



City of Houston

Judy Gray Johnson
City Controller

Service Contract Compliance Internal Audit

Equipment Support Services, Inc.

REPORT NO. 03-07



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

July 2, 2003

The Honorable Lee P. Brown, Mayor
City of Houston, Texas

SUBJECT: Aviation Department
Service Contract Compliance Internal Audit – Equipment Support Services, Inc.
(Report No. 03-07)

Dear Mayor Brown:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed a service contract compliance audit of the contract (No. 51923) between the City and Equipment Support Services, Inc. for fleet vehicle and equipment maintenance services at the Aviation Department. The primary objectives of the engagement were to determine whether the services provided were in compliance with City and State of Texas procurement laws, regulations and procedures; that the contractor met the objectives and contract terms; that the system of internal controls related to the contract was adequate and whether expenditures were appropriately charged to the proper funds.

The report, attached for your review, noted no instances of non-compliance and stated that the "commendations within this report represent better practices that should be shared with other departments for their potential adoption." Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to actions being taken are appended to the report as Exhibit A.

We appreciate the cooperation extended to the JWI's auditors by department and contractor personnel during the course of the audit.

Respectfully submitted,

Judy Gray Johnson
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Stephen Tinnermon, Chief of Staff, Mayor's Office
Richard M. Vacar, A.A.E., Director, Aviation Department
Philip Scheps, Director, Finance and Administration Department

May 15, 2003

Ms. Judy Gray Johnson
City Controller
City of Houston
901 Bagby, 8th Floor
Houston, TX 77002

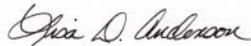
Dear Ms. Judy Gray Johnson:

We have completed the contract compliance internal audit of the Agreement for Fleet Vehicle and Equipment Maintenance services for the Houston Airport System at George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU), and Ellington Field (EFD) between the City of Houston (the City) and Equipment Support Services, Inc. as outlined in our engagement letter dated February 28, 2003, under Contract No. 51783. This report documents our final report and completes the services agreed to be provided by Jefferson Wells International (Jefferson Wells).

Commendations within this report represent better practices that should be shared with other departments for their potential adoption. Our report includes other observations noted during the performance of the procedures and management's response is attached. Our procedures, which accomplished the project objectives, were performed through April 25, 2003 and have not been updated since that date.

Jefferson Wells is pleased to have assisted the City Controller and management of the Aviation Department, and we appreciate the cooperation received during this engagement from the City Controller's Office, the Department and the Contractor.

This report is intended solely for the information and use of the City, the Department, the City Controller's Office and management of Equipment Support Services, Inc., and is not intended to be used for any other purpose.



Lisa D. Anderson
Jefferson Wells International



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Background

- The Agreement between the City of Houston (Houston Airport System) and Equipment Support Services, Inc. (the Contractor) was entered into during September 2000 for fleet vehicle and equipment maintenance services for the Houston Airport System at George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU) and Ellington Field (EFD).
- The Houston Airport System paid the Contractor approximately \$2.5 million in fleet vehicle and equipment maintenance during the internal audit period, July 1, 2001 through December 31, 2002.
- This internal audit reviewed Contractor invoices totaling \$626,374 under this Agreement, which included monthly invoices for basic service as well as other service requests.
- Under this Agreement, which emphasizes preventative maintenance, 624 pieces of fleet vehicle/equipment are currently maintained.



Project Objectives

To assist the City in determining whether:

- The services provided to the City were acquired in compliance with City and State of Texas procurement laws, regulations, and procedures (e.g. Administrative Procedure 5-2).
- Equipment Support Services, Inc., the Contractor, met the objectives of the contract and complied with the contract terms.
- The system of internal controls related to the contract were adequate.
- The expenditures have been appropriately charged to the proper fund.



Procedures Performed

- Interviewed Houston Airport System personnel integral to the internal audit to document their understanding of applicable policies and procedures.
- Observed and reviewed the City's contract set-up for this Agreement and the system controls related to authority levels, Agreement monitoring, etc.
- Conducted site visits to the maintenance facilities located at IAH, HOU and EFD.
- Analyzed spend data under the Agreement.
- Reconciled the payment data from the Contractor to the City's purchase data under the Agreement.
- Reviewed the Department's supporting documentation for a sample of expenditures under the Agreement.
- Performed procedures to test the Department's monitoring of the services provided by the Contractor.



Commendations

- Overall, the Houston Airport System personnel communicated satisfaction with the services being provided by the Contractor, reporting that the Department has a 99% in-service rate for its fleet and equipment maintained through this Agreement.
- The Houston Airport System developed an electronic system to track Vehicle-Out-Of-Commission (VOC), which includes the generation of a monthly VOC penalty report. Prior to the Contractor generating the monthly invoice, Department personnel meet with the Contractor to discuss and agree upon the VOC penalty. The VOC report supports the reduction on the invoice for the VOC penalty. This approach could be considered a best practice for other City departments with similar agreements.
- The Houston Airport System has developed a contract database to track the Contractor's invoice as it moves through the disbursement process. In the future, HAS plans to integrate this system with Advantage, the City's financial system. We concur with this plan as it would eliminate the duplication of data entry that is currently required.
- The Department's Automated Fuel Dispensing System also known as the Fuel Management System adequately manages and supports Airport fueling sites and the fuel used by City personnel with chip keys. The Fuel Management System monitors mileage per employee identification number, determines if oil changes are needed within 3 months, and tracks odometer readings per inventory identification number.



Observations

Based on the procedures performed during this internal audit, which included interviews, review of documents, observations and testwork on a sample basis, we noted:

- With regard to our review of a sample of purchases of made under this agreement:
 - No questioned purchases or payments
 - No contractor overcharges
 - No issues of contract non-compliance
 - No instances of non-compliance with the Agreement by the Contractor,

- In our review of the Houston Airport System's policies, procedures and practices, we noted a system of internal control, and as a result, we have no issues of non-compliance with regard to City or State laws, regulations, and policies to report. Further, we noted no compliance issues with the specific terms or procedures outlined in the Agreement.

Recommendation - We recommend the Houston Airport System continue to manage the expenditures and monitor compliance pursuant to the Agreement consistent with the policies, procedures and practices observed during this internal audit.

CITY OF HOUSTON

INTEROFFICE CORRESPONDENCE

TO: Ms. Judy Gray Johnson
City Controller

FROM: Director of Aviation
Houston Airport System

DATE: June 10, 2003

SUBJECT: Management Response to
Equipment Support Services
Contract Compliance Audit,
Contract No. C51923

We have reviewed the draft report submitted by Jefferson Wells International concerning the audit of the Equipment Support Services Contract No. C51923. The following response is provided to address the observations and recommendations presented in the audit report:

Audit Observations: Based on the procedures performed during this internal audit, which included interviews, review of documents, observations and test work on a sample basis, Jefferson Wells noted:

With regard to review of a sample of purchases made under this agreement:

- No questioned purchases or payments
- No contractor overcharges
- No issues of contract non-compliance
- No instance of non-compliance with the agreement by the contractor

In review of HAS policies, procedures and practices, noted a system of internal control, and as a result, no issues of non-compliance with regard to City or State laws, regulations, and policies to report. Further, no compliance issues with the specific terms or procedures outlined in the Agreement were noted.

Audit Recommendation: Recommendation that the Houston Airport System continue to manage the expenditures and monitor compliance pursuant to the Agreement consistent with the policies, procedures and practices observed during this internal audit.

Management Response: We appreciate this internal audit which confirms that our established policies and procedures deployed in managing this contract are in place and working. As anticipated, this internal audit reports no specific expenditure issues or contract non-compliance. As recommended, we will continue to utilize our current policies and procedures while monitoring for procurement and contract compliance.



For: Richard M. Vacar, A.A.E.

RMV:RDH:slh

cc: Mr. Richard Berrones
Ms. Diana Hoffman
Ms. Myrna Warford

FLEET AUDIT RESPONSE.DOC

Exhibit A

**Views of Responsible
Officials**