator inspections). Therefore, the County does not invoice the building for additional inspections, although NEIS invoices the County for each additional inspection.</p> <p>The County is at risk of loss of revenue from uncollected inspection fees and revenue loss of unbilled reinspection fees.</p>	Elevator Permit and Inspection Fees		Periodic Inspections	Fee	Passenger or freight base fee	\$292.00 per elevator, plus additional per floor	Passenger or freight additional fee	\$14.00 per floor	Escalator	\$292.00 each	Dumbwaiter	\$35.00 each	Temporary certificate (valid for 6 months)	\$351.00 for each elevator	Additional fees apply to each permit covered under the ordinance:	a. 2% fee levy as authorized by USBC for Code Academy activities; b. 10% automation enhancement surcharge c. 15% indirect cost surcharge
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<sup>4</sup> In accordance with the Virginia Maintenance Code

<sup>5</sup> It is noted that Section 1.11 of the Contract states “the Contractor is responsible for invoicing, and collecting the necessary fees from the building owner, or their representative, for services provided.” However, County policy is that inspection fees are paid directly to the County.

<sup>6</sup> From CPHD ISD Fees Schedule, effective July 1, 2020

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	2. Payment to the County for Annual Inspections (continued)
<b>Recommendation</b>	We recommend NEIS and the County develop collaborative processes and procedures to monitor and confirm that building owners have paid the appropriate fees to the County prior to NEIS conducting inspections/re-inspections. These processes and procedures should include the County invoicing the building and receiving fees for any required re-inspections prior to NEIS conducting the re-inspections.
<b>Management's Action Plan</b>	<p><b>Response:</b> <u>We agree with this recommendation.</u></p> <p>Inspection Services Management met with NEIS on March 28, 2022, to review the impact of inspections performed in advance of payment for inspection services required for annual certification. As stated under Observation #1, beginning in May 2022, the County will provide a list of unpaid equipment inspections monthly to NEIS. Those inspections for which a payment has not been made, will be cancelled by NEIS, and rescheduled at a future date. CPHD is implementing a process to follow-up on expired permits and unpaid inspections.</p> <p>The current contract prescribes fee payments directly to NEIS; however, Arlington's management plan requires all fees to be invoiced from and collected by the County. This performance discrepancy allowed for dual and contrary protocols that could resolve with a new contract solicited through the RFP process that accurately reflects Arlington's needs regarding prepayment standards. It is expected that a new contract will be in place by first quarter of CY 2023.</p> <p>Fees invoiced for annual inspections generally cover the cost of two inspections: 1) the initial inspection, and 2) one reinspection (if needed). Any additional inspection would require the payment of a reinspection fee. The Permits Plus database lacks a workflow to track when a reinspection fee should be applied effectively. Subsequently, CPHD has met with Permit Arlington developers to establish workflow protocols to automatically apply reinspection fees, invoice owners, and limit scheduling of inspections until all inspection fees are paid.</p> <p>The phased implementation of elevator permits and annual inspection certifications to Permit Arlington is anticipated to be completed by June 2022.</p> <p><b>Responsible Party:</b> CPDH Permit Arlington Program Manager, CPHD Inspection Services Division Chief, DMF Purchasing Division</p> <p><b>Target Date:</b> May 2022 for new report being provided to NEIS. June 2022 for complete migration to Permit Arlington. First quarter of CY 2023 for new Elevator Inspection Contract.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	3. NEIS Invoices to the County																																							
<b>High</b>	<p>NEIS invoices the County monthly for inspections conducted since the prior month's invoice. Charges on each invoice are detailed by building and Periodic Inspection Elevator ("PIE") number. The County does not utilize a formal process or checklist to review the invoices. Due to the limited functions of the County's software systems (ePlan and Permits Plus), the County does not have system generated reports of monthly inspections to utilize as part of their review for completeness and accuracy of the submitted invoices. Additionally, the County stated that the length and format of the NEIS invoices (more than 40 pages for each monthly invoice in PDF format) makes it difficult to properly review the invoices and determine if the billing rates and amounts are accurate and in accordance with the Contract. The County is performing a subjective spot check of certain PIE numbers listed on NEIS invoices. During the audit period, the County paid NEIS \$772k for inspection services<sup>7</sup>.</p> <p>We noted various billing rates charged to the County on invoices do not correspond to the Fee schedule in the Contract, which is detailed below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #e0f2f1;">Service Description</th> <th style="background-color: #e0f2f1;">Unit</th> <th style="background-color: #e0f2f1;">Unit Price</th> </tr> </thead> <tbody> <tr><td>Plans Review</td><td>EA</td><td>\$43.00</td></tr> <tr><td>Inspection – Acceptance Test for New Installation</td><td>EA</td><td>\$266.00</td></tr> <tr><td>Re-Inspection – New Installations</td><td>EA</td><td>\$49.00</td></tr> <tr><td>Re-Inspection – Existing Installations</td><td>EA</td><td>\$31.00</td></tr> <tr><td>Routine Inspection – Every 12 months</td><td>EA</td><td>\$125.00</td></tr> <tr><td>Periodic Inspection – Every 6 months</td><td>EA</td><td>\$49.00</td></tr> <tr><td>3-year Inspection and Testing</td><td>EA</td><td>\$54.00</td></tr> <tr><td>5-year Inspection and Testing</td><td>EA</td><td>\$194.00</td></tr> <tr><td>Testing without Routine Inspection</td><td>EA</td><td>\$69.00</td></tr> <tr> <th style="background-color: #e0f2f1;">Labor Rate</th> <th style="background-color: #e0f2f1;">Unit</th> <th style="background-color: #e0f2f1;">Unit Price</th> </tr> <tr><td>Regular Time – Investigations, Legal Proceedings, etc.</td><td>HR</td><td>\$1.00</td></tr> <tr><td>Overtime – Emergency Response (per Section 5.6)</td><td>HR</td><td>\$1.00</td></tr> </tbody> </table> <p>We reviewed the twelve (12) invoices submitted during the audit period and noted the hourly labor rate charged to the County for certain activities was \$72.37 per hour, not the \$1.00 rate detailed in the Fee schedule of the Contract. We inquired with the County on where this specific hourly rate was agreed to between the County and NEIS, but as of the date of this report, the County does not know how this rate was arrived at or whether it was agreed to.</p> <p>We noted numerous inspections in each invoice that are not able to be mapped to the Fees schedule above, as the terminology used is not consistent between the Fees schedule and the invoices. We also noted numerous inspections in each invoice that were invoiced to the County at a rate of \$174.00 per inspection, which does not correspond to any unit price detailed in the Fee schedule of the Contract.</p>	Service Description	Unit	Unit Price	Plans Review	EA	\$43.00	Inspection – Acceptance Test for New Installation	EA	\$266.00	Re-Inspection – New Installations	EA	\$49.00	Re-Inspection – Existing Installations	EA	\$31.00	Routine Inspection – Every 12 months	EA	\$125.00	Periodic Inspection – Every 6 months	EA	\$49.00	3-year Inspection and Testing	EA	\$54.00	5-year Inspection and Testing	EA	\$194.00	Testing without Routine Inspection	EA	\$69.00	Labor Rate	Unit	Unit Price	Regular Time – Investigations, Legal Proceedings, etc.	HR	\$1.00	Overtime – Emergency Response (per Section 5.6)	HR	\$1.00
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<sup>7</sup> Comparatively, the County received revenue (inspection fees) from building Owners in the amount of \$1.78mil during the audit period (\$475k from new building permit fees, and \$1.3mil in annual inspection fees), resulting in net revenue of approximately \$1.01mil.

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	3. NEIS Invoices to the County (continued)
	<p>According to the County, upon inquiry for this audit, NEIS provided a mapping between the Fees schedule and the terminology utilized in the invoices. NEIS also stated that the \$174.00 charge was for two inspections completed simultaneously – a \$49.00 Periodic Inspection – Every 6 months and a \$125.00 Routine Inspection – Every 12 months. We inquired with the Project Officer (Chief Building Official) as to whether NEIS’ mapping of the Fees schedule to invoices was appropriate, and whether it was feasible and appropriate that these two types of inspections would be completed simultaneously. However, as of the date of this report, the Project Officer has not responded to the inquiry.</p> <p>In addition to the billed rates not agreeing to the Contract, our review disclosed a potential risk that the County is paying overstated rates. As noted above, Section 1.11 of the Contract states “the Contractor is responsible for invoicing, and collecting the necessary fees from the building owner, or their representative, for services provided.” However, County policy is that inspection fees are paid directly to the County. The Contract rates include the costs of administering the billing and collection of fees even though the County is performing these tasks. It is possible the County should be paying reduced rates due to the significant contract effort the vendor is not performing.</p> <p>In 4 of the 12 invoices reviewed, emails from the Code Enforcement Section Chief to the Management Specialist/Office Services Manager noted potential questions / disputes with the charges, but no follow-up or resolution was documented. All invoices were paid in full during the audit period.</p> <p>The lack of transparency in the contents of the invoice, as well as software system/reporting limitations, hinders the County’s ability to properly review invoices for completeness and accuracy of the inspections and inspection rates. As such, the County is at greater risk of paying for services not performed, issuing duplicate payments for services performed, and/or and being charged incorrect rates for services performed.</p>
<b>Recommendation</b>	<p>We recommend the County notify NEIS of its noncompliance with the terms and conditions of the Contract related to the Fee schedule and the rates charged for certain services. Additionally, if the services in the Fee schedule do not conform to the services being performed by NEIS at the request of the County, the Parties should seek to amend the Contract and agree upon the appropriate services and corresponding fees for each type of Service.</p> <p>The County should implement a more robust invoice review process, whereby County personnel reviews the invoice line items and agrees each system inspection charged by NEIS to its own system-driven data of the inspection reports completed/received by the County. The County should explore optical character recognition (OCR) tools, macros, and/or other automation tools, which would create efficiencies in the process. Additionally, the fees charged by NEIS should be reviewed in detail and agreed to the Fee schedule. Any disputes, questions or concerns should be communicated, documented and discussed with NEIS to remedy prior to paying the invoices.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	3. NEIS Invoices to the County (continued)
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> <u>We agree with this recommendation but have challenges.</u></p> <p>Inspection Services Management met with NEIS on March 28, 2022, to discuss the disparity in fees charged to the County for services. Invoices submitted included arbitrary and undefined fees that did not reconcile with Exhibit A, the Contract Fee Schedule. In response, NEIS has provided a detailed table of services that matches the fees in Exhibit A. Beginning in May 2022, NEIS invoices will match the contract pricing in Exhibit A of the rider contract. This short-term solution is implemented until the County issues a new RFP for contract services with plans to award a new contract by first quarter of CY 2023.</p> <p>It is daunting to reconcile NEIS' invoices with services manually recorded from their hard-copied inspection reports. Prior to a new contract award that will align to CPHD's needs, CPHD will work with NEIS to require them to upload their inspection reports directly into Permit Arlington to assist with the billing review process.</p> <p><b>Responsible Party:</b> Department of Technology Services, CPHD Inspection Services Division Chief, DMF Purchasing Division</p> <p><b>Target Date:</b> Completed for new pricing Exhibit that reconciles to invoiced rates. June 2022 for complete migration to Permit Arlington. first quarter of CY 2023 for new Elevator Inspection Contract. June 2022 for a decision reached regarding NEIS entering inspection reports directly into Permit Arlington.</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	4. Software System Limitations
<p><b>Moderate</b></p>	<p>We noted various limitations in the software systems (ePlan and Permits Plus) used by the County for activities related to new system installation plan reviews and annual inspections.</p> <ul style="list-style-type: none"> <li>The County utilizes the Permits Plus system to calculate fees due to the County for new system installations and annual inspection fees. However, the Permits Plus system does not generate an accounts receivable entry that can be queried (in a report) and monitored for collection, nor does the system allow for automatic follow-up notifications to the building owners for payment. As such, the County has no mechanism to track, monitor and follow-up on outstanding accounts receivable, potentially leading to loss of revenue.</li> <li>To create the required notification letters 90 days prior to annual permit expiration, the County must manually search for each expiring PIE number and manually update the notification date field, which is hundreds of instances each month. The manual nature of this activity increases the risk of data entry errors, as well as creates inefficiencies for County staff.</li> <li>County personnel manually enter certain building information (i.e., addresses, dates, etc.) into both ePlan and Permits Plus, which increases the risk of data entry errors and creates inefficiencies for County staff.</li> <li>As previously noted, County personnel noted they are unable to generate reports from ePlan and Permits Plus, which prohibits the County from properly tracking, monitoring, and pursuing expiring/expired permits, violations, inspection/reinspection dates, and fees due to the County. The County is unable to effectively review NEIS invoices for the completeness and accuracy of the inspections performed because they cannot generate reports from the systems.</li> </ul> <p>These system limitations increase risk for loss of revenue, data entry errors, staff inefficiencies, as well as a lack of ability to monitor expiring permits, violations, and fees due to the County.</p>
<p><b>Recommendation</b></p>	<p>We recommend the County implement software system updates/upgrades to decrease the risk of manual data entry error by automating data entry and increase County personnel efficiencies in various tasks, including accounts receivable, 90-day notification letters, reporting and monitoring of expired permits, inspection violations, and re-inspections.</p>
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> <u>We agree with this recommendation.</u></p> <p>The County is completing a multi-year implementation of Permit Arlington, an enterprise-wide data management program that supports payment portals, document management, and workflows for elevator trade permits and the annual inspection certifications. Permit Arlington replaces Permits Plus, an aging '90's era database which is limited in its ability to adapt to the current needs and requirements of the County. The phased implementation of elevator permits and annual inspection certifications to Permit Arlington will occur by June 2022. Permit Arlington will also be upgraded to track data based on the type of violation and whether the failed system was a safety concern and was locked-out by NEIS. This action will take some time with an expected completion by June 2023.</p> <p><b>Responsible Party:</b> CPHD Permit Arlington Program Manager and CPHD Inspection Services Division Chief</p> <p><b>Target Date:</b> June 30, 2023</p>

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	5. Filing Fees for New Plans						
<p><b>Moderate</b></p>	<p>To receive a permit for a new (or significantly modified) system, building owners are required to pay a fee based on the contract cost of the installation. Below is the calculation of new plan permit fees applicable during the audit period.</p> <table border="1" data-bbox="583 472 1822 597"> <thead> <tr> <th colspan="2" data-bbox="583 472 1822 509">Elevator Permit and Inspection Fees</th> </tr> <tr> <th data-bbox="583 509 1199 558">Installation and Repair Permit</th> <th data-bbox="1199 509 1822 558">Fee</th> </tr> </thead> <tbody> <tr> <td data-bbox="583 558 1199 597">Elevator, escalator, dumbwaiter or material/personnel lift</td> <td data-bbox="1199 558 1822 597">Contract cost of installation x \$0.011</td> </tr> </tbody> </table> <p>County Policy<sup>8</sup> requires that “a filing fee equal to thirty-five percent (35%) of the total permit fee must be paid at the time of permit application filing. The filing fee is included in the total permit fee specified in this ordinance. The filing fee amount shall not be refunded if no permit is issued.”</p> <p>The County does not collect the 35% filing fee at the time of permit application. Instead, all billing for new plan permit fees occurs after NEIS conducts and approves the plan review, but prior to issuance of the permit. For fiscal year-end 2021, the County received 145 building permit applications for new or significant modifications and collected associated building permit fees of approximately \$475k. The County should have collected 35% of the fees at the time of permit application, or \$166k.</p> <p>Failure to collect the filing fee upfront is non-compliant with the County policy and delays the County’s recognition and collection of revenue. It may also result in revenue loss and understated revenue at fiscal year-end. If the building fails to get their plan(s) approved by NEIS or abandons/withdraws the application, the County is still responsible for paying NEIS the appropriate fees for reviewing the plans, but the cost may not be offset by collection of the filing fee<sup>9</sup>.</p>	Elevator Permit and Inspection Fees		Installation and Repair Permit	Fee	Elevator, escalator, dumbwaiter or material/personnel lift	Contract cost of installation x \$0.011
Elevator Permit and Inspection Fees							
Installation and Repair Permit	Fee						
Elevator, escalator, dumbwaiter or material/personnel lift	Contract cost of installation x \$0.011						
<p><b>Recommendation</b></p>	<p>We recommend that the County implement processes and procedures that require the building to pay the 35% filing fee at the time of permit application filing, which is prior to the County and NEIS beginning the plan review, in accordance with County policy. Procedures should include the ability to track, monitor and report the status of the 35% application filing fees in the accounts receivable system.</p>						
<p><b>Management’s Action Plan</b></p>	<p><b>Response:</b></p> <p>Historically, the 35% filing fees were intended to be placed on building permits only, since some of those permits take up to 6-9 months for final approval and they generated large fees. As a result, the system was not configured to assess a filing fee on trade permits such as elevator permit. CPHD will review its policy as to whether this upfront fee is necessary and then clarify the fee schedule.</p> <p><b>Responsible Party:</b> CPHD Inspections Services Division Chief</p> <p><b>Target Date:</b> September 30, 2022</p>						

<sup>8</sup> CPHD ISD Fees Schedule, effective July 1, 2020

<sup>9</sup> No abandoned/withdrawn plans were noted during the audit period.

## EXECUTIVE SUMMARY (CONTINUED)

### Detailed Observations (continued)

Observation	6. NEIS Required Reports
<p><b>Moderate</b></p>	<p>NEIS does not provide the following monthly reports as required by the Contract:</p> <ul style="list-style-type: none"> <li>• Upcoming months inspections scheduled report<sup>10</sup>.</li> <li>• Prior months inspections completed report<sup>11</sup>.</li> </ul> <p>Effective reporting and monitoring processes enables the County to perform various reviews including the completeness and accuracy of submitted invoices.</p>
<p><b>Recommendation</b></p>	<p>We recommend the County request, and NEIS provide, the required reports in accordance with the Contract.</p>
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> <u>We agree with this recommendation.</u></p> <p>Inspection Services Management met with NEIS on March 28, 2022, to discuss the quality of inspection reports and general contract performance concerns. As a result, NEIS supplied the required reports at the end of March and 1st day of April, as required by the contract. This reporting will continue as required by the contract.</p> <p><b>Responsible Party:</b> CPHD Inspection Services Division Chief</p> <p><b>Target Date:</b> Complete</p>

<sup>10</sup> Section 1.11 A, NEIS provide the County "on the last working day of the month, a report indicating the inspections due/scheduled for the upcoming month"

<sup>11</sup> Section 1.11 B, NEIS provide the County "on the first working day of the month, a report indicating the inspections completed for the preceding month"

## EXECUTIVE SUMMARY (CONTINUED)

### CPHD Management Actions

Given the results of the County-led audit and CPHD's internal program evaluation, CPHD plans to take the following actions:

- **Initiate a County-led procurement process written to the County's specifications instead of riding Loudoun County's contract.** The contract will include provisions that require the vendor to input their own inspection data (and upload any supporting documentation) into Permit Arlington, which would reduce internal inefficiencies associated with staff's manual data input and streamline the review process. An appropriate first-time contract is a three-year term with a two-year option to renew. Contract issuance will be by first quarter of CY 2023.
- **Add an Elevator Program Lead.** Regardless of whether elevator inspections remain under contract or managed in house, the County will need a Program Lead. This position would supervise the existing Permit Processing Specialist and facilitate needed quality assurance and control to more closely monitor inspections and operations and ensure the contractor's inspection performance is adequate. ISD has available resources to cover the additional Program Lead without requesting funds during the FY2023 or FY2024 budget cycle. This position could feasibly be filled within a year. ISD anticipates slightly modifying an existing job description, which will need to be coordinated with HR. Position will be filled by December 2022.
- **Offload invoice reconciliation to the Permit Processing Specialist.** Given the number of contracts historically managed by CPHD, the department has not had in-house contract management as do other departments in the County. It is usually managed by the Program or Project Lead. While time-consuming, developing an RFP and undergoing the procurement process has a one-time, heavy lift associated with it at each procurement period, which could be developed and coordinated by ISD, and eventually by the new Program Lead.

Reconciling the vendor's billable hours to the actual work performed is not adequately performed at this time due to staff capacity and limited technological resources to quickly pull reports and cross-examine data. Ensuring both staff capacity and appropriate technological resources should be a focus in the future. CPHD should plan to ensure both staff capacity and appropriate technological resources, given the recommendation to continue using a third-party contract. The work required would likely consume approximately 25% of a full-time position. Without this work needed elsewhere in ISD or in CPHD, it is not recommended to hire an additional budget analyst or even a part-time analyst. Going forward, CPHD will study whether this work could feasibly be completed by the Permit Processing Specialist under the following circumstances: removal of manual data entry in their day-to-day work (currently, makes up 60-70% of staff time) and the reclassification of the position to encompass this new duty. Study will be completed by December 2022.

- **Investigate and procure needed technology resources for the Program.** ISD's invoice processing for elevator inspections is inadequate due to a combination of staff capacity and a lack of technology resources. The current process involves a limited check of the invoice and requires a more thorough cross-reference check against Permits Plus data and a line-item review of the invoices. To more efficiently accomplish this, staff would need additional technology resources to more quickly run reports that could automate inspection data from Arlington's own system. This recommendation will need further study, including a discussion about process automation with DTS. Study will be completed by December 2022.

## BACKGROUND, OBJECTIVES AND APPROACH

### Background

#### Overview

Contract compliance encompasses all contractual agreements entered into by the County. Although certain aspects of the purchasing function are centralized within the Department of Management and Finance (“DMF”), and vendor selection is performed in conjunction with Purchasing, some of the high-risk areas like contract administration, compliance and monitoring are the responsibility of the individual departments / divisions / bureaus. These monitoring responsibilities specifically include:

- Understanding the scope of work and terms and conditions of the contract;
- Managing contract billings to avoid cost over payments;
- Validating complete and satisfactory performance of work through physical walkthroughs and site visits, when appropriate;
- Ensuring timely performance of contracted work;
- Providing updates to the Department Director, Division Chief and Department of Management and Finance related to progress and budget, as necessary;
- Maintaining appropriate documentation, in compliance with the County level document retention policy and respective contract; and
- Reviewing and approving invoices for payment to the Contractor in line with the payment terms and conditions outlined in the agreement.

Effective January 1, 2017, and as updated in March 2020, the County implemented a *Contract Administration Policy* for all contracts, regardless of their procurement methodology or dollar value. The purpose was to define and implement a standard policy and process for the administration of contracts and define roles and responsibilities for County personnel that monitor and manage contractual relationships. Specifically, the policy establishes Project Officer and Task Officer responsibilities, defines internal controls surrounding contract payment, quality assurance and recordkeeping, and outlines all applicable regulations to which the contract administration process must adhere.

#### **National Elevator Inspection Services (NEIS)**

The NEIS contract that was selected for this contract compliance audit is managed by a Project Officer (Chief Building Official) in the Inspection Services Division within the Department of Community Planning, Housing and Development. Rider Agreement No. 19-090-R (“Contract”) is a professional services contract to manage and perform elevator inspection and plan review services for the County. The Contract is a rider agreement of a contract awarded to NEIS by Loudoun County, VA (Contract #189801, effective December 1, 2017) and extended by NEIS to the County on the same terms and conditions as NEIS’ agreement with Loudoun County. Rider Agreement No. 19-090-R went into effect on February 21, 2019. There have been two amendments related to the Contract, effective December 1, 2019 and December 1, 2021, which extended the term through November 30, 2021 and November 30, 2023, respectively, under the same contract terms. There are two (2) additional two-year renewal periods available to extend the term from December 1, 2023 through November 30, 2027.

#### **Background and Elevator / Systems Inspections**

NEIS performs acceptance inspections, final fire and smoke detector tests, construction inspections and appropriate tests of all new and significantly modified equipment to determine whether all parts of the installation conform to the applicable code requirements. Additionally, NEIS performs periodic and routine inspections of all existing elevators, escalators, dumbwaiters and other vertical lift transportation equipment at the intervals specified by the applicable ASME (American Society of Mechanical Engineers) A17.1 Code, Handbook on Safety Code for Elevators and Escalators.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### New system installations and inspections

An elevator permit is required for the installation and alteration of elevators, cranes, escalators, and material or personnel hoists<sup>12</sup> (i.e., dumbwaiters and other vertical lift transportation equipment). Elevator permit applications must be submitted online via the County's ePlan Review (ePlan) system.

During a new construction or significant upgrade of a system, the building property manager or designated person (the building) submits an application to the County's Inspection Services Division through a web-based portal that feeds into the County's ePlan system. Daily, the Elevator Program Specialist, working under the Code Enforcement Section Chief, checks the ePlan portal for new applications, and reviews the information submitted to confirm all appropriate information was entered and appropriate documents were provided. Each application is automatically assigned a Project ID (in the format of ELEV-xxxx) for tracking purposes. There are various fields within ePlan and the County's Permits Plus<sup>13</sup> system that the Elevator Program Specialist manually populates during the review process of the submitted documents. According to the County's elevator permit website, applications should be checked for completeness within 2 business days. As part of the application process, the building is required to submit signed contract documents, including the total contract value of the elevator system contract cost of installation. This document is used by the County to calculate the elevator permit fees due to the County. Fees are billed and collected by the County once the plans have been approved (see below process). If the application is determined to be incomplete, the Elevator Program Specialist manually generates an email to the applicant / building with further instructions and waits for the building to submit any missing information.

Once the Elevator Program Specialist confirms the application is complete, the application is submitted to NEIS within the ePlan workflow<sup>14</sup>. NEIS then reviews the application and system plan. According to the County's elevator permit website, commercial projects take up to 3 business days to review and residential projects take up to 2 business days to review. However, those timelines do not include completeness checks or final processing windows. The Contract states that "all approved plans and rejection notices must be returned to the Division office within 5 working days of receipt."

- If the application is not approved by NEIS, NEIS includes reason(s) for the rejection in the ePlan system, and NEIS sends a notification to the building via email. The building can revise the plans utilizing the rejection comments and resubmit in ePlan. If NEIS fails a specific plan, there is no notification made to the County; however, the Elevator Program Specialist can manually access the specific application in ePlan to see any review comments and status. There are no reports of failed plans that are generated and tracked.
- If the application is approved by NEIS, it is returned to the Elevator Program Specialist via the ePlan workflow for final review. The Elevator Program Specialist then authorizes and issues a permit in the County's Permit Plus management system and sends an email notification to the building of the permit approval status, along with a link to pay the associated permit fees. ePlan automatically issues and activates the permit(s) once the payment is received.

Once the system has been installed at the building, the building coordinates directly with NEIS (via phone or email) to schedule the installation inspection. The County is not notified by NEIS or the building that the building is ready for the inspection. NEIS is then required to submit an inspection report to the County within 24 hours. Re-inspection may be necessary if there are any initial violations that need to be corrected by the building. The fees that the County requires the building to pay cover one initial inspection and one reinspection. However, in some cases more than one reinspection may be needed before NEIS will approve the elevator system.

Once the final inspection is complete, the Elevator Program Specialist approves the building for a permit using the Permits Plus system and a Periodic Inspection Elevator ("PIE") number is automatically generated for the elevator system. The PIE number is how the County tracks all elevators in the County (in the format of PIExxxx).

<sup>12</sup> Per [www.arlingtonva.us/government/programs/building/permits/elevator](http://www.arlingtonva.us/government/programs/building/permits/elevator)

<sup>13</sup> Permits Plus is utilized as the County's elevator data repository, including tracking inspections, certificate expirations, etc.

<sup>14</sup> NEIS has access to the County's ePlan system, and through the online workflow, the County and NEIS are able to pass applications and associated tasks back and forth.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### Existing system inspections

For existing systems, the Elevator Program Specialist notifies the building of the pending inspection and the associated fees due approximately 90 days before the building<sup>15</sup> is due for inspection. The County distributes notifications 90 days before the permits expire to help avoid NEIS from carrying out inspections that have not yet been paid for by the building. The process of notifying each building that has expiring permits is highly manual; the Elevator Program Specialist utilizes a Microsoft Access-based report based on Permits Plus data to filter down to the month (90 days ahead of time) properties that must be notified, which is generally a few hundred elevator systems each month. For each system, the PIE number is accessed in Permits Plus and the “Notification Date” is manually changed for each PIE in the system individually. Then, a mail merge is created based on the newly updated Notification Date, and is mailed through the County’s mailing office. The notification letter states that payment of permit and inspection fees is due to the County within 15 days of receiving the inspection notice. However, the County does not have a mechanism to notify NEIS that inspection fees have been paid and that NEIS should continue with their inspection schedule for the building.

Concurrently, NEIS maintains a tracking system for all required inspections/expiration dates throughout the County. NEIS is responsible for notifying the building at least two months<sup>16</sup> prior to when inspections are due. NEIS coordinates with the building directly to arrange a date and time for each inspection and for any required re-inspections (if issues occur during the initial inspection). Once NEIS completes the inspection(s) at the building, NEIS is required to submit a completed inspection report to the building within 24 hours<sup>17</sup> of the inspection. NEIS also provides the County a copy of the inspection report via email. The Elevator Program Specialist reviews each inspection report to determine whether each system in the building passed or failed the inspection.

In the case of a failed system inspection, the building has a period of time to remedy the issue and contact NEIS for re-inspection prior to the systems’ expiration date. Violations that directly impact the safe operation of the elevator are given shorter windows to be remedied. Due to the vertical nature of the County’s buildings, the County does not generally exercise its power to lock out failed elevators unless there is a specific safety violation / concern. In the event of a refusal by the building to comply, the County will initiate a case against the building with the district code inspector and begin court proceedings. According to the Contract<sup>18</sup>, “legal violation notices, when required as a result of inspections conducted under the terms of this contract, will be prepared by the County and enforced under authority delegated to the County Building Official.” The County must use its own inspectors to inspect the system again and generate a violation report and will typically attach the NEIS inspection report as an addendum. This new reporting cycle also means the County must grant the building additional time to comply with the violation(s).

If all systems of the building passed inspection, the Elevator Program Specialist confirms that the building has paid the appropriate fees.

- If fees have been paid, the Elevator Program Specialist issues a compliance certificate (permit) for each system with a new expiration date (one year from current expiration).
- If the fees have not been paid, the Elevator Program Specialist manually prepares a request (usually via email) to the building through Permits Plus to pay the fees before a compliance certificate can be issued. If the building fails to pay the appropriate fees before the systems’ expiration date, the County will initiate a case against the building with the district code inspector and begin court proceedings.

<sup>15</sup> In the case of multiple systems in the same building, all systems expire and are due for inspection on the same date.

<sup>16</sup> Per the Contract, Section 1.2C

<sup>17</sup> Per the Contract, Section 1.3A

<sup>18</sup> Per the Contract, Section 1.2A

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Background (continued)

#### NEIS Invoice Review and Approval

NEIS submits invoices<sup>19</sup> to the County (via email) monthly. The Code Enforcement Section Chief conducts a manual review and approval of each of NEIS' invoices. Reviewing the invoices requires the Code Enforcement Section Chief to manually match addresses and PIE numbers against those that have been inspected.

Once the Code Enforcement Section Chief completes a review of each invoice, the approval of the invoice is emailed to the Management Specialist/Office Services Manager. The Management Specialist/Office Services Manager then approves the invoice and uses a system-driven workflow (in the Prism software system) to send the invoice to the Project Officer (Chief Building Official), for final approval of the payment.

#### **NEIS Contractual Inspection Rates**

The County has contractual inspection rates with NEIS based on the type of inspection performed. Below are the contractual inspection rates from the Contract:

Service Description	Unit	Unit Price
Plans Review	EA	\$43.00
Inspection – Acceptance Test for New Installation	EA	\$266.00
Re-Inspection – New Installations	EA	\$49.00
Re-Inspection – Existing Installations	EA	\$31.00
Routine Inspection – Every 12 months	EA	\$125.00
Periodic Inspection – Every 6 months	EA	\$49.00
3-year Inspection and Testing	EA	\$54.00
5-year Inspection and Testing	EA	\$194.00
Testing without Routine Inspection	EA	\$69.00
Labor Rate	Unit	Unit Price
Regular Time – Investigations, Legal Proceedings, etc.	HR	\$1.00
Overtime – Emergency Response (per Section 5.6)	HR	\$1.00

<sup>19</sup> RSM noted that monthly invoices are typically 45 pages or longer, in PDF format.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach

#### **Objectives**

Contract compliance encompasses all contractual agreements for the purchase of goods and services including, but not limited to, vendor agreements. The objective of this contract compliance audit was to assess whether the system of internal controls is adequate and appropriate for effective contract compliance, with selected provisions of the Contract as it relates to policies over elevator system review and approvals, inspections and permits, and identified contract terms.

The scope of this contract compliance audit encompassed one (1) contract from the Department of Community Planning, Housing and Development: Rider Agreement No. 19-090-R with National Elevator Inspection Services, Inc. The audit period was July 1, 2020 through June 30, 2021.

Using the data, we performed certain data analytics on the population of new building permit applications and the annual inspection compliance permit process. We judgmentally selected 25 samples of new building permit applications for detailed testing, and requested additional supporting documentation, as needed. We also utilized a risk-based approach to judgmentally select 25 buildings for detailed testing of the annual inspection process, and requested additional supporting documentation, as needed.

#### **Approach**

Our approach to the audit execution consisted of the following phases:

##### Understanding and Documentation of the Process

The first phase of this audit consisted primarily of inquiry and walkthroughs, to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. The following was performed as a part of this phase:

- Conducted interviews with the appropriate representatives to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements;
- Conducted interviews with key personnel to obtain a detailed understanding of the contract administration and compliance process(es), specifically:
  - Contract monitoring
  - New building permits
  - Annual inspection permits
  - Systems utilized
- Documented flowcharts of the process(es);
- Reviewed the applicable policies and procedures and agreements related to this project;
- Performed walkthroughs to gain an understanding of the function and assess the design of internal controls; and
- Developed a risk-based work plan for the evaluation of the design and operating effectiveness of processes and controls, based on the information obtained through our review, inquiry and walkthrough procedures.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

### Objectives and Approach (continued)

#### Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The purpose of this phase was to test compliance and internal controls. Our fieldwork testing utilized sampling and other audit techniques to meet our audit objectives outlined above. Procedures included, but were not limited to:

- Gathered background information on the County's contract compliance and monitoring procedures and any required controls or documentation, including County Board authorization;
- Determined whether the selected department has related contract administration and compliance procedures outside of County-level procedures;
- Obtained background information on the selected contract, including contract copy, contract administration information, and detail of expenditures under each contract during our audit period.
- Tested key controls mitigating risks, such as:
  - Accuracy and timeliness of vendor invoices and compliance with the requirements of the contract
  - Accuracy of service inspection information and service charges
  - Timeliness and accuracy of all contractor service and reporting requirements
  - Accuracy and compliance with required insurance standards/requirements
- Determined whether goods and services received under the contract were properly verified or monitored prior to payment of the invoice;
- Assessed adequacy and compliance with select terms of the contract such as, certificate of insurance, right to audit, etc.; and
- Assessed the overall contract administration and compliance process and controls to determine effectiveness.

#### Reporting

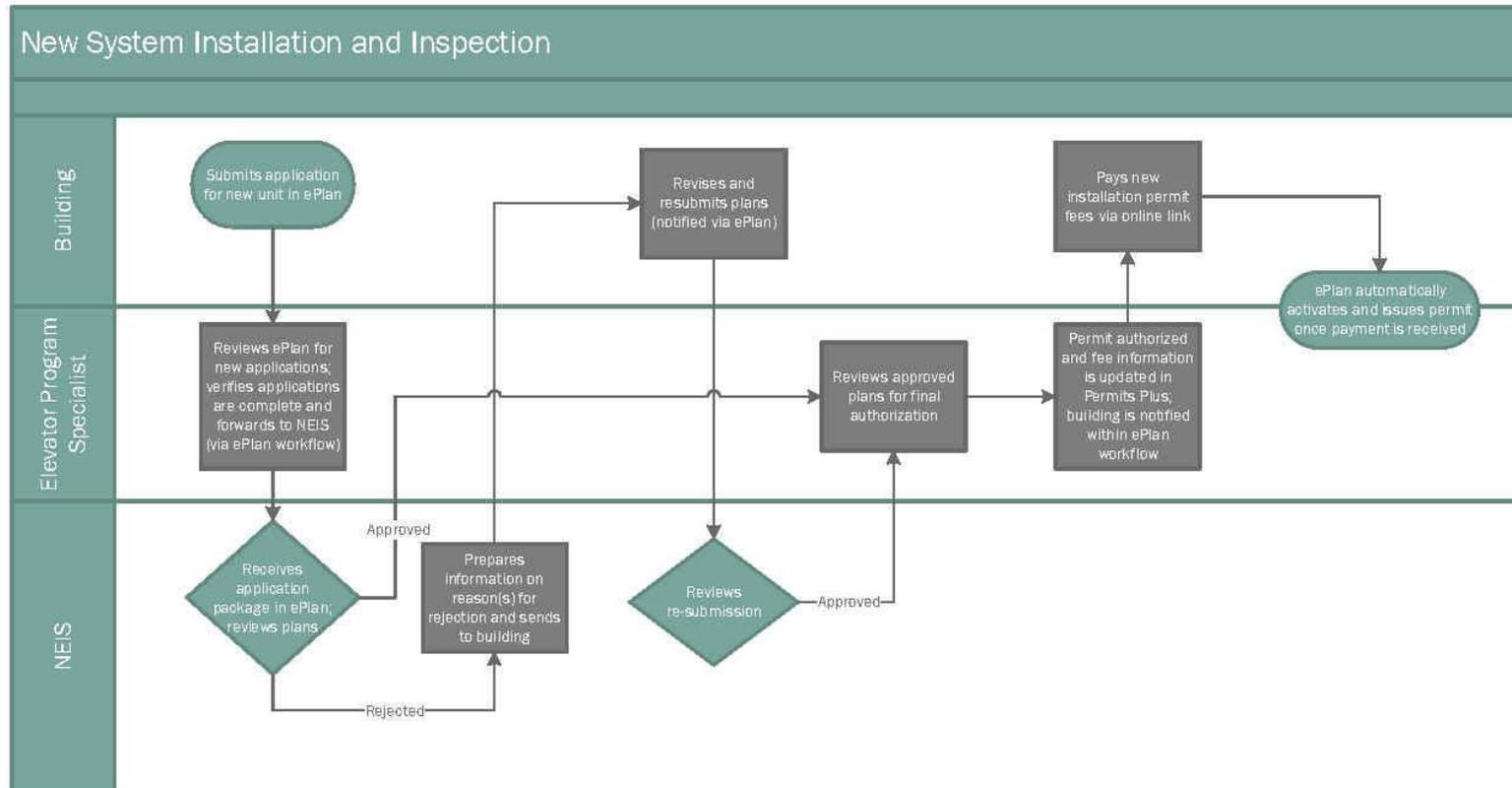
At the conclusion of this audit, we vetted the facts of this contract compliance audit with CPHD. The draft report was submitted to DMF and CPHD for review. An exit meeting was held with CPHD and DMF to formally review and discuss the draft report and modify accordingly.

## BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

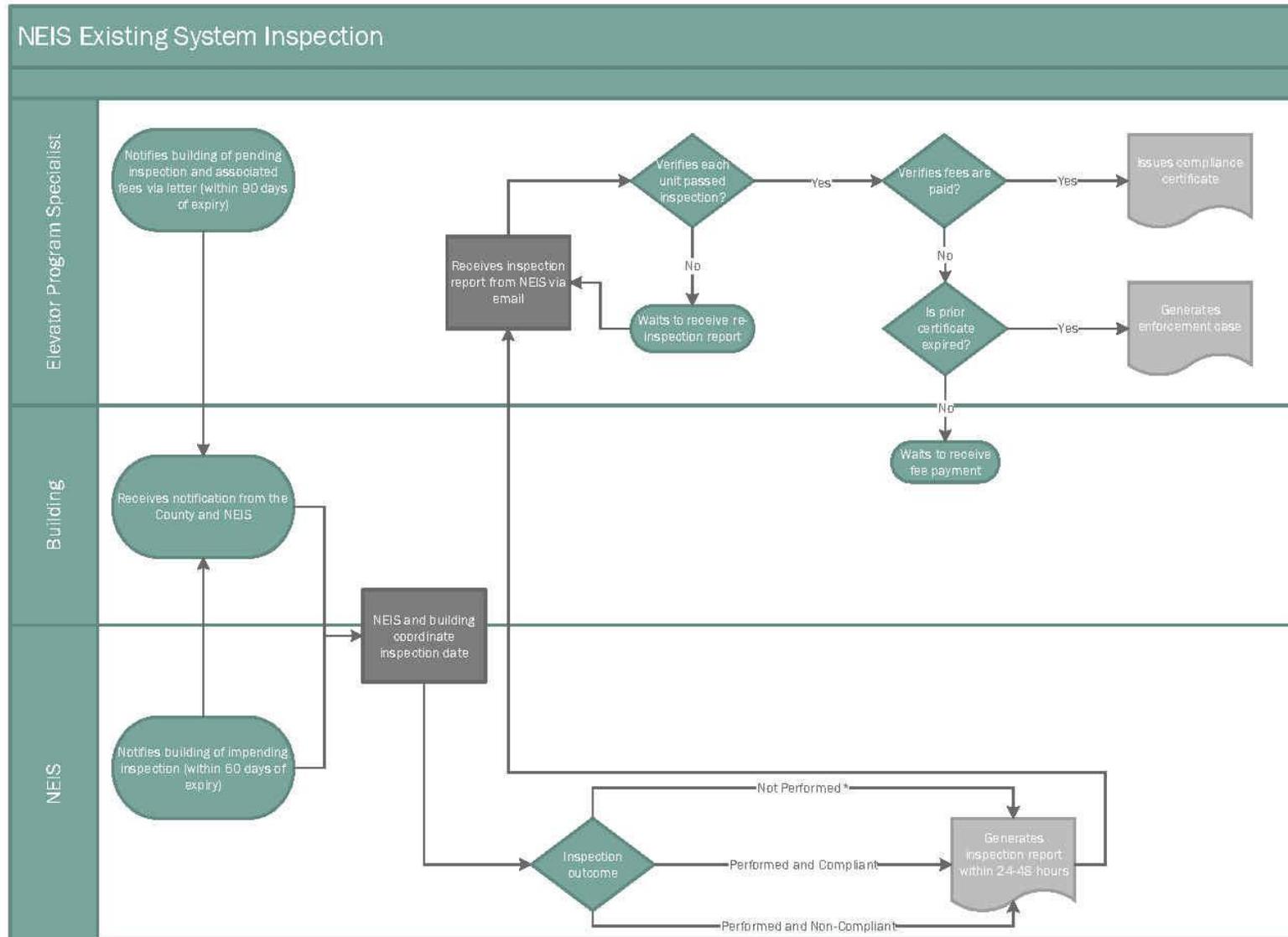
### Risk Ratings

Observation Risk Rating Definitions	
Rating	Explanation
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success / achievement of goals and internal control structure.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success / achievement of goals and improve its internal control structure. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, public perception/brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success / achievement of goals and improve its internal control structure. Action should be taken immediately.

## PROCESS MAPS

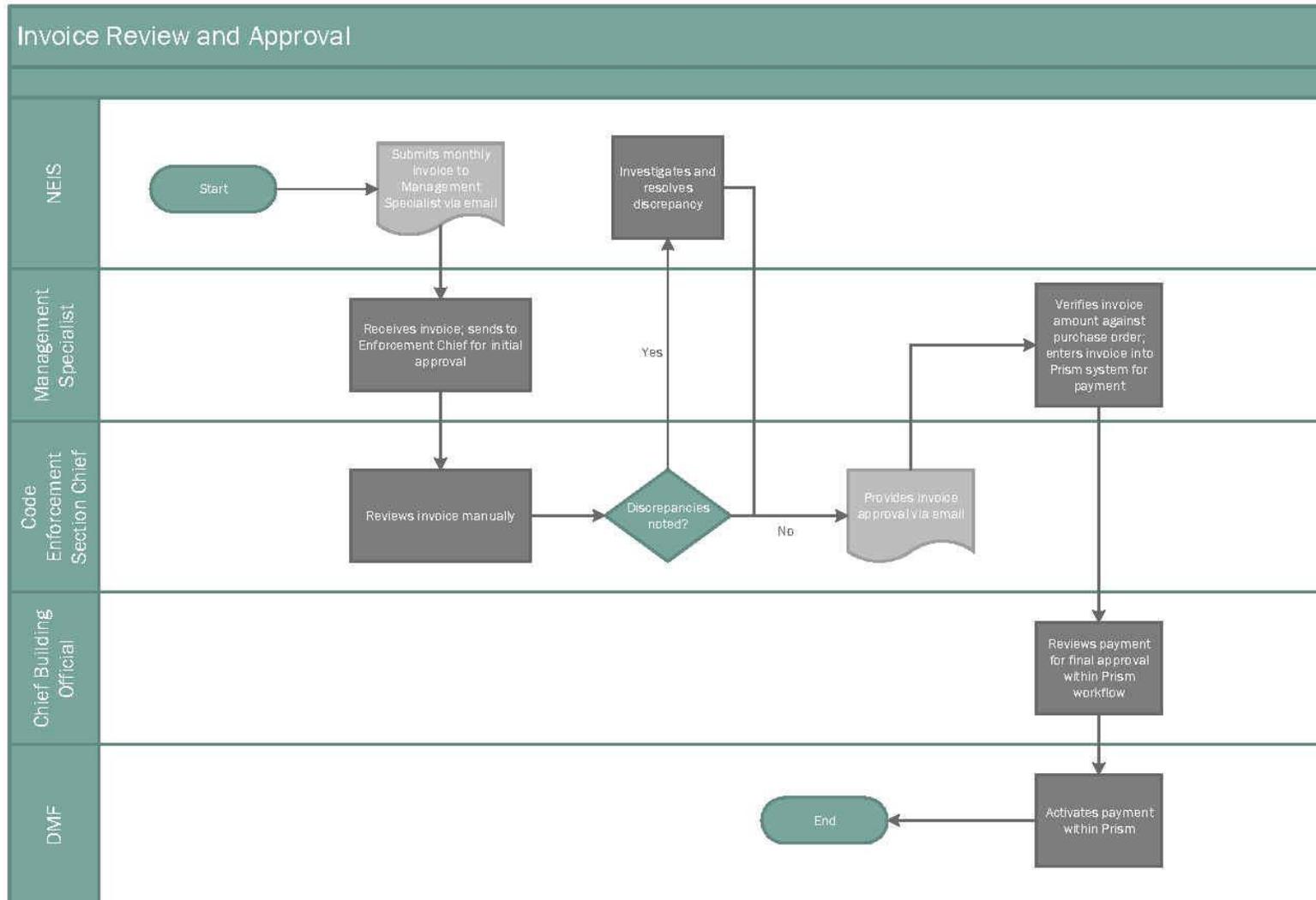


## PROCESS MAPS (CONTINUED)



\*In the event NEIS cannot perform the inspection on the arranged date due to the absence of other essential contractors, an inspection report and associated charges are still generated.

## PROCESS MAPS (CONTINUED)





RSM US LLP  
1861 International Drive  
Suite 400  
McLean, VA 22102  
(321) 751-6200  
[www.rsmus.com](http://www.rsmus.com)

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