



# City of Houston

Judy Gray Johnson  
City Controller

**Service Contract  
Compliance  
Internal Audit**

**Pinkerton Security Services**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

JUDY GRAY JOHNSON, CPA

July 22, 2003

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

SUBJECT: Building Services Department  
Service Contract Compliance Internal Audit – Pinkerton Security Services  
(Report No. 03-15)

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. 50328) between the City and Pinkerton Security Services (PSS) for security services at City Hall, the City Hall Annex and the Lanier Building. 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 commendations, observations, and recommendations during the performance of the audit. One of the non-compliance issues noted by the auditors was that PSS could not always prove that its security guards met the criteria specified in the contract. 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 B.

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  
Larry Baker, Acting Director, Building Services Department  
Jon C. Vanden Bosch, P.E., Director, Public Works and Engineering Department  
Philip Scheps, Director, Finance and Administration Department

901 BAGBY, 8TH FLOOR • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562  
PHONE: 713-247-1440 • FAX: 713-247-3181  
e-mail: judygrayjohnson@cityofhouston.net

June 16, 2003

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

Dear Ms. Judy Gray Johnson:

We have completed the service contract compliance internal audit of the Agreement for the security guard services between the City of Houston (the City) and Pinkerton Security Services 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) as described in the engagement letter.

Our commendations, observations and recommendations noted during the performance of the procedures are presented in this report and management responses are attached as Exhibit B. Our procedures, which accomplished the project objectives, were performed through the date of this report and have not been updated since that date. Our observations included in this report are the only matters that came to our attention, based on the procedures performed.

Jefferson Wells is pleased to have assisted the City Controller, and the Building Services Department and the Public Works and Engineering Department (the Departments), and we appreciate the cooperation received during this engagement from the City Controller's Office, the Departments and Pinkerton Security Services.

This report is intended solely for the information and use of the City, the Departments, the City Controller's Office and management of Pinkerton Security and is not intended to be used for any other purpose.



Lisa D. Anderson  
Jefferson Wells International



## Table of Contents

	<u>Page</u>
■ Transmittal Letter	2
■ Executive Summary	4
■ Project Objectives	6
■ Procedures Performed	7
■ Commendations	8
■ Observations and Recommendations:	
– Building Services Department and Public Works and Engineering Department	9
– Contractor Compliance – Pinkerton Security Services	10
■ Exhibit A – Results of Pinkerton HR File Testwork	12
■ Exhibit B – Views of Responsible Officials	13



## Executive Summary

### Background

- The Agreement to provide security services between the City of Houston and Pinkerton Security Services (the Contractor) commenced on May 24, 1999 for three consecutive years for Security Guard Services for the Public Works and Engineering Department and the Planning and Development Department. This Agreement included an option to extend for two additional one year periods, which the City has exercised.
- In July 1999, the Building Services Department (BSD) was created to serve as the City's in-house developer providing a full range of services, including security management. This internal audit covers the expenditures of the Agreement for the Building Services Department and the Public Works and Engineering Department (the Departments). The Security Management Division (SMD) of BSD administers this Agreement on behalf of the Public Works and Engineering Department.
- Under this Agreement, security service is provided for numerous stationary posts, including the Complex, which consists of City Hall, the City Hall Annex and the Lanier Building. Subsequent to 9/11, several security post locations have been added.
- The Departments paid the Contractor approximately \$2.9 million for security services during the internal audit period, July 1, 2001 through December 31, 2002.
- This internal audit included the review of Contractor invoices totaling \$1,524,496 under this Agreement.



## Executive Summary (Continued)

### Summary

- Overall, Department management communicated satisfaction with the security service being provided by the Contractor.
- MWBE Participation – Records reviewed during the fieldwork indicate that the Contractor is currently meeting it's 30% MWBE Participation goal.
- Contractor Noncompliance:
  - Security Guards have been placed at the City that did not meet or did not have proof of meeting certain criteria specified in the Agreement, including being under the age of 21 years, graduating from high school or having a GED, proof that there was no conviction of felony or misdemeanor during the seven-year period preceding the date of application, lack of six-months previous security guard experience and complete background check.
  - Time keeping records are not adequate to support its invoices to the City.



## 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).
- Pinkerton Security Services, the Contractor, met the objectives of the contract and complied with 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 Departmental 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 of controls related to authority levels, Agreement monitoring, etc.
- Selected a sample of expenditures for security services under the Agreement and reviewed supporting documentation.
- Conducted a site-audit at the Contractor's place of business for contract compliance, including the review of a sample of security guards HR files as well as training documentation.
- Interviewed Contractor personnel to document an understanding of the Contractor's control processes to ensure compliance with the Agreement.
- Reconciled the payment data from the Contractor to the City's expenditures under the Agreement.
- Analyzed spend data under the Agreement.
- Performed procedures to test the Departments' monitoring of the security services provided by the Contractor.





## Commendations

- This Agreement includes terms that provide controls over the reliability and quality of the security guards provided by the Contractor and the delivery of the security services by the Contractor, such as:
  - ◆ Paying prevailing security guard wages in the downtown area,
  - ◆ Specifying criteria requirements for security guards serving the City,
  - ◆ Requiring job specific, on-site training,
  - ◆ Ability for City to promptly remove any security guard that is deemed incompetent or disorderly, and
  - ◆ Liquidated damages for non-compliance.
  
- The security posts at City Hall, the City Hall Annex and the Lanier Building (the Complex) are monitored by a Closed Circuit Security System (CC System), which includes a Control Room where monitors constantly display the posts. Dispatchers review monitors at least once per shift to ensure connectivity and video recording functionality, which are documented on a checklist. The videos are used by the Departments to review any incidents or unusual activity that may occur. Additionally, the Security Management Division, BSD, managers randomly monitor the stations on a real-time basis within their offices.

Most off-site security posts have site specific CC Systems. In the future, the City plans to have the off-site CC Systems linked so that all the posts can all be monitored centrally.



## Observations and Recommendations

*Building Services Department and Public Works and Engineering Department*

<b>Ref. #</b>	<b>Observation</b>	<b>Recommendation</b>
1)	<p><b><u>Missing Daily Activity Reports:</u></b> As stated in the Agreement, a Daily Activity Report (DAR) shall be submitted to the Facility Manager for every shift worked. The DAR reflects the activity that has occurred during the shift, including incidents, if any.</p> <p>Out of a sample of 36 DARs requested for review, four could not be provided for the City Hall Annex and one could not be located for 611 Walker. We reviewed the 31 DARs obtained, noting they were complete and properly signed.</p>	<p>The intent of the DARs is to provide City management with a quick review of the activity that occurred during the tour of duty and to alert them of any unusual incidents or activity that requires further attention.</p> <p>Strengthen controls over the filing of DARs to ensure accurate filing and timely retrieval.</p>



## Observations and Recommendations

### Contractor Compliance – Pinkerton Security Services

Ref. #	Observation	Recommendation
1)	<p><b><u>Security Officer Criteria Non-Compliance:</u></b></p> <p>As stated in the Agreement, “A Security Officer employed by the Contractor to provide Security Officer Service under this Agreement shall meet the following criteria:”. Criteria listed includes being:</p> <ul style="list-style-type: none"> <li>- 21 years of age,</li> <li>- High school graduate or must have obtained a Graduate Equivalency Diploma (GED),</li> <li>- Not to have been convicted in any jurisdiction of any felony unless a full pardon has been granted,</li> <li>- Not to have been convicted in any jurisdiction of a misdemeanor involving moral turpitude during the seven-year period preceding the date of application unless a full pardon has been granted for the conviction,</li> <li>- Not having been dishonorably discharged from the armed services of the United States under other than honorable conditions,</li> <li>- A minimum of six month’s previous experience providing commissioned or noncommissioned officer service, and</li> <li>- Trained to provide Security Officer Services, including 8 hours job-specific on-site training.</li> </ul> <p>Our testing included 12 specific compliance requirements for a sample of 59 Security Guard HR files. In summary, we noted the following during our fieldwork:</p> <ul style="list-style-type: none"> <li>➤ Twelve HR files contained proof that the 12 criteria items had been met,</li> <li>➤ Forty-three HR files were missing the proof of one to ten criteria items, and</li> <li>➤ Four HR files could not be located.</li> </ul> <p>See detail of criteria testwork at Exhibit A.</p>	<p>The Agreement states that “Contractor agrees that in the event the requirements of this Agreement and Exhibits...are not complied with, the City may assess liquidated damages for non-compliance...”. Liquidated damages are limited to \$18,000 per Agreement year.</p> <p>As the Contractor was not in compliance with regard to meeting the security guard criteria as stated in the Agreement, the City should determine if the assessment of liquidated damages is appropriate.</p> <p>The Contractor should consider using a checklist that includes all the criteria items required for Security Guards as listed in the Agreement, Section 1.3. This checklist would be required to be reviewed and approved as complete prior to a Security Guard being placed at the City. This completed and approved checklist would remain in the respective Security Guards HR file.</p> <p>We recommend that the City direct the Contractor to obtain proof of criteria being met and to strengthen their controls to mitigate the risk of placing Security Guards at the City that do not meet the criteria of the Agreement. Additionally, the City should consider performing a follow-up audit to determine that the Contractor has obtained proof of meeting the criteria and that the Contractor has instituted adequate controls over this area.</p>



## Observations and Recommendations

### Contractor Compliance – Pinkerton Security Services (continued)

Ref. #	Observation	Recommendation
2)	<p><b><u>Incomplete Time-Logs:</u></b> The Agreement calls for the use of time clock cards at the City Hall, City Hall Annex and 611 Walker locations. However, as there is only one time clock, which is not centrally located, the use of the time clock was deemed impractical. Instead, the Contractor uses a Time Log to record security guard time and the City has agreed to its use.</p> <p>During our testing of a sample of 36 invoices, we compared to the respective Time Logs, noting that two or more signatures were missing per day and the Time Logs were generally incomplete. Additionally, we noted instances where the invoices contained charges for security guard personnel that were not included on the Time Log. The Contractor stated that this occurs when a Security Guard covers for another post or works an additional shift as the Time Logs are completed based on the planned work schedule.</p>	<p>The City should instruct the Contractor to strengthen its controls over the monitoring of Security Guard Time, such that the invoices are supported by properly completed Time Logs. Due to the multiple sites and the associated problem of getting the Time Logs signed, the Contractor should consider having a Time Log at each location.</p> <p><i>Note: For the sample of invoices tested, SMD management stated that there is no question that the Security Guards were at their posts due to the CC TV System monitoring. However, SMD management agreed that the Contractor cannot rely on the City’s monitoring system as support for their invoices.</i></p>
3)	<p><b><u>Updated Personnel Rosters Not Provided:</u></b> The Agreement states that the “Contractor shall provide updated personnel rosters...whenever changes in Contractor’s personnel are made”. The Contractor does not provide updated rosters.</p>	<p>The Agreement requires an updated roster when changes in personnel occur. The lack of this document is mitigated by the fact that, as required by the Agreement, the Contractor submits a Weekly Work Schedule prior to the beginning of each week, which reflects current Contractor personnel assigned to the City and basically fulfills the purpose of the updated roster.</p> <p>We recommend that the City consider omitting this requirement from future contracts of this type.</p>



# Exhibit A

## Criteria and Compliance Confirmation used for Security Guard HR testwork and Pass %

#	Criteria	Compliance Confirmation	Pass %
1)	21 Years of Age at the time of Hire	Valid Texas Driver's License or Birth Certificate	90
2)	High School Graduate or GED	Proof of High School Graduation or GED	47
3)	Minimum of six months previous experience providing guard service	Experience listed on Pinkerton Application or Military Experience.	56
4)	Ability to speak, understand, read and write English	Pinkerton Application, Level 1 and Level 2 testing	90
5)	Eight hours of job-specific on-site training	Level 1 and Level 2 Certificates	90
6)	Comprehensive training	Level 1 and Level 2 Certificates and ACT 1, 2, 3 training	88
7)	No conviction of a felony in any jurisdiction, or misdemeanor during the 7-year period preceding the date of application unless full pardon has been granted	Burns background check, Choice Point background check, and Harris County background check	78
8)	Not declared by any court of jurisdiction of incompetence by reason of mental defect or disease without having been restored	FBI report required for State Certification	92
9)	Not suffering from habitual drunkenness or from narcotics addiction or dependence	Drug Test strip and drug form included in HR file	92
10)	Not have been discharged from the armed services of the United States under other than honorable conditions	Form 214 or not applicable	92
11)	Have no outstanding warrants or delinquent cases in this or any other jurisdiction	Burns background check, Choice Point background check, and Harris County background check	85
12)	Complete background check	Burns background check, Choice Point background check, and Harris County background check	85



## CITY OF HOUSTON

Building Services Department

## Interoffice

Correspondence

To: Judy Gray Johnson, Controller  
City of Houston

From: C. P. "Buddy" Hall

Date: June 17, 2003

Subject: Jefferson Wells Audit

The Security Management Division of the Building Services Department reviewed the Service Contract Compliance Internal Audit conducted by Jefferson Wells International. The audit noted several issues and suggested recommendations that would reinforce the terms of the contract. The following measures will be taken to improve the performance of the conditions and terms listed in the contract.

### Missing Daily Activity Reports

- Recommendation: Strengthen controls over the filing of DAR's to ensure accurate filing and retrieval.
- Plan of Action: Meet with the Building Managers and recommend that after the DAR's are reviewed that they are filed by date. If a DAR is missing the Manager will contact the Security Management Division who will meet with the contractor's Project Manager to determine status of the missing DAR. The Project Manager will submit either the located DAR or a copy to the Building Manager.

### Security Officer Criteria Non Compliance

- Recommendation: As the Contractor was not in compliance with regard to meeting the Security Officer criteria as stated in the Agreement, the City should determine if the assessment of liquidated damages is appropriate.
- Plan of Action: Meet with Finance and Administration Department, Strategic Purchasing, to determine if the assessment of liquidated damages is appropriate.
- Recommendation: We recommend that the City direct the Contractor to obtain proof of criteria being met and to strengthen their controls to mitigate the risk of placing Security Officers at the City that do not meet the criteria of the Agreement. Additionally, the City should consider performing a follow up audit to determine if the Contractor has instituted adequate controls over this area.
- Plan of Action: I concur that a follow up audit should be performed. The Contractor should incorporate a checklist of the Security Officer criteria into their personnel files. A copy of the completed checklist will be supplied to the Security Management Division for each Security Officer working under this Contract.

### Incomplete Time Logs

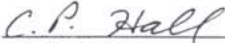
- Recommendation: The City should instruct the Contractor to strengthen its controls over the monitoring of Security Officer Time, such that the invoices are supported by properly completed Time Logs.

## Exhibit B - Views of Responsible Officials

- Plan of Action: The Contractor utilizes a call-in system to log the Security Officer's time. I have instituted a new procedure, which requires a copy of the log be submitted with the invoices to the Security Management Division.

**Updated Personnel Rosters**

- Recommendation: We recommend that the City consider omitting this requirement from future contracts of this type.
- Plan of Action: I concur with omitting this requirement in future Contracts.

  
\_\_\_\_\_  
C. P. "Buddy" Hall  
Division Manager  
Building Services Department  
Security Management Division

CPH/pc

Cc: Jon Vanden Bosch, Director, Public Works & Engineering  
Larry Baker, Acting Director, Building Services Department  
Don Thompson, Deputy Assistant Director, Security Management Division  
Candy Davis, Jefferson Wells International

Exhibit B - Views of Responsible Officials