

OFFICE OF THE CITY CONTROLLER



**FLEET MANAGEMENT DEPARTMENT
VENDOR CONTRACT PERFORMANCE AUDIT OF
GENUINE PARTS COMPANY (NAPA)**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

March 16, 2016

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: 2016-07 Fleet Management Department (FMD) Vendor Contract
Performance Audit – Genuine Parts Company (NAPA)**

Mayor Turner:

The Controller's Office has completed a Vendor Contract Performance Audit of NAPA contract number 4600010761. The City of Houston (City) entered into the five-year contract in January 2011 which allowed NAPA to assume responsibility for stocking and operating the City's maintenance facility storerooms. The contract originally had a maximum spend amount of \$95,068,804 which was increased to \$118,836,005 in July 2015.

Our original engagement scope included management fees invoiced and paid during calendar year 2013; however, due to the lack of supporting documentation for calendar year 2013 invoices, the scope was modified to include calendar year 2014.

The **primary** objectives of this audit were to consider the processes and internal controls related to:

- Issuance of Category 2 (zero cost) inventory;
- NAPA management fee invoicing and supporting documentation; and
- FMD management contract oversight.

There were **significant** issues identified throughout the audit that are outlined in the attached report, some of which I would like to highlight in this transmittal as follows:

- NAPA charged the City for City-owned parts in the amount of **\$24,426**;
- The City was invoiced a total of **\$299,421** in management fees that were based on percentages of sales rather than actual operating costs as outlined in the contract;
- There was **\$147,521** in overcharges for NAPA storeroom employees and delivery drivers as well as **\$380,990** in overcharges for Jones Delivery vehicle delivery drivers. Rates charged did not conform to the rate limits for storeroom employees and delivery drivers set in Exhibit H of the contract;
- The City was invoiced **\$182,166** for property taxes related to business inventory held at City maintenance facilities resulting in a reimbursement of taxes (tax refund) that was not approved by the City's Legal Department or City Council; and
- FMD did not provide adequate contract management oversight in relation to management fee invoicing. More robust internal controls in monitoring contract performance could have provided information to management in a better position to address processes that were not in compliance with existing contract terms.



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

We would like to express our appreciation for the time and effort expended by those parties at FMD and NAPA during the course of the audit.

Respectfully submitted,

Chris B. Brown
City Controller

xc: Victor Ayres, Director, Fleet Management Department
City Council Members
Alison Brock, Chief of Staff, Mayor's Office
Kelly Dowe, Chief Business Officer, Mayor's Office
Harry Hayes, Chief Operations Officer, Mayor's Office
WeiYao Chang, Assistant Director, Fleet Management Department
Shannon Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

TABLE OF CONTENTS

TRANSMITTAL LETTER.....	i
EXECUTIVE SUMMARY	1-4
INTRODUCTION	1
BACKGROUND	1
AUDIT SCOPE AND OBJECTIVES.....	2
PROCEDURES PERFORMED	2
AUDIT METHODOLOGY	2
CONCLUSIONS AND SIGNIFICANT ISSUES.....	3-4
ACKNOWLEDGEMENT AND SIGNATURES	4
DETAILED FINDINGS AND RECOMMENDATIONS.....	5-27
1. GENUINE PARTS COMPANY (NAPA) INVOICED THE CITY FOR OPERATING COSTS BASED ON A PERCENTAGE OF SALES TO CITY MAINTENANCE FACILITIES.....	5-7
2. GENUINE PARTS COMPANY (NAPA) IS NOT IN COMPLIANCE WITH THE CONTRACT’S LIMITATION ON LABOR RATE REIMBURSEMENTS	8-12
3. GENUINE PARTS COMPANY (NAPA) BILLING FOR JONES DELIVERY EXCEEDED THE ANNUAL CONTRACTUAL LABOR RATE LIMIT	13-16
4. GENUINE PARTS COMPANY (NAPA) INVOICED THE CITY FOR PROPERTY TAXES ON THEIR INVENTORY.....	17-19
5. GENUINE PARTS COMPANY (NAPA) INVOICED THE CITY TWICE FOR DELIVERY DRIVERS DUE TO INADEQUATE SUPPORTING DOCUMENTATION	20-22
6. GENUINE PARTS COMPANY (NAPA) INVOICED THE CITY FOR INVENTORY THAT THE CITY ALREADY OWNED	23-24
7. FLEET MANAGEMENT DEPARTMENT (FMD) HAS NOT PROVIDED EFFECTIVE CONTRACT MANAGEMENT OVERSIGHT OF THE GENUINE PARTS COMPANY (NAPA) CONTRACT	25-27
EXHIBITS.....	28-41
EXHIBIT A – SUPPORT FOR DELIVERY DRIVERS	28-31
EXHIBIT B – ZERO COST	32-39
EXHIBIT C – MEMO FROM FMD DEPARTMENT OFFICIALS	40-41



EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division (AD) of the City Controller's Office has completed a limited Performance Audit of the contract with Genuine Parts Company (NAPA), Contract 4600010761, administered by the Fleet Management Department (FMD). The audit considered the effectiveness of internal controls related to management fees and Category 2 (zero cost) inventory within FMD and NAPA. The audit was included in the City Controller's fiscal year (FY) 2014 Audit Plan and carried over to the FY2016 Audit Plan.

BACKGROUND

In an effort to create efficiencies and eliminate redundancy, the City of Houston (City) created FMD in October 2010 to consolidate City fleet operations. In December 2010, the City entered into a contract with NAPA to assume responsibility for stocking and operating the City's maintenance facility storerooms. The contract began in January 2011, with a five-year life span and a maximum spend amount of \$95,068,804.

The initial consolidation consisted of moving fleet divisions within Houston Fire Department (HFD), Solid Waste Management Department (SWD) and the Houston Police Department (HPD) under the management of FMD and selling their existing parts inventory to NAPA¹. Physical counts were jointly performed by the City and NAPA during March through May 2011. Those counts were observed by AD staff.² As a result of the counts, \$827,859 worth of parts inventory were deemed obsolete by NAPA and were not purchased. NAPA agreed to hold the obsolete inventory, classified as Category 2 parts, and issue them to the City at zero cost because the City still owned vehicles that could use the parts.

Each month NAPA submits two invoices to the City for reimbursement, one for parts inventory issued and the other for management fees. A Profit and Loss (P&L) statement serves as the invoice for management fees related to all the maintenance facility locations. The contract allows for monthly reimbursement of all basic operating costs associated with the operation of each maintenance facility. The contract placed labor rate limits on salaries and overtime for storeroom staff and delivery drivers, but also allowed for a yearly increase in rates for these positions. By June 25, 2015, expenditures on the contract totaled \$93,223,646. The two changes cited as reasons for the early depletion of the initial approved contract amount were the increase of FMD's in-house repairs beginning in FY2012 and the addition of the Houston Airport System's (HAS) facilities³ in May 2013. A change order was approved by Ordinance 2015-0700 increasing the contract amount by \$23,767,201 to \$118,836,005 on July 22, 2015. On October 15, 2015, the contract was given a 90-day extension to April 16, 2016.

¹ Public Works & Engineering (PWE) and Parks & Recreation (PARD) had already sold their inventory to NAPA in an earlier contract. While PWE operated under this contract, they maintained their maintenance facilities and paid NAPA's invoices until January 1, 2014, when they consolidated their facilities and invoicing with FMD.

² Audit report 2012-06 Fleet Management Department (FMD) Performance Audit of the Process to Sell/Transfer Vehicle Repair Parts reflects the amount of inventory that NAPA purchase and the amount that was classified as Category 2 parts.

³ Three HAS facilities were added; Bush, Hobby and Ellington.



Office of the City Controller
Audit Division

AUDIT SCOPE AND OBJECTIVES

Our original objectives were broadly defined to encompass many aspects of the NAPA contract, such as system applications, policy and procedure requirements, invoicing of parts and management fees, and zero cost inventory. After conducting our initial research on the requirements within the contract, policies, operating procedures, and interviews with key personnel to gain an understanding of the functions performed by FMD and NAPA, we refined the audit objectives to consider the processes and internal controls related to:

- Issuance of Category 2 (zero cost) inventory;
- NAPA management fees invoicing and supporting documentation; and
- FMD management contract oversight.

Our original scope was calendar year 2013 for management fees and calendar years 2011 through 2012 for Category 2 inventory.

SCOPE MODIFICATION

The Audit Division's original engagement scope included management fees invoiced and paid during calendar year 2013 overlapping FY13 and FY14. Neither FMD nor NAPA could provide the P&L documentation packets for calendar year 2013. Due to the lack of supporting documentation for calendar year 2013 invoices, AD modified the scope to include calendar year 2014 for the review.

PROCEDURES PERFORMED

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following steps:

- Obtained and reviewed a copy of the NAPA contract, 4600010761;
- Requested and reviewed policies and procedures for NAPA's operations of City maintenance facilities;
- Requested and analyzed data files for zero cost inventory from both the City's M5 system and NAPA's TAMS;
- Requested and reviewed electronic copies of P&L statements from NAPA;
- Requested and reviewed supporting documentation in the P&L packets;
- Interviewed FMD and NAPA staff; and
- Recalculated total labor charges for both NAPA employees and Jones Delivery drivers from supporting documentation contained in P&L packets.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of FMD or NAPA. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.



Office of the City Controller
Audit Division

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each Conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses, see the “***DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES***” section of this report.

CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Considered the processes and internal controls related to the issuance of Category 2 parts. Based on our review, NAPA charged the City for City-owned parts in the amount of \$24,426. **(See Finding #6)**

CONCLUSION 2 – (AUDIT OBJECTIVE #2)

Considered the processes and internal controls related to NAPA’s invoicing of management fees and the supporting documentation. Based on our review, NAPA was not in compliance with several of the contract requirements:

- The City agreed to reimburse NAPA for all their basic operating costs associated with the maintenance facilities. However, NAPA invoiced the City a total of \$299,421 in management fees that were based on percentages of sales versus actual operating costs as outlined in the contract. This process was applied to three P&L line items to include Accounting & Data Processing Salaries, General Office Salaries, and Employee Benefit Pension fees. **(See Finding #1)**
- Exhibit H of the contract sets annual labor rate limits for salaries and overtime for storeroom employees and delivery drivers. NAPA averaged their employees’ salaries instead of applying the annual labor rate limits stated in the contract. This resulted in an overcharge to the City of \$147,521. **(See Finding #2)**
- Exhibit H of the contract applies to all delivery drivers. NAPA utilized three of their employees as delivery drivers and subcontracted the remainder of the service to Jones Delivery, Inc. Based on a review of the timesheets submitted by NAPA, the City was overcharged \$380,990 for Jones Delivery vehicle drivers in calendar year 2014. **(See Finding #3)**
- Property taxes are a major source of revenue for the City of Houston. City Ordinance 44-19 controls when an individual or business can get a refund from property taxes. NAPA invoiced the City for property taxes related to business inventory held at City maintenance facilities resulting in a reimbursement of taxes or a tax refund of \$182,166 that was not approved by the City’s Legal Department or City Council. **(See Finding #4)**
- NAPA invoiced the City twice for one week of Jones Delivery drivers’ salaries resulting in an overpayment of \$12,678. NAPA has agreed to credit FMD for this amount on the next billing cycle. **(See Finding #5)**

Note: The audit found NAPA overcharged the City a total of \$1,047,202 in calendar year 2014. Of this amount \$1,022,776 was related to NAPA’s management fees and \$24,426 was due to Category 2 parts charged back to the City.

CONCLUSION 3 – (AUDIT OBJECTIVE #3)

Consider the processes and internal controls related to FMD’s management contract oversight. Our review found that FMD did not provide adequate oversight in relation to the invoicing of management fees by NAPA to the City. Monitoring of the contract more closely could have led to the submission of change orders or the requirement that NAPA comply with the existing contract terms.

Office of the City Controller
Audit Division



Subsequently, many of the findings cited under Audit Objective #2 may not have occurred. (**See Finding #7**)

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank NAPA and FMD management for their cooperation, time and efforts throughout the course of the engagement.

A handwritten signature in black ink that reads "Theresa Watson".

Theresa Watson, CIA
Audit Manager

A handwritten signature in blue ink that reads "Courtney E. Smith".

Courtney E. Smith, CPA, CIA, CFE
City Auditor

A handwritten signature in black ink that reads "Camille Jones".

Camille Jones, CPA
Assistant City Auditor IV



DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES AND ASSESSMENTS OF RESPONSES

**FINDING #1 – GENUINE PARTS COMPANY (NAPA) INVOICED THE CITY FOR OPERATING COSTS BASED ON A PERCENTAGE OF SALES TO CITY MAINTENANCE FACILITIES
(RISK RATING = HIGH)**

BACKGROUND:

Exhibit “B-1”, Scope of Work, paragraph 7.3, Contractor Invoicing Process, subsection, 7.3.5 allows NAPA to invoice the City for all basic operating costs associated with operating each of the maintenance facility locations on a monthly basis. These costs are considered Management Fees and are reimbursable “over and above the parts surcharge (profit) amount.” Reimbursable basic operating costs include payroll, employee benefits, accounting and data processing, general office, counter, freight, postage, insurance, office supplies, store supplies, telephone, training, computer expenses, bank service fees, delivery, and delivery vehicle expenses including insurance, maintenance, and depreciation.

Each month NAPA provides the City with two invoices, one for the parts purchased and the second, for Management Fees in the form of a profit and loss (P&L) schedule for each City location.

FINDING:

NAPA invoiced the City a total of \$299,421 in management fees based on percentages of sales versus actual basic operating costs as outlined in the contract for calendar year 2014. These costs were charged to three line items on the P&L to include Accounting & Data Processing Salaries (A&D), General Office Salaries and Employee Benefit Pension fees (EBP).

RECOMMENDATION:

FMD management should require that NAPA provide invoices based on actual cost and reimburse the City for all over payments made from invoices that were based on a percentage of sales to the City versus actual costs.

**NAPA MANAGEMENT
RESPONSE⁴:**

In response to the questions regarding fixed NAPA costs based on a percent of sales, there are two categories of expenses to address; the first is relatively straightforward, and that is the **Pension Fees**. This is a direct Employee Benefit for NAPA/Genuine Parts Company employees, and every entity in the NAPA system that records sales is charged this amount (.45% of Top Line Sales). We are charged, via a journal entry, by our parent company for the exact pension fees that we passed onto the City of Houston. Our parent company uses a percentage of top line sales methodology to allocate the pension expenses, but once we get that amount from our parent company, we pass it onto the City without marking it up. To provide additional

⁴ NAPA Management responses to each finding are included verbatim.



Office of the City Controller
Audit Division

documentation, we have created backup information for your review. We can also create a monthly invoice if you believe it would be helpful to do so.

The other two fixed fee costs are for services that are provided to the City of Houston as well as all of our customers that have been centralized over the last 10 years in order to REDUCE costs associated with each. So while they are not associated directly with a person on-site at the City of Houston, the services are still enjoyed by the city, but at a greatly reduced cost versus having a full-time person or persons on site to provide the services.

Accounting & Data Processing – this department deals mainly with accounts payable/receivables, parts billings, monthly statements, individual invoices, financial reporting, and the like. These services are vital to the ongoing success of all of our operations, and all operations benefit equally from this department. Again, this cost is billed from NAPA Headquarters to each operation via Journal Entry, but we are willing and able to create a paper invoice of this amount each month as backup.

General Office Fee – this department handles all of the documentation of sales and expenses that are generated by each of our stores. This would include sales invoice handling, filing, storage, procurement card reconciliation and payment, and similar office functions that are vital to the ongoing success and daily operation of all of our stores and IBS locations. Once again, this fee is billed to each NAPA entity via Journal Entry, and we are willing to convert this to a paper invoice going forward to help expedite payment.

These costs were clearly identified in NAPA's RFP response, and are clearly illustrated on the sample Profit & Loss Statement that was included in our RFP. They were also discussed during the Contract Negotiation phase of the process, and were agreed to by all parties. These costs have remained constant over the last 20+ years, and were obviously a part of our original Public Works contract as well as all previous contract iterations with the City of Houston.

**FMD MANAGEMENT
RESPONSE⁵:**

Fleet management concurs with the audit findings.

RESPONSIBLE PARTY: Terrance York, Division Manager

ESTIMATED DATE OF COMPLETION: July 29, 2016

**ASSESSMENT OF
RESPONSE:**

The contract states that the City will reimburse NAPA for all basic operating costs including surcharges for parts associated with its facility parts rooms. There is no reference in the contract to a percentage of sales being applied as costs that is reimbursable by the City.

In the contract, section V, paragraph 4.0, Entire Agreement reads,

⁵ FMD Management responses to each finding are included verbatim.

Office of the City Controller
Audit Division



“This agreement merges the prior negotiation and understandings of the Parties and embodies the entire agreement of the Parties. No other agreements, assurances, conditions, covenants (express or implied), or other terms of any kind exist between the Parties regarding this Agreement.”

NAPA should have requested that all verbal agreements (i.e., cost based on percentages of sales to the City) reached during contract negotiations be included in the final written contract.

NAPA states that they passed on costs in Pension Fees without mark-ups; but, the sales that NAPA applied their percentages to already included mark-ups of either five percent (5%) or seven percent (7%). The contract allows NAPA to apply a 5% mark-up to fluids and tires, and a 7% mark-up to parts inventory invoiced to the City. NAPA used these sales, which included applicable surcharges to calculate and create “expenses” that were invoiced to the City as NAPA’s costs. NAPA also stated that they have centralized services for Accounting, Data Processing, and General Office to reduce costs and thereby pass on those savings to their customers, such as the City of Houston. However, NAPA’s current practice of charging the City a percentage of sales rather than a percentage of their reduced costs is not resulting in the expected savings indicated above.



Office of the City Controller
Audit Division

**FINDING #2 – GENUINE PARTS COMPANY (NAPA) IS NOT IN COMPLIANCE WITH THE CONTRACT’S
LIMITATION ON LABOR RATE REIMBURSEMENTS
(RISK RATING = HIGH)**

BACKGROUND:

NAPA uses some of their personnel to operate the City’s parts facilities and to serve as delivery truck drivers. The current contract places limits on the amount of annual salary and overtime pay the City of Houston (City) is required to reimburse to NAPA for the work of these employees. NAPA utilized three of their employees as delivery truck drivers in 2014. Exhibit “H” of the contract details both the positions and labor rate limitations. According to the contract, overtime pay is only allowed for two positions, “Store Keeper and Lead Shift Store Keeper”.

In addition to the labor rate limitations, Exhibit “B-1” paragraph 8.2, “Labor Rate Escalation Clause” does not allow a labor rate increase over the life of the contract. Therefore NAPA is restricted to the labor rates awarded for each contract year, as outlined in Exhibit “H”.

Contract Section III, “Duties of City”, paragraph 6.1, “Changes”, state that the City Purchasing Agent or Director may issue a Change Order at any time during the contract. There were no documented “Change Orders” associated with the contract provided to the audit team during the course of the audit.

FINDING:

NAPA was not in compliance with the contract’s limitation on the reimbursement of NAPA employees’ salaries and overtime pay for calendar year 2014. This resulted in an overpayment to NAPA for salary costs totaling **\$147,521** for 2014.

The City reimbursed NAPA for the following salary and overtime cost that exceeded the contract’s labor rates in 2014:

- Ten (10) employees’ (including Store Keeper, Facility Parts Room Manager and NAPA Delivery Drivers) salaries cost exceeded the labor rates limits by a total of \$55,440.
- Nineteen (19) employees’ overtime pay exceeded the labor rates limits by a total of \$92,081. Of this amount, \$60,061 were paid to Facility Part Room Managers and NAPA Delivery Drivers. The contract does not allow reimbursement of overtime for these two positions.

Additionally, six employees (one Lead Shift Store Keeper and five Store Keepers), had hourly rates that exceeded the contract rates. These employees did not work the entire 2014 year therefore they did not exceed the annual limits. However, if these individuals continue to work for NAPA at the City facilities for one full calendar year they will exceed the limitations.

We reviewed all payroll costs for NAPA employees, whose wages were invoiced to City facilities for calendar year 2014. During this period, NAPA employed 71 employees who operated fifteen (15) City parts facilities. Based on supporting documentation reviewed during our audit, NAPA’s operational employees were paid \$1,555,524 (includes regular and overtime pay) for 2014.

Based on our analysis, the City overpaid NAPA for payroll costs by 9% as a result of NAPA using an average of employees’ salaries rather than following the individual



Office of the City Controller
Audit Division

labor rate limits set in Exhibit "H". NAPA has followed this process since the beginning of the contract, thus there is a high probability that the City has overpaid labor rate reimbursements by a similar percentage since 2011.

RECOMMENDATION:

FMD should require NAPA to repay the amount of salaries and overtime pay that exceeded the contract labor rate limits set in Exhibit "H" of the contract. For calendar year 2014, the amount of overpayment is \$147,521.

NAPA MANAGEMENT

RESPONSE:

The cornerstone of a successful venture of this magnitude is **PEOPLE!** While both the City and NAPA agreed to the Labor Rate limits identified in the contract, we came to realize rather quickly that some of the higher-volume, First Responder sights needed highly talented individuals to insure that both NAPA and the City of Houston would benefit from their management talent, parts expertise, and customer service orientation.

In practical terms, what that means is that in certain, high volume sites, to secure the RIGHT manager and team, we may have to pay more than the Contract Labor Rate, but in some of the smaller, one-man/woman sites, we would pay a lesser rate. Overall, the TOTAL paid for all NAPA IBS employees would, in theory, be LESS than the cumulative Contract Labor Rate for the same employee pool.

We discussed this in detail with the key players that were managing the City of Houston/NAPA IBS contract at the time of award. Those people included, but were not limited to, Calvin Wells-ARA, Desiree Heath-ARA, Kim Burley, Lisa Young, Dave Seavey, and Thomas Dowdy. We had, and continue to have, a long standing, cooperative working relationship with many of the people that were at the original meeting, and had no reason to believe that they were not the people to help direct us in this decision.

Per the attached email, you will see that it was collaboratively determined that we would proceed under the premise that as long as the COMBINED payroll of the COMBINED NAPA employees remained at or less than the COMBINED Contract Labor Rate, NAPA would remain in Contract Compliance. That is indeed the situation as it stands today, as the attached spreadsheet illustrates.

Therefore, we do not feel that any overpayment was made, and, in fact, we have SAVED the City of Houston money because our aggregate workforce is well BELOW the combined Contract Labor Rate (\$60,400 for calendar year 2014)!



Office of the City Controller
Audit Division

Moreover, the audit findings inconsistently apply Exhibit H of the Agreement to the payroll charges, showing overpayment when charges exceeded the contract rate but not showing underpayment when charges were below the contract rate. Attached as Exhibit 1 to this response is a detailed spreadsheet that consistently applies Exhibit H by charging the fixed, contracted rate NAPA's employees in 2014. In sum, the consistent application of Exhibit H would result in the following:

2014 Annual Totals				
Job Category Description	Current "Cost" Billing Method	Applying Exhibit H Method	Over/(Under) Comparison	Plus Approved Overtime
Parts Room Managers	590,418.29	615,933.40	(26,287.15)	772.04
Lead Store Keepers	355,337.91	334,111.68	14,021.36 7	204.88
Store Keepers	492,431.02	528,443.36	(37,814.29)	1,801.95
Drivers	40,600.16 54	548.80	(13,948.64)	0.00
Monthly Totals	1,478,787.38	1,533,037.24	(64,028.72)	9,778.86

In short, if consistently applied, the auditor findings should result in the City of Houston making an additional net payment to NAPA of \$64,028.72 for 2014 because the City was undercharged. And, if the audit extends to previous years, the amount owed by the City of Houston to NAPA will undoubtedly grow.

Moreover, with regard to the delivery drivers, it is worth noting that when the fixed contracted annual rate is considered, NAPA did not pass on overtime charges to the City of Houston. This is because the charges for NAPA delivery drivers, even with NAPA paying overtime to its drivers, did not exceed the contracted rate for delivery drivers in Exhibit H. Accordingly, NAPA did not improperly charge NAPA for overtime for delivery drivers

It is also important to realize that NAPA has been exceedingly forthcoming with its overtime policies. Even though the Agreement does not require NAPA to seek preapproval from FMD, NAPA has consistently sought and obtained preapproval for the vast majority of overtime worked by NAPA employees.

FMD MANAGEMENT RESPONSE:

Fleet management concurs with the audit findings. Amendments to the contract require a change order pursuant to Section III, paragraph 6.0.

RESPONSIBLE PARTY: Terrance York, Division Manager

ESTIMATED DATE OF COMPLETION: July 29, 2016

ASSESSMENT OF RESPONSE:

NAPA's management responses do not address how NAPA is going to correct the issue of non-compliance with the contract, specifically Exhibit H, section III, paragraph 6.0, section V, paragraph 8.2, Exhibit "B-1" paragraph 8.2 and 11.0.

Office of the City Controller
Audit Division



Section III, paragraph 6.0 requires a Change Order if changes are deemed “necessary to accomplish the general purpose of the Agreement”. If NAPA and FMD agreed that averaging of employees’ salaries would save the City money, they should have requested a Change Order or negotiated it prior to signing the contract. NAPA began averaging their employees’ salaries one month after the contract went into effect.

There was no Change Order issued for this contract amending the terms to allow averaging of NAPA employees’ salaries to comply with Exhibit H.

In reference to the attached email, an agreement made after the contract was signed does not supersede the requirements of obtaining a Change Order. In addition, section V. Miscellaneous, paragraph 8.2 clearly defines the limits of City employee’s authority to approve a waiver of compliance with this contract:

“An approval by the Director, or by any other employee or agent of the City, of any part of Contractor’s performance does not waive compliance with this Agreement or establish a standard of performance other than that required by this Agreement and by law. The Director is not authorized to vary the terms of this Agreement.”

NAPA states that they did not pass on the overtime cost for their drivers, when in fact the City was invoiced for pay earned by NAPA delivery drivers, which included regular and overtime pay according to documentation provided to FMD. Exhibit H is explicit in setting specific labor rate limits for both regular hours and overtime. There is no reference in the contract that the two can be combined when considering compliance with the labor or overtime rates. Exhibit “B-1” Scope of Work, paragraph 8.2, Labor Rate Escalation Clause states, “No labor rate increase shall be allowed during the life of the award. Therefore, the labor rate in Exhibit “H” shall be firm for the life of the award.”

NAPA also stated that “Even though the Agreement does not require NAPA to seek preapproval from FMD, NAPA has consistently sought and obtained preapproval for the vast majority of overtime worked by NAPA employees.” Exhibit B-1, Scope of Services, paragraph 11.0, Emergency and Overtime Services says, “Any scheduled overtime hours required by the Contractor will be approved in writing by the City Administrator or authorized COH/FMD person located at the facility for which overtime hours are required, prior to the charging of such overtime hours.” FMD required their mechanics to work overtime which meant that the stores operated by NAPA were required to remain open. If NAPA’s comment is accurate and they only had the majority versus all of their overtime approved, they were not in compliance with the contract terms.

NAPA was in the best position to know if their employees were approaching the labor rate limits outlined in the contract because they had their employees’ actual payroll records. They provided monthly payroll recaps that did not contain year-to-date totals to FMD as support for invoices. The use of the payroll recaps as supporting documentation creates inefficiencies in the reconciliation process for FMD because they would have to recreate the year-to-date information from the monthly payroll recaps. NAPA should have alerted FMD that their employees’ overtime hours were going to exceed the labor rates in the contract and requested a Change Order raising the limits so that they could remain compliant with the contract.



Office of the City Controller
Audit Division

The table presented above cannot be verified with the supporting documentation supplied by NAPA. The documentation provided by NAPA to FMD to support the monthly invoices were monthly earning totals for NAPA employees. The invoices and table are based on when the employees were paid. When we requested additional documentation for payroll cost, NAPA provided journal entries that did not agree to the monthly recaps and some of the figures were hand written calculations that could not be verified.

The audit test was designed to verify that NAPA was in compliance with the contract. The audit results noted that there were some salaries paid to NAPA employees that were at or below the labor rate limits and therefore in compliance with the contract.



Office of the City Controller
Audit Division

FINDING #3 – GENUINE PARTS COMPANY (NAPA) BILLING FOR JONES DELIVERY EXCEEDED THE ANNUAL CONTRACTUAL LABOR RATE LIMIT (RISK RATING = HIGH)

BACKGROUND:

The contract allows NAPA to receive reimbursement for basic operating costs of Delivery Vehicle Driver labor not to exceed established unit prices as outlined in Exhibit “H” Fees and Costs. Delivery drivers take parts to and from City maintenance facilities and pick up emergency or immediately needed parts from local suppliers. NAPA utilized three (3) of their own employees as drivers in 2014 and subcontracted to Jones Delivery Service, Inc. (Jones Delivery) for additional delivery truck drivers and services from the contract inception in 2011. During 2014, NAPA invoiced the City for 50 Jones’ delivery drivers, 26 of whom were full-time equivalent (i.e., working an average of 40 hours or more a week).

Exhibit “B-1”, paragraph 7.3 Contractor Invoice Process, paragraph 7.3.5 allows for the reimbursement of “basic operating costs” for drivers’ wages that are supported by sufficient documentation of actual expenses. Additionally, Section III, Duties of the City, Subsection 1.1 restricts payment for drivers’ wages to the annual labor rate limits in Exhibit “H”. Further, Exhibit “B-1”, paragraph 8.2, Labor Rate Escalation Clause, mandates that the labor rate remain firm for the life of the award except for increases allowed in Exhibit “H”. The annual labor rate limit in the fourth year (2014) of the contract for delivery drivers was \$20,455.85 per driver. The City paid \$890,553 to NAPA for Jones Delivery drivers during calendar year 2014.

FINDING:

Our audit found that invoicing for Jones Delivery Vehicle Drivers exceeded the established labor rate for 73% (19 of 26) of delivery vehicle drivers resulting in overpayment of \$380,990 by the City during calendar year 2014. The contract requires that supporting documentation is provided with all applicable invoices. The documentation provided by NAPA to support payment for Jones Delivery drivers is not in compliance with section III, 1.1 and Exhibit “B-1”, 8.2 of the contract.

We reviewed all of the supporting documentation NAPA provided for Jones Delivery drivers for calendar year 2014. This documentation consisted of weekly timesheets listing drivers, hours worked, a calculated hourly rate and the total charge for each driver. The hourly rate NAPA invoiced the City was \$20.40 per hour per driver from January 1, 2014, through July 24, 2014, with a reduced rate of \$19 an hour for the remainder of the year.

RECOMMENDATION:

FMD management should require repayment of all monies reimbursed to NAPA that exceeded the contractual annual labor rates for delivery drivers.



Office of the City Controller
Audit Division

NAPA MANAGEMENT

RESPONSE:

During meetings with the City of Houston immediately after the awarding of the Contract to NAPA, City of Houston representatives Kim Burley, FMD Chief of Staff/Project Director, Jennifer Johnson and Lisa Young, FMD Project Coordinator, met with NAPA representatives to review where each expense item would be coded on the NAPA Profit & Loss Statement, from which the City of Houston would reimburse NAPA for both parts costs as well as the management expenses. During those meetings, NAPA was explicitly directed to code 100% of the Jones Delivery invoices to the Payroll/Delivery line on NAPA's P&L. We had no reason to believe that the direction from these City of Houston employees was incorrect, or outside the letter of the contract, given the titles they carried at the time of the meetings.

On the Jones Delivery cost itself, the two rates that were in effect during the audit period of 2014, \$20.40/ hour and then \$19.00/hr, include much more than just Payroll Expense, as those figures represent an 'all-inclusive' price of their service. The hourly rate invoiced for MWBE Jones Delivery Service is not a payroll rate; rather it is a permissible "contracted service rate" by an MWBE subcontractor that is all inclusive of salaries, related personnel (accounting, administrative, and benefit) expenses, vehicle provisioning, and operational expenses, for drivers and vehicles provided by Jones Delivery Service. This is a very important distinction. Under the Contract with the City of Houston, NAPA is explicitly authorized to charge the City of Houston for Delivery Expenses, Delivery Vehicle Expenses, including insurance, maintenance, and depreciation, and General Office and other expenses. See Ex. B-1, § 7.3.5

As is clearly illustrated by the reduction of the rate from \$20.40/hr to \$19.00/hr, the City and NAPA worked together in 2014 to significantly reduce this expense. However, both parties agreed on numerous occasions that eliminating Jones Delivery altogether and taking the delivery expense back 'in-house' with NAPA/GPC employees was not an option because Jones Delivery is a significant portion of NAPA's MBWE compliance.

Significantly, the audit finding improperly penalizes NAPA for complying with the City's MWBE policies and Pay or Play program, thereby discouraging participation in such programs by any City of Houston vendor. The use and projected costs associated with Jones Delivery Service was detailed in NAPA's MWBE compliance submittals and NAPA's response to this solicitation. The usage and associated expense has been repeatedly vetted in the City's ongoing MWBE compliance reviews of NAPA's IBS operation. Furthermore, as there is no stipulated process detailed in the contract for billing this specific class of service, so NAPA worked with representatives of the City of Houston in determining where this expense should show on NAPA monthly operational expense invoicing and what backup needed to be provided to meet their requirement to approve the billing.

This billing methodology has been in place since the inception of our agreement, indicating an acceptance in principal of said methodology, and now that this methodology has come under scrutiny, we are more than willing to re-code the Jones Delivery expense as the current City of Houston management team sees fit.

FMD MANAGEMENT

RESPONSE:

Fleet management concurs with the audit findings. Amendments to the contract



Office of the City Controller
Audit Division

require a change order pursuant to Section III, paragraph 6.0.

RESPONSIBLE PARTY: Terrance York, Division Manager

ESTIMATED DATE OF COMPLETION: July 29, 2016

**ASSESSMENT OF
RESPONSE:**

The response provided by NAPA does not address how NAPA is going to correct the issue of non-compliance with the contract, specifically Exhibit H, section III, paragraph 6.0, Exhibit "B-1", paragraph 8.2, section V, paragraph 8.1, and 8.2.

Section V, paragraph 8.1, limits the authority of City employees to modify the contract. However, there is no limitation in assisting with where to report what is required by the contract. Therefore FMD staff was correct in directing NAPA to report Jones Delivery drivers' time sheet expenses under payroll. The contract gave NAPA an 11% Minority Women Business Enterprise (MWBE) goal and allowed NAPA to decide what functions of the contract they would subcontract to meet the goal. Exhibit H of the contract places a labor rate limit for delivery drivers. The fact that NAPA subcontracted some of the delivery function does not waive NAPA's responsibility to remain compliant with this portion of their contract with the City.

The City and NAPA did not contract for reimbursement of expenses based on an 'all-inclusive rate', but rather actual costs. The contract requires that NAPA provide a monthly invoice and supporting documentation for actual cost for delivery services including delivery vehicle expenses. Although the contract is specific regarding the labor rates for delivery drivers, it also allows reimbursement for employee benefits and delivery vehicle expenses of NAPA, the primary contractor and Jones Delivery, subcontractor. NAPA submitted timesheets for Jones Delivery drivers as supporting documentation for delivery drivers' cost. The timesheets contained the drivers' names, time in/out, total hours worked, hourly rates and total earned by the drivers. It did not break down the rates as to what portion applied to actual hourly rates, amount for vehicle expenses (insurance, fuel, maintenance), or employee benefits, (health insurance, FICA).

The City's primary objective for outsourcing the parts inventory management was to reduce costs. A detailed monthly invoice and supporting documentation of delivery vehicle and driver expenses would facilitate contract compliance and monitoring of actual delivery cost.

The audit did not focus on NAPA's compliance with the MWBE policies or the Pay or Play program. This particular finding notes that NAPA is not in compliance with Exhibit H of the contract. If NAPA did not agree that these labor rates should have applied to the subcontractor, they should have requested that a Change Order be issued to amend the terms. The City agreed to pay actual expenses whether they were NAPA's or the MWBE's. However, the City did not agree to pay a calculated 'all-inclusive' rate. This is a non-compliance with the contract.

NAPA states that, "the use and projected costs associated with Jones Delivery Service was detailed in NAPA's MWBE compliance submittals." The compliance documents NAPA refers to reflect how much of the value of the contract was anticipated to be paid to Jones Delivery Service. They do not detail that the payment



Office of the City Controller
Audit Division

would be based on a calculated 'all-inclusive rate. This information is not requested by the City for MWBE compliance documents.

NAPA also stated that, "the usage and associated expense has been repeatedly vetted in the City's ongoing MWBE compliance reviews of NAPA's IBS operation." The City's Office of Business Opportunity (OBO) is responsible for monitoring MWBE compliance. OBO ensures the vendor is reaching their MWBE goal. OBO does not vet the expense, how it is invoiced to the City or whether the payment is in compliance with the contract terms.

Both NAPA and FMD have a responsibility to know and follow the contract terms. While the billing methodology may have been in place since the inception of the agreement, per the contract section V, paragraph 8.2, City employees do not have the authority to make changes to the contract. Section V, paragraph 8.1, indicates that even if a party fails to require the other to perform, this does not prevent the party from later enforcing the term and all other terms.



Office of the City Controller
Audit Division

FINDING #4 – GENUINE PARTS COMPANY (NAPA) INVOICED THE CITY FOR PROPERTY TAXES ON THEIR INVENTORY – (RISK RATING = HIGH)

BACKGROUND:

The City agreed in paragraph 7.3.5 of the contract to reimburse NAPA for all basic operating costs associated with the facility parts rooms (maintenance facilities). According to the contract, the contractor will provide a monthly invoice that includes those costs. NAPA submits a monthly Profit and Loss (P&L) spreadsheet/statement summarizing all operating costs for each location. This P&L is used as the invoice for Management Fees, which includes a line item for taxes. The contract states in Section III, Duties of the City, paragraph 2.0, that the City is exempt from paying Federal Excise and Transportation Tax and Texas Limited Sales and Use Tax. The contract is silent on the treatment of ad valorem taxes.

Taxation for the City is regulated in the Houston, Texas – *Code of Ordinances* in Chapter 44. Specifically, Chapter 44, Article I, Sec 44 – 19, addresses a taxpayer’s claim for refunds of ad valorem taxes (commonly referred to as property taxes), if the taxpayer feels that the tax payment was erroneous or excessive. The taxpayer would make the request for a refund through the tax assessor-collector and no refund can be made until the City’s Legal Department approves it in writing. If the amount of the refund exceeds \$500, City Council must determine that the tax payment was erroneous or excessive and approve the refund.

Internal Audit reviewed all charges to the Tax line item invoiced to the City for the 2014 calendar year.

FINDING:

In 2014, NAPA invoiced and received reimbursement from the City for \$182,166 in property taxes related to their inventory maintained at the City of Houston’s maintenance facilities.

The only supporting documentation provided with the monthly P&L’s were journal entries (JE) for the monthly accruals. NAPA did not provide copies of the property tax invoices that would have been used to create the JE.

The City’s reimbursement of property taxes to NAPA effectively resulted in a tax refund that was not approved by the Legal Department or City Council.

RECOMMENDATION:

FMD management should require that NAPA reimburse all property taxes charged to the City for the entire contract period.

NAPA MANAGEMENT

RESPONSE:

As the auditor indicates above, “Taxation for the City is regulated in the Houston, Texas –Code of Ordinances in Chapter 44. Specifically, Chapter 44, Article I, Sec 44 – 19, addresses a taxpayer’s claim for refunds of ad valorem taxes (commonly referred to as property taxes), *if the taxpayer feels that the tax payment was erroneous or excessive.*” (emphasis added) It is important to understand here that NAPA has never challenged the ad valorem tax assessments as erroneous or excessive. That is not the issue at all.



Office of the City Controller
Audit Division

In section 3)Duties of the City, paragraph 2)Taxes, of the current version of our Supply Contract, the following taxes are specifically identified as exempt from payment by the City to the contractor: Federal Excise and Transportation Taxes, Texas Limited Sales & Use Tax. No other tax is specifically identified in the contract. There is no documentation in the contract specifically exempting Personal Property Tax from being charged back to the City of Houston and a normal business operating expense.

As the NAPA contract is a “Cost Plus” contract, we identify all business related expenses, including Personal Property Tax, to be charged back to the City based on our contract terms. Expenses are charged at cost, and the parts at a pre-determined mark-up of cost. That mark-up of the parts sold to the City is the Net Income realized by NAPA and agreed to by the City of Houston, per the terms of our contract. If personal property tax is deemed exempt, then the mark-up of NAPA and non-NAPA parts will be increased to cover this additional expense.

So from a practical standpoint, the profit generated by the NAPA/City of Houston contract would remain the same regardless of the ruling on Personal Property Taxes. In addition, this has been the same billing procedure we have used for the last 10 years, without any expressed concern from the City of Houston official with whom we deal with on a daily basis. This has been accepted practice through several administrations, enough so that the Contract has been renewed and expanded while utilizing this method of accounting for personal property tax.

FMD MANAGEMENT

RESPONSE:

Fleet management concurs with the audit findings.

RESPONSIBLE ARTY: Terrance York, Division Manager

ESTIMATED DATE OF COMPLETION: July 29, 2016

ASSESSMENT OF

RESPONSES:

Section V, Miscellaneous, paragraph 6.1 states, “This Agreement is subject to...the City Charter and Ordinances...” It was the responsibility of both NAPA and FMD to remain in compliance with the terms of the contract, but as paragraph 8.1 notes, “If either party fails to require the other to perform a term of this Agreement, that failure does not prevent the party from later enforcing that term and all other terms.” The agreement says that the City will reimburse NAPA for all operating costs, if the contract was not specific regarding an expense, NAPA should have inquired with FMD, so that clarification could be obtained from the City’s Legal Department.

The contract requires that NAPA maintain parts inventory in City facilities to ensure that mechanics can quickly and efficiently obtain parts when needed to service the City’s fleet. The inventory remains the property of NAPA until a mechanic request a part(s). It was noted during the audit⁶ that NAPA groups the City’s maintenance

⁶ The transfer of inventory between NAPA’ private industry customer and a City facility was noted during the planning phase of the audit. In discussion with NAPA’s staff they stated that a part was transferred from a City facility to another

Office of the City Controller
Audit Division



facilities with at least four of their private industry customers and inventory is transferred from City facilities to these customers. There is no guarantee that NAPA's entire inventory will be purchased by the City and therefore all cost related to that inventory is not the responsibility of the City.

customer of NAPA's. Transfers of NAPA's inventory between their customers are not addressed in the contract as the inventory is NAPA's property until sold; therefore no finding resulted from the transfer.



Office of the City Controller
Audit Division

FINDING #5 – GENUINE PARTS COMPANY (NAPA) INVOICED THE CITY TWICE FOR DELIVERY DRIVERS DUE TO INADEQUATE SUPPORTING DOCUMENTATION – (RISK RATING = HIGH)

BACKGROUND:

Exhibit B-1, Scope of Work, paragraph 7.3.5 of the contract allows for reimbursement of basic operating costs associated with operating each City facility parts room location. Per section III, Duties of City, paragraph 4.0, NAPA is required to submit documentation that supports the costs invoiced. If the documentation does not support the invoice, the Department Director, “shall temporarily delete the disputed item and pay the remainder of the invoice”.

Supporting documentation is a key internal control utilized to verify the validity of business transactions invoiced to the City. Documentation helps to ensure the accuracy and completeness of transactions and facilitate in the review and research of discrepancies.

Each month NAPA invoices the City using a Profit and Loss (P&L) statement that includes all operating cost for each of the maintenance facility locations. The costs include monthly salaries for NAPA employees and subcontractors.

FINDING:

NAPA charged the City twice for one week of Jones Delivery Services (Jones Deliver Drivers), drivers’ salaries. Delivery drivers take parts to and from City maintenance facilities and pick up emergency or immediately needed parts from local suppliers. The duplicate billing resulted in an overcharge of \$12,678.

One cause of the duplicate billing is that the documentation provided to support costs for delivery drivers does not agree to the P&L line item. This is a non-compliance issue with the contract requirements.

As of November 16, 2015, NAPA stated that they would issue a credit memo to the City for the overcharge in the next monthly billing cycle.

Inadequate supporting documentation was found in at least three (3) line items; Salaries – Counter, Jones Delivery Drivers and Store (e.g., office supplies and tire removal).

Salaries – Counter & Jones Delivery Drivers line items:

- The P&L was created using the salaries paid to employees, while the support was monthly payroll recap (Recap) reports based on what employees earned for the month, but not necessarily paid during that month due to timing differences.
- Salaries for NAPA employees were occasionally moved between facility P&L’s using journal entries (JE). The JE does not always agree to the Recap reports. The effect of using the Recap for JE support when the P&L and Recap are based on different pay periods could potentially result in double billings to the City.
- Duplicate payments may be easily overlooked because of the consistency of monthly variances and lack of supporting documentation.

Stores line items:

- NAPA does not always provide an invoice for purchases charged to the City. Items owned by NAPA and taken from the maintenance facilities’ shelves are

Office of the City Controller
Audit Division



listed on handwritten sheets of paper versus receipts reflecting actual cost per item. Additionally, items purchased with Pcards are paid based on reconciliation listings versus actual invoices to verify what was purchased and invoiced to the City.

RECOMMENDATION:

FMD management should require the repayment of the \$12,678 from NAPA. FMD should also require that NAPA provide supporting documentation that agrees to the P&L before payment is made to the vendor.

**NAPA MANAGEMENT
RESPONSE:**

During the audit, it was discovered that the Delivery Driver cost backup was not matching the P&L amount charged to the City for this expense category. Our research has concluded the root cause of the discrepancy is that our P&L statements are 30 days in arrears, i.e. delivery invoices paid in October are reflected on our NOVEMBER P&L, not our October one. Previously, we had been including the October delivery invoices with the October P&L in error. This oversight has now been rectified, and attached is a sample of the accurate backup we will be providing the City as we move forward.

During the audit, it was discovered that NAPA had inadvertently billed a Jones Delivery invoice twice, and this error has now been corrected. We are in the process of issuing a credit to the City in the amount of \$12,677.75. By remaining diligent to the new procedure, the opportunity to duplicate this error is eliminated.

**FMD MANAGEMENT
RESPONSE:**

Fleet management concurs with the audit findings and NAPA's response. FMD will expect the credit for \$12,677.75 to be reflected in the November 2015 P&L statement.

RESPONSIBLE PARTY: Lisa Young, Office Service Manager

ESTIMATED DATE OF COMPLETION: January 18, 2016

**ASSESSMENT OF
RESPONSE:**

While Internal Audit appreciates NAPA's attempt to make the supporting documentation agree to the P&L, what they have presented does not correct the issue. A portion of the sample referred to by NAPA can be found in Appendix I.

Based on the sample provided by NAPA, they intend to continue providing payroll Recaps that are based on monthly earnings, but invoice the City via the P&L line item based on general ledger (G/L) account balances that do not agree to the Recaps. Based on the documentation, the account balances appear to be updated each pay period from NAPA's PeopleSoft application. However the monthly Recap reports from PeopleSoft reflect one amount for the entire month. Without providing Recaps or other PeopleSoft reports that are based on the pay periods shown in the G/L, FMD staff will not be able to reconcile the variances and duplicates such as the double invoicing noted in this finding could occur without detection by FMD.

Office of the City Controller
Audit Division



The documentation provided as a sample from NAPA raises an additional concern. It contains payroll information from October 2015 in which the employee's salary appears to be split between Counter (Store Keeper) and Driver. The contract allows reimbursement for Store Keepers at a higher labor rate than drivers. If an employee is classified at a higher position, but performs the duties of a lower one, the intent of the contract terms may be circumvented.



Office of the City Controller
Audit Division

FINDING #6 – GENUINE AUTO PARTS (NAPA) INVOICED THE CITY FOR INVENTORY THAT THE CITY ALREADY OWNED. (RISK RANKING = HIGH)

BACKGROUND:

NAPA was required to purchase the inventory on-hand at the various City facilities at the beginning of the contract. NAPA decided after counting and reviewing the existing City parts inventory, that they would not purchase \$827,859 worth of parts as they were deemed obsolete or would not cross reference to NAPA's parts catalog. However, various City facility managers requested that these parts remain a part of inventory because they could be used on vehicles still owned by the City.

Based on the contract, NAPA did not purchase these parts but agreed to keep them in inventory and issue them at zero cost when City mechanics made a request. To segregate these parts in inventory NAPA assigned them a code of "COH" in the Line Abbreviation field in TAMS (NAPA's system) and placed a pink sticker on the part that stated it was City inventory. In the contract they are noted as Category 2 parts.

The agreement to issue these parts at zero cost are found in three (3) places in the contract, Exhibit "B-1" Scope of Work, 5.2.9.2, "These parts while in inventory until replenished will be issued at zero cost," section 6.3.3.2, "Parts from category 2 which have not been resupplied by the Contractor are to be issued at no cost" and section 7.1.2, "the contractor shall issue Category 2 parts at no cost."

FINDING:

NAPA invoiced the City for 70% (534 of 758) of all Category 2 parts inventory resulting in over charges totaling \$24,426.

RECOMMENDATION:

FMD management should require that NAPA reimburse the City for the \$24,426 in over charges for Category 2 parts inventory.

NAPA MANAGEMENT RESPONSE:

During our research, we discovered that some of the Category 2 (Zero Cost) parts were indeed billed to the City in error. We have determined the cause of the error is when a NAPA associate inadvertently enters a non-NAPA part number as line code COH, which is reserved for the Category 2 items. This places a cost on the recently acquired part, as well as the COH part that belongs to the City.

Going forward, NAPA will run a weekly report to identify any such errors, and the NAPA team has been instructed to correct any errors identified immediately, and credit back a part that was billed in error, if indeed this has happened.

NAPA agrees with the City of Houston audit findings, and the credit for \$24,426 has already been issued to correct the error (see attached, in the form of two journal entries).

FLEET MANAGEMENT RESPONSE:

Fleet management concurs with the audit findings and NAPA's response. FMD will expect the credit for \$24,426 to be reflected in the November 2015 P&L statement.

RESPONSIBLE PARTY: Lisa Young, Office Service Manager

ESTIMATED DATE OF COMPLETION: January 18, 2016

**ASSESSMENT OF
RESPONSE:**

Internal Audit agrees with NAPA's intention to credit/repay the City for zero cost inventory invoiced in error. However, the amount agreed to in the finding of \$24,426 does not agree to the journal entries and supporting documentation provided by NAPA. See Appendix II.

NAPA did not respond when we notified them that the total reflected in the documentation does not agree to the amount reported in the finding. Without a clear explanation of the differences, the City expects to receive the amount agreed upon in the finding of \$24,426.



FINDING #7 – FLEET MANAGEMENT DEPARTMENT (FMD) HAS NOT PROVIDED EFFECTIVE CONTRACT MANAGEMENT OVERSIGHT OF THE GENUINE PARTS COMPANY (NAPA) CONTRACT – (RISK RATING = HIGH)

BACKGROUND:

Exhibit “B-1”, Scope of Work, section 6.1, states that the *City Contract Administrator*, FMD is responsible for assigning a primary contract person to administer the contract with NAPA. “This person is responsible for the contract and in particular the resolution of any invoice exceptions that arise from the detailed Contractor invoices. This City employee is also responsible for approving summary invoices submitted by NAPA.” As a best practice, the Contract Administrator should have a thorough understanding of the contract.

The contract also states in Section III. Duties of City, 4.0 Method of Payment – Disputed Payments, “If the city disputes any items in an invoice Contractor submits for any reason, including lack of supporting documentation, the Director shall temporarily delete the disputed item and pay the remainder of the invoice.”

FINDING:

FMD has not adequately performed oversight in the administration of the contract between NAPA and the City. All of the discrepancies documented in this report are directly related to the management oversight function.

- FMD did not withhold payment until adequate documentation was provided when supporting documentation did not agree to the invoice and/or Profit & Loss (P&L) statement. FMD should require that NAPA provide documentation of actual costs for all invoices and those invoices are in compliance with contract terms;
- FMD did not monitor or require NAPA to provide monitoring of NAPA employee’s wages to ensure the Labor Rate limits were enforced;
- FMD did not monitor and verify that the City’s Zero Cost Inventory maintained by NAPA was not charged to the City when distributed to mechanics; and
- FMD did not retain supporting documentation for P&L statements provided by NAPA for 2013. This is not in compliance with the City and State of Texas record’s retention requirements or the contract, which requires that records are kept and are available for at least two (2) years after the end of the agreement.

RECOMMENDATION:

FMD management should ensure that their staff is reviewing the monthly documentation supplied by NAPA with the P&L. FMD management should refuse payment or ensure their staff is empowered to refuse payment on line items that are not adequately supported.

Each month FMD should receive year-to-date cost information for all labor invoiced to the city so that the labor rate limits are reviewed to ensure compliance with the contract and management can make informed operational and contractual decisions if the limits are being reached before year-end.

The monthly transaction files submitted by NAPA to FMD each month should be reviewed to ensure the remaining Zero Cost inventory are not charged to the City when distributed and that all required information is provided including surcharge (profit) amounts.



Office of the City Controller
Audit Division

FMD should locate and retain all supporting documentation related to NAPA's invoices to the City for calendar year 2013 and all other years related to this contract in accordance with State of Texas records retention requirements and the NAPA agreement.

**FMD MANAGEMENT
RESPONSE:**

1. FMD Management recently met with NAPA Management Representatives to outline our expectations as it pertains to NAPA's obligation to provide the appropriate supporting documents for their P&L Statements. In addition, FMD has informed NAPA Management that we will withhold payment of invoices that do not detail of actual cost. FMD has partnered with our FIN Business Partner (Drew Brown) in an effort to review all NAPA Invoices and Journal Entries prior to approving payment of services and/or invoices.
2. The previous FMD Management Team allowed NAPA to circumvent the agreed upon Contract Labor Rates of NAPA team members without requesting a "Change Order" from SPD.
3. FMD conducted the initial Inventory Audit of all COH "Zero Cost Inventory" parts; however, no follow-up audits were conducted ensuring "Zero Cost" parts were being billed properly to FMD Work Orders. FMD Administrative Manager and our FIN Business Partner will work with NAPA to conduct audits of "Zero Cost" Inventory ensuring charges are credited back to the COH at no cost.
4. The Administrative Manager of FMD was not aware that one of our FMD Executive Managers had granted permission to a Non-FMD employee to shred documents without our knowledge. In the future electronic documents will be stored on the FMD shared directory and hard copies of the documents will be placed in a storage box and labeled until its appropriate time for disposal.

RESPONSIBLE PARTY:

Terrance N. York, Lisa Young and Drew Brown will be responsible for monitoring the outcome of the NAPA Contract until April 16, 2016.

ESTIMATED DATE OF COMPLETION:

The estimated completion date for reconciling invoices and P&L statements will begin during the month of December when FMD receives NAPA's next P&L statement. This will be an ongoing process with no defined completion date. In addition, the concern with NAPA's Labor Wage Rates is still an ongoing matter that will be addressed by City Legal and NAPA's attorney.

**ASSESSMENT OF
RESPONSE:**

1. We agree with FMD's response. A thorough review of NAPA's monthly invoices and P&L statements will help FMD ensure that the City is being properly invoiced and detect possible non-compliance issues or double invoicing early.
 2. While the current contract is set to expire on April 16, 2016, FMD should still require year-to-date totals for all NAPA employees and Jones delivery drivers. The year-to-date totals
-

should easily agree to the monthly supporting documentation without major reconciliation on the part of FMD.

3. We agree with FMD's response that they will conduct audits of "Zero Cost" inventory. This should address the issue noted. Based on our discussion with FMD, the first audit will be completed by the middle of January 2016.
4. We agree with FMD's response, this should address the issue noted.

EXHIBIT A

SUPPORT FOR DELIVERY DRIVERS

SOURCE: NAPA

Report ID: [REDACTED]

PeopleSoft
MONTHLY PAYROLL RECAP

Page No. 1462
Run Date 11/03/2015
Run Time 18:46:34

For Pay Periods Ending (01-OCT-2015) to (31-OCT-2015)

Location: [REDACTED]

Employee Name Empid Company Earnings Code Hours Earnings

Store [REDACTED]

[REDACTED] [REDACTED] GPC OVT
[REDACTED] [REDACTED] [REDACTED] REG

[REDACTED] [REDACTED] [REDACTED] OVT
[REDACTED] [REDACTED] [REDACTED] REG

[REDACTED] [REDACTED] [REDACTED] Total

Store [REDACTED] [REDACTED] GPC REG 1,076.18

← Driver

* [REDACTED] STORE RECAP REG 1,076.18

* [REDACTED] [REDACTED] [REDACTED] Total 1,076.18

+++++ [REDACTED] LOCATION RECAP OVT

+ [REDACTED] [REDACTED] [REDACTED] REG

+ [REDACTED] [REDACTED] [REDACTED] Total

User: [REDACTED] FINPRD

Home Worklist Add to Favorites Sign out

Favorites Main Menu > General Ledger > Review Financial Information > Ledger

New

Ledger Inquiry

[REDACTED] *Accrual - Driver*

Transaction Details

Ledger Criteria

Inquiry Criteria

Go To

Transaction Criteria

Transaction Details

View All First 1 of 1 Last

Ledger by Period and Charfields

1 of 1

Period	Account	Account Description	Stat
	[REDACTED]	Accr Salary & Wages	

Posted Total Amount: 1,264.17 USD

Journals

First 1-3 of 3 Last

Journal ID▲	Line Descr▲	Date	Seq	Stat Amt N/R	Amount (in Transaction Currency)	Amount (in Base Currency)▲
HPY0532512	HR Payroll Journal Template	10/03/2015		0.00 N	10.50 USD	10.50 USD
HPY0532512	HR Payroll Journal Template	10/03/2015		0.00 N	86.93 USD	86.93 USD
HPY0532512	HR Payroll Journal Template	10/03/2015		0.00 N	1,166.74 USD	1,166.74 USD

1264.17
- 923.08 - counter

341.09
accrual
for
Driver

Save Return to Search Notify Add Update/Display

EXHIBIT B

ZERO COST

SOURCE: NAPA

Exhibit B

Location	Invoice	Total Invoice	Zero Cost Charged
130	8107	65.06	0.02
130	12492	2701.4	0.02
130	6117	15.98	15.98
130	5998	4.42	0.02
			16.04
131	12587	95.23	95.23
			95.23
132	6795	4336.8	274.01
132	5528	477.28	477.28
132	8316	1625.96	477.28
132	4004	1444.72	1444.72
132	4243	2889.44	2889.44
132	6196	143.14	143.14
132	3208	58.67	22.39
			5728.26
133	6480	998.68	689.46
133	6188	62.62	62.62
			752.08
134	1392	2646.52	2629.14
	1464	136.77	55.16
	2017	87.85	27.58
	1481	32.43	32.43
	2247	128.63	64.86
	6247	63.38	14.95
	1793	23.04	23.04
	2424	4352.33	0.02
	2424	4352.33	160.93
	1152	177.21	19.41
	8503	118.03	38.82
	5598	743.65	743.65
	1152	177.21	27.16
	1204	72.86	72.86
	1464	136.77	72.86
	2744	65.02	30.7
	2744	65.02	30.7
	3544	32.51	30.7
	1944	54.84	51.34
	2406	54.84	51.34
	2530	41.98	41.98
			4219.63
135	13317	155	155
135	2096	251.01	251.01
			406.01
	Grand Total		11217.25

Exhibit B

DATE	Time	M5 PART#	DESCRIPTION	PART#	WO#	UNIT.	LOC	LOC NAME	INVOICE	Total Invoice	Zero Cost Charged (C)	Qty	Item Cost (C/Qty)
11/10/2011	9:12:10	COH61251217	LATCH	61251217	2281717	35698	NAP130	Dart	8107	\$ 65.06	\$ 0.02	1	\$ 0.02
3/21/2012	15:32:35	COH91254771	VENT, AC LAD TK(07 E-	91254771	2247404	29505	NAP130	Dart	12492	\$ 2,701.40	\$ 0.02	1	\$ 0.02
9/22/2011	13:49:33	COH1046139100	TWIST LOCK LIGHT	1046139100	2229845	29423	NAP130	Dart	6117	\$ 15.98	\$ 15.98	1	\$ 15.98
9/20/2011	15:08:43	COH36DS272	SWITCH, DOOR	36DS272	2215071	27967	NAP130	Dart	5998	\$ 4.42	\$ 0.02		\$ 0.02
8/8/2012	20:34:37	COHCSW3007	SWITCH, 3-CAMERA BOX	CSW3007	2367325	36548	NAP131	Neches	12587	\$ 95.23	\$ 95.23		\$ 95.23
7/17/2012	15:02:05	COH1410989	TRAP DOOR	1410989	2358590	36638	NAP132	S. Post	6795	\$ 4,336.80	\$ 274.01	1	\$ 274.01
5/3/2012	21:38:05	COH9570643710	CYL ARM REACH	9570643710	2336252	36610	NAP132	S. Post	5528	\$ 477.28	\$ 477.28	1	\$ 477.28
10/15/2012	14:16:01	COH9570643710	CYL ARM REACH	9570643710	2388728	37236	NAP132	S. Post	8316	\$ 1,625.96	\$ 477.28	1	\$ 477.28
1/23/2012	19:46:55	COH0670304RB	TAILGATE CYL.	0670304RB	2302015	38467	NAP132	S. Post	4004	\$ 1,444.72	\$ 1,444.72	1	\$ 1,444.72
2/10/2012	20:48:25	COH0670304RB	TAILGATE CYL.	0670304RB	2298621	32627	NAP132	S. Post	4243	\$ 2,889.44	\$ 2,889.44	2	\$ 1,444.72
6/15/2012	7:34:13	COH3030T	CHAMBER, AIR BRAKE 30	3030T	2348370	33560	NAP132	S. Post	6196	\$ 143.14	\$ 143.14	2	\$ 71.57
11/30/2011	19:02:41	COHVMLT1808D	USE FIL 7191	VMLT1808D	2287971	35431	NAP132	S. Post	3208	\$ 58.67	\$ 22.39	1	\$ 22.39
6/25/2012	22:15:48	COH29538360	SHIFT SELECTOR	29538360	2352538	33241	NAP133	Judway	6480	\$ 998.68	\$ 689.46	1	\$ 689.46
6/8/2012	7:17:54	COH30004869	SPOOL SEAL	30004869	2346219	33303	NAP133	Judway	6188	\$ 62.62	\$ 32.02	2	\$ 16.01
6/8/2012	7:17:54	COH30004870	WIPER SEAL	30004870	2346219	33303	NAP133	Judway	6188	\$ 62.62	\$ 30.60	2	\$ 15.30
8/22/2011	10:09:44	COH108103	MAIN BOOM WELDMENT (P	108103	2254582	38459	NAP134	Central	1392	\$ 2,646.52	\$ 2,629.14	1	\$ 2,629.14
8/25/2011	18:23:44	COH121166	BUSHING(LIFT CYLINDER	121166	2258048	2100020001	NAP134	Central	1464	\$ 136.77	\$ 55.16	2	\$ 27.58
10/6/2011	11:17:48	COH121166	BUSHING(LIFT CYLINDER	121166	2271478	2100020001	NAP134	Central	2017	\$ 87.85	\$ 27.58	1	\$ 27.58
8/26/2011	11:45:27	COH121167	BUSHINGCOH	121167	2258046	2100020001	NAP134	Central	1481	\$ 32.43	\$ 32.43	1	\$ 32.43
10/21/2011	20:05:12	COH121167	BUSHINGCOH	121167	2276347	2100020001	NAP134	Central	2247	\$ 128.63	\$ 64.86	2	\$ 32.43
7/12/2012	18:26:11	COH1273892	BUSHING, BRONZE	1273892	2354122	2100020001	NAP134	Central	6247	\$ 63.38	\$ 14.95	1	\$ 14.95
9/22/2011	16:15:59	COH26082023	GLASS, SIGHT(HYD TANK	26082023	2266946	36595	NAP134	Central	1793	\$ 23.04	\$ 23.04		\$ 11.52
11/21/2011	14:21:51	COH29503225	BEARING ASSEMBLY	29503225	2281317	2100020001	NAP134	Central	2424	\$ 4,352.33	\$ 0.02		\$ 0.02
11/21/2011	14:28:02	COH29536350	TRANS, PLATE REACTION	29536350	2281317	2100020001	NAP134	Central	2424	\$ 4,352.33	\$ 160.93		\$ 22.99
8/3/2011	10:27:19	COH107800K	AD9 CHECK VALVE	107800K	2250447	2100020001	NAP134	Central	1152	\$ 177.21	\$ 19.41		\$ 19.41
12/7/2012	9:09:29	COH107800K	AD9 CHECK VALVE	107800K	2406975	FMD	NAP134	Central	8503	\$ 118.03	\$ 38.82		\$ 19.41
5/31/2012	18:40:10	COHAWT07MLED	DO NOT USE	AWT07MLED	2343655	38125	NAP134	Central	5598	\$ 743.65	\$ 743.65		\$ 743.65
8/3/2011	10:27:19	COHBW5003547	KIT, PURGE VALVE 06 M	BW5003547	2250447	2100020001	NAP134	Central	1152	\$ 177.21	\$ 27.16		\$ 27.16
8/8/2011	16:45:33	COHHPKTH10329A	SEAL KIT	HPKTH10329A	2251880	2100020001	NAP134	Central	1204	\$ 72.86	\$ 72.86	1	\$ 72.86
8/25/2011	18:23:44	COHHPKTH10329A	SEAL KIT	HPKTH10329A	2258046	2100020001	NAP134	Central	1464	\$ 136.77	\$ 72.86	1	\$ 72.86
11/29/2011	7:42:30	COHHPKTH12570	PROCESSOR	HPKTH12570	2288083	2100020001	NAP134	Central	2744	\$ 65.02	\$ 30.70	1	\$ 30.70
11/29/2011	7:42:30	COHHPKTH12570	SEAL KIT (TIP EXT.)	HPKTH12570	2288083	2100020001	NAP134	Central	2744	\$ 65.02	\$ 30.70	1	\$ 30.70
1/26/2012	11:38:47	COHHPKTH12570	SEAL KIT (TIP EXT.)	HPKTH12570	2305205	2100020001	NAP134	Central	3544	\$ 32.51	\$ 30.70	1	\$ 30.70
9/30/2011	12:40:59	COHHPKTH16195	SEAL KIT LEG CYL	HPKTH16195	2288825	2100020001	NAP134	Central	1944	\$ 54.84	\$ 51.34	1	\$ 51.34
11/4/2011	8:42:54	COHHPKTH16195	SEAL KIT LEG CYL	HPKTH16195	2280899	2100020001	NAP134	Central	2406	\$ 54.84	\$ 51.34	1	\$ 51.34
11/14/2011	15:50:04	COHTH10140	SEAL KIT (BUCKET CYL	TH10140	2283409	2100020001	NAP134	Central	2530	\$ 41.98	\$ 41.98	1	\$ 41.98
6/29/2012	14:14:20	COH36UB412R	SUPPLY, POWER REBUILD	36UB412R	2352845	38764	NAP135	Riesner	13317	\$ 155.00	\$ 155.00	1	\$ 155.00
8/15/2011	9:12:45	COH4W7Z13C788BB	PROCESSOR	4W7Z13C788BB	2254123	33116	NAP135	Riesner	2096	\$ 251.01	\$ 251.01	1	\$ 251.01

\$ 11,217.25

Count of items not charged

From 140 to Other Income
per store CR

Zero Cost Invoices	
STORE	Total
130	\$740.58
131	\$1,966.33
132	\$1,533.90
133	\$2,207.92
134	\$5,765.93
135	\$416.86
136	\$66.57
137	\$219.60
Grand Total	\$12,917.69

INVOICE	STORE	LINE	PART NUMBER	INVOICE DATE	QTY	NET PRICE	EXTENDED	
							PRICE	
505	130	COH	617001015	4/8/2011	1	92.02	92.02	No PO Found
542	130	COH	52R394000002	4/11/2011	1	107	107.00	No PO Found
549	130	COH	3660R02FRR	4/11/2011	3	12.99	38.97	No PO Found
1806	130	COH	52R394000002	5/18/2011	1	107	107.00	No PO Found
14958	130	COH	25KN31010	6/12/2012	2	20.23	40.46	No PO Found
15556	130	COH	36UB412R	6/29/2012	1	155	155.00	No PO Found
16817	130	COH	36UB412R	8/3/2012	1	155	155.00	No PO Found
17553	130	COH	05BX103010N	8/28/2012	1	45.13	45.13	No PO Found
1194	131	COH	AC0244	6/15/2011	1	140.94	140.94	No PO Found
1706	131	COH	CSW3007	7/1/2011	1	95.23	95.23	No PO Found
1811	131	COH	RD571230P	7/6/2011	1	5.3	5.30	No PO Found
3903	131	COH	AWT07MLED	9/27/2011	1	695	695.00	No PO Found
10405	131	COH	AWT07MLED	5/31/2012	1	695	695.00	No PO Found
10670	131	COH	30004869	6/8/2012	2	14.29	28.58	No PO Found
10670	131	COH	30004870	6/8/2012	2	14.96	29.92	No PO Found
11830	131	COH	1410989	7/16/2012	1	256.08	256.08	No PO Found
15128	131	COH	2961	10/16/2012	1	20.28	20.28	No PO Found
508	132	COH	3030T	6/9/2011	1	71.57	71.57	No PO Found
514	132	COH	3030T	6/10/2011	1	71.57	71.57	No PO Found
729	132	COH	9570643710	6/27/2011	1	477.28	477.28	No PO Found
740	132	COH	9570643710	6/27/2011	1	477.28	477.28	No PO Found
810	132	COH	102171FAB	6/30/2011	2	155.15	310.30	No PO Found
883	132	COH	VMLT1808D	7/6/2011	1	22.39	22.39	No PO Found
3298	132	COH	VMLT1808D	12/1/2011	1	22.39	22.39	No PO Found
8229	132	COH	12X26	10/9/2012	1	81.12	81.12	No PO Found
431	133	COH	RH16624	6/10/2011	1	14.02	14.02	No PO Found
431	133	COH	1220823044	6/10/2011	2	15.85	31.70	No PO Found
592	133	COH	CSW3007	6/25/2011	1	89	89.00	No PO Found
713	133	COH	CSW3007	6/30/2011	1	89	89.00	No PO Found
801	133	COH	CSW3007	7/8/2011	1	95.23	95.23	No PO Found
855	133	COH	CSW3007	7/11/2011	1	95.23	95.23	No PO Found
886	133	COH	41194111D40	7/13/2011	1	32.67	32.67	No PO Found
959	133	COH	127978001	7/18/2011	1	1584.97	1,584.97	No PO Found
1938	133	COH	2311007125	9/24/2011	4	1.31	5.24	No PO Found
1938	133	COH	1120807000	9/24/2011	1	170.86	170.86	No PO Found
93	134	COH	HPKTH16195	5/18/2011	1	51.34	51.34	No PO Found
94	134	COH	3674285C1	5/18/2011	1	177.04	177.04	No PO Found
107	134	COH	107800K	5/19/2011	1	19.41	19.41	No PO Found

Exhibit B

107	134 COH 107794X	5/19/2011	1	19.7	19.70	No PO Found
107	134 COH BW5003547	5/19/2011	1	27.16	27.16	No PO Found
113	134 COH FF993	5/19/2011	1	3.79	3.79	No PO Found
113	134 COH FF1112	5/19/2011	1	10.67	10.67	No PO Found
113	134 COH LF250	5/19/2011	2	18.24	36.48	No PO Found
123	134 COH 142A	5/19/2011	1	1.55	1.55	No PO Found
684	134 COH 50902	6/29/2011	1	10.65	10.65	No PO Found
131	134 COH 121166	5/19/2011	2	27.58	55.16	No PO Found
1553	134 COH 121166	9/1/2011	2	27.58	55.16	No PO Found
1913	134 COH 121166	9/28/2011	2	27.58	55.16	No PO Found
1934	134 COH 121166	9/30/2011	2	27.58	55.16	No PO Found
2111	134 COH 121166	10/14/2011	1	27.58	27.58	No PO Found
131	134 COH 121167	5/19/2011	1	32.43	32.43	No PO Found
280	134 COH 121167	6/2/2011	1	32.43	32.43	No PO Found
286	134 COH 121167	6/2/2011	1	32.43	32.43	No PO Found
303	134 COH 121167	6/2/2011	1	32.43	32.43	No PO Found
1553	134 COH 121167	9/1/2011	1	32.43	32.43	No PO Found
1772	134 COH 121167	9/21/2011	1	32.43	32.43	No PO Found
1785	134 COH 121167	9/22/2011	1	32.43	32.43	No PO Found
1934	134 COH 121167	9/30/2011	1	32.43	32.43	No PO Found
2091	134 COH 121167	10/12/2011	1	32.43	32.43	No PO Found
2693	134 COH 121167	11/26/2011	1	32.43	32.43	No PO Found
2996	134 COH 121167	12/15/2011	1	32.43	32.43	No PO Found
5418	134 COH 121167	5/18/2012	1	32.43	32.43	No PO Found
809	134 COH 121168	7/7/2011	1	15.54	15.54	No PO Found
1772	134 COH 121168	9/21/2011	2	15.54	31.08	No PO Found
434	134 COH 1273892	6/13/2011	1	14.95	14.95	No PO Found
435	134 COH 1273892	6/13/2011	1	14.95	14.95	No PO Found
6144	134 COH 1273892	7/5/2012	1	14.95	14.95	No PO Found
6373	134 COH 1273892	7/20/2012	1	14.95	14.95	No PO Found
6478	134 COH 1273892	7/26/2012	1	14.95	14.95	No PO Found
6645	134 COH 1273892	8/7/2012	1	14.95	14.95	No PO Found
325	134 COH 1453076	6/3/2011	1	58.06	58.06	No PO Found
1012	134 COH 1453076	7/22/2011	1	58.06	58.06	No PO Found
485	134 COH 1662905	6/16/2011	1	50.22	50.22	No PO Found
382	134 COH 26082023	6/8/2011	2	11.52	23.04	No PO Found
557	134 COH 26082023	6/20/2011	1	11.52	11.52	No PO Found
559	134 COH 26082023	6/20/2011	1	11.52	11.52	No PO Found
1848	134 COH 26082023	9/24/2011	1	11.52	11.52	No PO Found
365	134 COH 29505803	6/7/2011	1	3.7	3.70	No PO Found
7466	134 COH 29536346	9/28/2012	8	18.33	146.64	No PO Found
365	134 COH 29536350	6/7/2011	9	22.99	206.91	No PO Found
129	134 COH 29544788	5/16/2011	1	110.01	110.01	No PO Found
365	134 COH 29544788	6/7/2011	1	110.01	110.01	No PO Found
2148	134 COH 1120807000	10/17/2011	1	182.83	182.83	No PO Found
2148	134 COH 2311007125	10/17/2011	4	1.41	5.64	No PO Found
240	134 COH 102171FAB	5/31/2011	2	145	290.00	No PO Found
241	134 COH 102171FAB	5/31/2011	2	145	290.00	No PO Found
183	134 COH 107794X	5/20/2011	1	19.7	19.70	No PO Found
281	134 COH 107794X	6/2/2011	1	19.7	19.70	No PO Found
339	134 COH 107794X	6/3/2011	1	19.7	19.70	No PO Found
183	134 COH 107800K	5/20/2011	1	19.41	19.41	No PO Found
281	134 COH 107800K	6/2/2011	1	19.41	19.41	No PO Found
339	134 COH 107800K	6/3/2011	1	19.41	19.41	No PO Found
1199	134 COH 107800K	8/8/2011	1	19.41	19.41	No PO Found

Exhibit B

1726	134 COH	107800K	9/16/2011	1	19.41	19.41	No PO Found
3235	134 COH	107800K	1/4/2012	1	19.41	19.41	No PO Found
3264	134 COH	107800K	1/6/2012	1	19.41	19.41	No PO Found
3325	134 COH	107800K	1/11/2012	1	19.41	19.41	No PO Found
3340	134 COH	107800K	1/12/2012	1	19.41	19.41	No PO Found
8504	134 COH	107800K	12/7/2012	2	19.41	38.82	No PO Found
326	134 COH	3030T	6/3/2011	1	71.57	71.57	No PO Found
328	134 COH	3030T	6/3/2011	1	71.57	71.57	No PO Found
408	134 COH	3030T	6/10/2011	1	71.57	71.57	No PO Found
505	134 COH	3030T	6/16/2011	1	71.57	71.57	No PO Found
261	134 COH	A2258825016	6/1/2011	1	69.36	69.36	No PO Found
261	134 COH	A2258825017	6/1/2011	1	79.81	79.81	No PO Found
2152	134 COH	AWT07MLED	10/17/2011	1	743.65	743.65	No PO Found
183	134 COH	BW5003547	1/1/1900	1	27.16	27.16	No PO Found
281	134 COH	BW5003547	6/2/2011	1	27.16	27.16	No PO Found
339	134 COH	BW5003547	9/3/2011	1	27.16	27.16	No PO Found
899	134 COH	BW5003547	7/14/2011	1	27.16	27.16	No PO Found
900	134 COH	BW5003547	7/14/2011	1	27.16	27.16	No PO Found
921	134 COH	BW5003547	7/15/2011	1	27.16	27.16	No PO Found
1199	134 COH	BW5003547	8/8/2011	1	27.16	27.16	No PO Found
1543	134 COH	BW5003547	8/31/2011	1	27.16	27.16	No PO Found
1642	134 COH	BW5003547	9/10/2011	1	27.16	27.16	No PO Found
1726	134 COH	BW5003547	9/16/2011	1	27.16	27.16	No PO Found
280	134 COH	HPKTH10329A	6/2/2011	1	72.86	72.86	No PO Found
286	134 COH	HPKTH10329A	6/2/2011	1	72.86	72.86	No PO Found
303	134 COH	HPKTH10329A	6/2/2011	1	72.86	72.86	No PO Found
809	134 COH	HPKTH10329A	7/7/2011	1	72.86	72.86	No PO Found
1553	134 COH	HPKTH10329A	9/1/2011	1	72.86	72.86	No PO Found
1772	134 COH	HPKTH10329A	9/21/2011	1	72.86	72.86	No PO Found
1785	134 COH	HPKTH10329A	9/22/2011	1	72.86	72.86	No PO Found
1880	134 COH	HPKTH10329A	9/27/2011	1	72.86	72.86	No PO Found
1934	134 COH	HPKTH10329A	9/30/2011	1	72.86	72.86	No PO Found
2111	134 COH	HPKTH10329A	10/14/2011	1	72.86	72.86	No PO Found
814	134 COH	HPKTH12570	7/7/2011	1	30.7	30.70	No PO Found
849	134 COH	HPKTH12570	7/11/2011	1	30.7	30.70	No PO Found
2831	134 COH	HPKTH12570	12/5/2011	1	30.71	30.71	No PO Found
690	134 COH	HPKTH16195	6/29/2011	1	51.34	51.34	No PO Found
2453	134 COH	HPKTH16195	11/8/2011	1	51.34	51.34	No PO Found
6587	134 COH	HPKTH16195	8/2/2012	1	51.34	51.34	No PO Found
501	134 COH	TH10140	6/16/2011	1	41.98	41.98	No PO Found
528	134 COH	TH10140	6/16/2011	1	41.98	41.98	No PO Found
815	134 COH	TH10140	7/7/2011	1	41.98	41.98	No PO Found
4875	134 COH	TH10140	4/16/2012	1	41.98	41.98	No PO Found
4912	134 COH	TH10140	4/18/2012	1	41.98	41.98	No PO Found
5470	134 COH	TH10140	5/22/2012	1	41.98	41.98	No PO Found
7779	134 COH	TH10140	10/18/2012	1	41.98	41.98	No PO Found
131	134 COH	TPKTH10329A	5/19/2011	1	72.86	72.86	No PO Found
1765	135 COH	4W7Z13C788BB	8/3/2011	1	251.01	251.01	No PO Found
16083	135 COH	36UB412R	8/28/2012	1	165.85	165.85	
16586	135 COH	36UB412R	9/11/2012	-1	165.85	(165.85)	Offsetting
16587	135 COH	36UB412R	9/11/2012	1	165.85	165.85	No PO Found
3760	136 COH	F5AZ3310A	2/16/2012	7	9.51	66.57	No PO Found
5525	137 COH	F6AZ5K484AA	3/8/2012	8	27.45	219.60	No PO Found

12,917.69

EXHIBIT C

MEMO FROM DEPARTMENT OFFICIALS

FLEET MANAGEMENT DEPARTMENT



CITY OF HOUSTON

Fleet Management Department

Interoffice

Correspondence

To: Courtney Smith
City Auditor

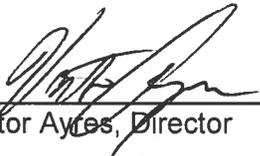
From: Victor Ayres
Director

Date: March 14, 2016

Subject: Audit of Genuine Parts Company
(NAPA) Contract

In review of the audit conducted by the Controller's Office, I concur with what appear to be inconsistencies and errors that you have identified in the methodology used by the contractor, NAPA, in determining the charges and expenses levied under the contract.

The level of effort and time expended by the Controller's Office in making these determinations is greatly appreciated and I look forward to resolution of the identified issues.



Victor Ayres, Director