

OFFICE OF THE CITY CONTROLLER



GENERAL SERVICES DEPARTMENT

**AMERICAN MECHANICAL SERVICES, LLP CONTRACT
PERFORMANCE/COMPLIANCE AUDIT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



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

CHRIS B. BROWN

December 27, 2017

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

SUBJECT: REPORT #2018-05 GENERAL SERVICES DEPARTMENT – AMERICAN MECHANICAL SERVICES, LLP CONTRACT PERFORMANCE/COMPLIANCE AUDIT

Mayor Turner:

The Office of the City Controller's Audit Division has completed a contract performance audit of plumbing services performed for City of Houston (City) facilities by American Mechanical Services (AMS). The City entered into a multi-year city-wide contract with American Mechanical Systems (AMS) in June 2014 to provide call-out plumbing services as needed. The purpose of the Contract is to provide support service for repairs, maintenance or replacement of plumbing parts/equipment.

The City's General Services Department (GSD) through their Property Management Division is responsible for the maintenance of the City's Fire, Police, Health, Library, and Administration facilities. Also included are several Public Works buildings, ARA and Municipal Courts facilities. Plumbing issues are handled through the AMS contract that lists 311 separate facilities for which GSD is responsible.

The primary audit objectives were to consider the internal controls and processes related to compliance with the key terms and conditions of the contract.

The engagement scope period included operations and transactions occurring during Fiscal Year (FY) 2015, FY 2016 and FY 2017.

During the audit, we noted that GSD management added a master plumber to the staff in January 2017 to serve as a superintendent with oversight for the AMS contract and general plumbing maintenance for GSD managed facilities. This is intended to ensure that the contract is managed more closely and to provide more efficient and effective plumbing maintenance.

We also documented several exceptions including:

- Lack of operational oversight regarding the contracted work;
- Inadequate documentation to support invoice payments;
- Plumber licensing is not verified; and
- Contract was silent on the appropriate mark-up for sub-contractors.

We also noted opportunities to improve processes through formal approval of departmental policies and procedures and a review of contract terms to ensure they are applicable.



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CHRIS B. BROWN

We would like to express our appreciation to the management and staff of the General Services Department for their time and effort, responsiveness, and cooperation during this audit.

Respectfully submitted,

Chris B. Brown
City Controller

xc: Clyde J. Messiah, Director, General Services Department
City Council Members
Marvalette Hunter, Chief of Staff, Mayor's Office
Harry Hayes, Chief Operations Officer, Mayor's Office
Ja'nice Sparks, Deputy Assistant Director, General Services 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 | 1-2 |
| AUDIT SCOPE AND OBJECTIVES..... | 2 |
| PROCEDURES PERFORMED | 2-3 |
| AUDIT METHODOLOGY | 3 |
| CONCLUSIONS AND SIGNIFICANT ISSUES..... | 3-4 |
| ACKNOWLEDGEMENT AND SIGNATURES | 4 |
| DETAILED FINDINGS AND RECOMMENDATIONS..... | 5-16 |
| 1. INADEQUATE DOCUMENTATION TO SUPPORT INVOICE PAYMENTS | 5-7 |
| 2. DUPLICATE PAYMENTS..... | 8-9 |
| 3. LACK OF OPERATIONAL OVERSIGHT OF THE CONTRACTED WORK..... | 10-11 |
| 4. NO VERIFICATION OF CONTRACTOR’S USE OF LICENSED PLUMBERS..... | 12-13 |
| 5. NO APPROVED POLICIES AND PROCEDURES | 14 |
| 6. CONTRACT TERMS IMPROVEMENTS | 15-16 |
| EXHIBIT | 17-18 |
| EXHIBIT 1 – ACKNOWLEDGEMENT STATEMENT | 18 |



Office of the City Controller
Audit Division

EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division (AD) of the City Controller’s Office has completed a limited Compliance/ Performance Audit of Contract #4600012662 (Contract) between the City of Houston (the City) and American Mechanical Services, LLC (AMS). The audit reviewed and validated compliance with key terms and conditions of the contract through the General Services Department (GSD). The audit was included in the City Controller’s fiscal year (FY) 2017 Audit Plan as a direct result of our Enterprise Risk Assessment process. The audit was also requested by GSD’s Management.

BACKGROUND

The City’s General Services Department (GSD) was originally established to construct and maintain the City’s building portfolio. The department’s function has evolved into a full service, client-centered operation providing a comprehensive suite of services to over 300 facilities which represents approximately 7.7 million square feet of occupied space. This activity is administered through the Property Management Division. The Property Management Division's mission is to pursue customer satisfaction by providing quality infrastructure maintenance, repair and renovation for client departments in an effort to keep properties safe, energy efficient, secure and operational. This Division is responsible for the maintenance of buildings occupied by Houston Fire, Police, Health, Library, Administration and Regulatory Affairs, Municipal Courts, Public Works and Engineering, and general government personnel.

The City entered into a multi-year contract with American Mechanical Systems (AMS) in June 2014 to provide call-out and other plumbing services as needed. The purpose of the Contract is to provide support service for repairs, maintenance or replacement of plumbing parts/equipment.

In the Contract, Exhibit “BB” Locations, lists 311 separate City facilities that GSD is responsible for providing plumbing services. However, the contract is considered a City-Wide contract and was established with the following target values for five Departments to include the following:

| Department | Target Value |
|--------------|--------------------|
| Police | \$102,196 |
| GSD | \$2,648,302 |
| HAS | \$124,237 |
| Council | \$2,537 |
| ARA | \$4,613 |
| Total | \$2,881,885 |

This audit focused on the jobs performed by AMS in facilities maintained by GSD.

During the period of July 1, 2014 through June 30, 2017 (Fiscal Years 2015, 2016, and 2017) GSD approved issuance of approximately \$2.5 million in payments to AMS for plumbing services. AMS performed those plumbing services and billed the City using two types of invoicing structures - actual

cost invoices and estimated cost invoices. We included twenty-six (26) actual cost invoices and twenty-four (24) estimated cost invoices in our sample of invoices to test.

The actual cost jobs were performed on a time and material basis. Each invoice would be accompanied by the AMS Service Orders (time sheets) that detailed the AMS personnel working on the job, the days they were on site, and the number of hours they were on the job. Additionally, each invoice would include a copy of invoices for job related material and supplies AMS purchased from external vendors.

The estimate jobs were performed on an estimated total job price basis. AMS presents a proposal for GSD's review and approval. The proposal would list the scope of the job to be done, the totals for regular and overtime labor, and the major materials they expect to use.

AUDIT SCOPE AND OBJECTIVES

Our original objective was broadly defined to encompass the review and test of internal controls in place for complying with the key terms of the contract to ensure City assets are safeguarded and managed appropriately. After conducting our initial research on ordinances, policies, operating procedures, and interviews with key personnel in GSD's Property Management Division and the Financial and Administrative Services Division (GSD Finance) to gain an understanding of their functions, we did not refine the audit objective further.

The engagement scope included AMS's operations and transactions performed on behalf of GSD and billed to the City during Fiscal Years 2015 through 2017.

PROCEDURES PERFORMED

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, we selected a sample of fifty (50) paid AMS invoices from the scope period to test. Three of the invoices in the sample were non-GSD funded, therefore audit results are based on the review of 47 GSD funded invoices for a total of \$654,356. We then performed the following steps for these GSD funded invoices:

- Evaluated the contract and determined the key terms for testing;
- Interviewed GSD Property Management personnel involved in managing work performed by AMS;
- Interviewed GSD Finance personnel to document their processes and controls in paying the invoices;
- Determined if a properly authorized unique P. O. (Service Order) existed for jobs greater than \$3,000;
- Determined if a properly authorized blanket P. O. existed for jobs less than \$3,000;
- Evaluated the AMS service orders for days and hours spent on the job;



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-
- Reconciled the hours billed on the actual cost invoices to the hours detailed on the AMS Service Orders (time sheets);
 - Recalculated the labor charge using the appropriate rates and reconciled to the invoiced amounts;
 - Traced the material and supply items invoiced to the supporting supplier invoices;
 - Recalculated the grossed-up amount of material and supply items invoiced using the appropriate contract mark-up;
 - Verified the invoice was signed-off by the Supervisor of the area in which the job occurred;
 - Determined if the invoices were properly recorded in the general ledger (SAP);
 - Analyzed the paid invoices in SAP for duplicate payments;
 - Determined if the invoiced jobs had a work order established in the Sprocket work order system;
 - Verified the Work Order description matched the invoiced job;
 - Verified the plumbers used by AMS were licensed by the State of Texas; and
 - Determined if a licensed plumber was on the job site when work was performed by AMS.

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 GSD. 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.

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 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.

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Audit Division



The Audit Division noted that GSD management has already corrected and/or implemented controls that address some of the audit recommendations as noted in their Management Responses.


CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Consider internal controls in place for complying with the key terms of the contract to ensure City assets are safeguarded and managed appropriately.

- Based on the results of the procedures performed, we noted several opportunities to enhance internal controls over managing the Contractor's adherence to the key terms of the contract. **(See Findings #1, #2, #3, #4, #5, and #6)**

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank the management and staff of GSD for their cooperation, time and efforts, as well as their proactive approach to risk management throughout the course of the engagement.


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City Auditor



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Audit Division

FINDING #1 – INADEQUATE DOCUMENTATION TO SUPPORT INVOICE PAYMENTS
(RISK RATING = HIGH)

BACKGROUND:

During Fiscal Years (FY) 2015 through 2017, the General Services Department (GSD) approved approximately 850 payments totaling \$2,455,586 to American Mechanical Services (AMS). We reviewed a sample of 50 invoices paid to AMS ranging from \$240 to \$97,735.12. GSD's procedures require that a separate Purchase Order (P.O.) be created for any job estimated to cost more than \$3,000. Their procedures also call for the Property Management Division's Supervisor over the job to review the invoice before the Financial and Administrative Services Division (GSD Finance) posts the invoice in SAP for payment. Additionally, the contract requires in *Exhibit "B", Scope of Work, 12.0, Payment/Invoicing, 12.1*, "Contractor will invoice monthly for work that has been completed. Copy of original invoice(s) for materials purchased or equipment rented shall accompany the billing invoice."

Our review included examining the documentation provided by AMS to back up the invoices, re-calculating the invoice line items, determining review and approval of invoices, evaluating associated Purchase Orders, and reviewing the Requests for Council Action (RCAs) connected with the jobs being invoiced.

FINDINGS:

In a review of 47 invoices (i.e., original sample of 50 included invoices for three other departments who utilize the City-wide agreement with AMS), many of them had inadequate supporting documentation and some had multiple issues of non-compliance with the contract terms. The following issues were found in our review of the sample invoices:

- Two invoices, dated April 14, 2015 for \$43,443.71 and July 14, 2015 for \$11,543.21 were processed and paid by GSD without documentation to support the time, parts, and supplies charged on the invoices; GSD provided documentation for the \$43,443.71 invoice during the audit.
- Twenty (20) of the twenty-one (21) GSD funded bid jobs (i.e., proposed job total) reviewed did not include proof of authorization for AMS to proceed with the job.
- Six invoices were for jobs greater than \$3,000, but were not assigned to a unique P.O. (Service Release Order). Two of the six were posted to a blanket P.O. for 2015 disputed invoices, three others were posted to a blanket P.O. for FY2015 accruals, and one was posted to a blanket P.O. for FY2017 call-outs.
- Nine invoices did not include complete documentation to support the material and supply charges, such as receipts for gas permits or employee purchases used for the jobs.



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Audit Division

- Four invoices included charges for reusable items including hand tools, such as a precision screwdriver, and personal items such as hip waders, etc.
- Six invoices included supplier/subcontractor invoices that included sales taxes.
- The labor hours charged could not be verified on four of the actual cost invoices.
- Six invoices for gas line work including annual gas inspections, re-piping gas lines, or replacing a gas water heater did not include any evidence that a permit was obtained for the work performed.
- Three invoices used a 15% mark-up on rental invoices, instead of 10%, as specified in the contract.
- The line items on two invoices could not be reconciled to the supporting documentation.
- Several of the actual cost invoices included AMS Service Orders that were not signed by a representative of the City to attest to the contractor being onsite.
- Most of the actual cost (on a time and materials basis) invoices reviewed included AMS Service Orders (time sheets) that did not total the AMS employees' time worked for regular hours and overtime hours.
- The MWBE firm, Competitive Choice, stopped, in the middle of February 2015, printing the detail of the parts and materials AMS purchased from them.

Furthermore, there was no indication on the invoices or the supporting documentation of review or verification (e.g., re-calculations, check marks, etc.) by GSD's Property Management prior to submitting for payment to the contractors.

RECOMMENDATION:

We recommend that the General Services Department's Financial and Administrative Services Division (GSD Finance) not process payments without complete documentation to back up the invoices, as required by the contract. Additionally, the invoice reviewer should verify the charges on the invoice, at least on a sample basis, and indicate their review. This review and verification process should be included in GSD Finance's policies and procedures.

We further recommend GSD Finance coordinate with the Property Management Division and conduct training for the Supervisors to familiarize them with the financial requirements of invoices and the terms outlined in the contract related to required documentation to process payments.

**DEPARTMENT MANAGEMENT
RESPONSE:**

The General Services Department (GSD) has reviewed the Controller's Office findings regarding the invoice payment process and agrees with the identified findings. The current process for approval of callout services require the appropriate Property



Office of the City Controller
Audit Division

Management staff to validate all supporting documentation prior to submission to GSD Finance (Payables group) to process payments. GSD Finance analyst, who currently validate all fixed contract rates to the invoices received her Lean Six Sigma Green Belt certification (“Contract Compliance, Authorization and Payable Validation Improvement Process”) in November 2017, which included procedures on callout services.

Additionally, GSD has created a Training and Development division that has as one of its primary function to collaborate with the Property Management Division to come up with best practices around the review and approval of service invoices.

RESPONSIBLE PARTY: GSD Property Management Division
Eric Alexander (Contract Compliance Officer)

ESTIMATED DATE OF COMPLETION: December 2017 through June 2018.

Note: GSD Finance and Property management held Training on December 7, 2017 and December 11, 2017, to-date.

ASSESSMENT OF RESPONSE:

Management response as presented sufficiently addresses issues identified and corrective actions are appropriate.



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Audit Division

**FINDING #2 – DUPLICATE PAYMENTS
(RISK RATING = HIGH)**

BACKGROUND:

General Services Department (GSD) informed Audit at the start of the audit that they suspected American Mechanical Services (AMS) had submitted some duplicate invoices. GSD had compiled Excel files for Fiscal Years 2016 and 2017 comprised of paid invoices, but had not had the opportunity to review them for duplicates.

FINDING:

Audit performed a high-level review of the AMS invoice information gathered by GSD, looking for duplicate invoices based on the following criteria:¹

- Jobs with the same AMS invoice number;
- Jobs with the same description at the same site performed within a month of each other;
- Jobs with the same dollar amount or nearly the same dollar amount (within \$300) for the same or similar work at the same site.

Audit identified the following potential duplicate invoices during the review. GSD confirmed with AMS items 1 through 3 below. Item 4 is pending verification with AMS.

| | Date | Invoice # | Date of Invoice | Posting Date | Invoice Amount | Location | Comments |
|---|------------|-----------|-----------------|--------------|----------------|--------------------------|-------------------------------|
| 1 | 02/03/2016 | S46417 | 04/14/2015 | 02/04/2016 | \$ 9,653.50 | 8835 Long Point | Repair gas leak |
| | 06/08/2016 | S46417 | 04/14/2015 | 06/13/2016 | \$ 9,653.50 | 8835 Long Point | Repair gas leak |
| 2 | 02/19/2016 | 905574 | 02/16/2016 | 03/23/2016 | \$ 998.15 | 500 McKinney | Pipe broke in elevator shaft |
| | 06/29/2016 | S48616 | 12/29/2015 | 03/30/2016 | \$ 998.15 | 500 McKinney | Pipe broken |
| 3 | 08/18/2016 | 935761 | 07/28/2016 | 08/31/2016 | \$ 1,165.06 | 4102 W Lake Houston Pkwy | Broken H2O line |
| | 08/29/2016 | 940073 | 08/18/2016 | 9/16/2016 | \$ 1,165.06 | 4102 W Lake Houston Pkwy | Broken H2O line |
| 4 | 11/13/2015 | S48280 | 10/31/2015 | 11/16/2015 | \$ 1,206.25 | 7277 Regency Blvd. | New H2O line to roof with bib |
| | 05/20/2016 | 91436 | 04/29/2016 | 06/06/2016 | \$ 1,206.25 | 7277 Regency Blvd | New H2O line to roof with bib |

¹ Invoices noted in example 1 above met all three criteria to include, same AMS invoice number, same description of job, at the same site location, and same dollar amount.



Office of the City Controller
Audit Division

RECOMMENDATION:

We recommend that GSD try to obtain any applicable refunds or credits for duplicate payments. We also recommend they develop and implement a process to help prevent and detect duplicate payments.

**DEPARTMENT MANAGEMENT
RESPONSE:**

GSD concurs with the Controller' office findings and is working with AMS on issuing the appropriate credits for any duplicate payments. We will also look at performing spot audits to ensure that the designated approver is performing their due-diligence in reviewing service invoices.

RESPONSIBLE PARTY: GSD Property Management Division
GSD Finance and Payables

ESTIMATED DATE OF COMPLETION: February 2018

ASSESSMENT OF RESPONSE:

Management response as presented sufficiently addresses issues identified and corrective actions are appropriate.

**FINDING #3 – LACK OF OPERATIONAL OVERSIGHT OF THE CONTRACTED WORK
(RISK RATING = HIGH)**

BACKGROUND:

American Mechanical Services (AMS) entered into a City-wide contract “to provide all supervision, labor, parts, tools, materials, transportation, equipment, supplies and licenses/certifications, permits and insurance necessary to perform plumbing repairs, minor construction and new installations at various city buildings.” The General Services Department (GSD) was one of the departments named in the agreement as a responsible party for work conducted by AMS for the City.

Paragraph 14 of Exhibit “B” of the contract states that “GSD utilizes a computer maintenance management system (CMMS) to monitor and track all work progress...” It further states “The City captures this important information through the use of work orders.” The current CMMS is known as Sprocket and it is used for all GSD funded maintenance and repair jobs, not just plumbing jobs with AMS.

GSD has a Call Center where applicable City employees report repair and maintenance issues. When the Call Center receives a call, they open a “Work Order” in Sprocket. GSD Property Management Division Supervisors can also open work orders in Sprocket.

FINDING:

We requested the work orders associated with the 47 GSD funded jobs in our sample of fifty (three were funded by other Departments.) There were only ten (10) work orders in Sprocket for the 47 jobs included in the review. Two of the jobs were covered by one work order.

RECOMMENDATION:

We recommend that GSD management emphasize to the Supervisors and others who can establish work orders the importance of having a work order for each job so that management has the information needed to make informed decisions.

Property Management informed us that they had trained the Division extensively on this matter, but Audit was not provided any documentation to support their efforts.

**DEPARTMENT MANAGEMENT
RESPONSE:**

GSD acknowledges that there is a lack of service call information documented in the Sprocket Work Order System. As a result of this ongoing challenge; the Director has instituted mandatory training on this tool as well as included Sprocket documentation as one of the HEAR goals for property management personnel.

RESPONSIBLE PARTY: GSD Property Management Division
Paul Marro and Tynisha Rivers (call center supervisor)

ESTIMATED DATE OF COMPLETION: February 2018

ASSESSMENT OF RESPONSE:

Management response as presented sufficiently addresses issues identified and corrective actions are appropriate.



Office of the City Controller
Audit Division

**FINDING # 4 – No VERIFICATION OF CONTRACTOR’S USE OF LICENSED PLUMBERS
(RISK RATING = HIGH)**

BACKGROUND:

In Exhibit “B” Scope of Work of the contract, it contains the following paragraphs:

- 4.0, Duties of the Contractor, 4.1, “The contractor shall assure all work performed under this Contract is done in a professional manner; in compliance with the City of Houston Plumbing Codes and shall be performed by trained and licensed personnel having experience with plumbing service repairs.
- 7.0, Work Personnel, it states, “A minimum of one journeyman plumber licensed by the State of Texas shall be required on the job site at all times.

FINDING:

After inquiry by Audit, GSD confirmed that they do not verify that AMS is using licensed plumbers as required by the terms of the contract. GSD deems this as AMS’s responsibility. As a part of the audit, we asked AMS to provide a copy of the licenses for the plumbers detailed on their Service Orders in the actual cost invoices submitted to the GSD.

However, AMS supplied proof of licenses for only three (3) of the twenty-three (23) plumbers requested. They also provided copies of the U.A. Plumbers’ Local Union No. 68 form introducing 11 plumbers from our scope period and two that were not in the scope period. After accounting for the names of the known plumbers on the seventy-five (75) days onsite detailed on the AMS Service Orders in the invoices reviewed, there were sixty-two (62) days where a known licensed plumber was not on the job site.

RECOMMENDATION:

We recommend that GSD management periodically verify that the Contractor’s employees performing City work are licensed as required and that a licensed plumber is on the job site per the contract.

**DEPARTMENT MANAGEMENT
RESPONSE:**

GSD concurs with these findings and has included these contract compliance functions as part of the duties for the lead-plumber. Currently, the plumbing group lead is a licensed master plumber’ who is required to manage all plumbing service calls.

RESPONSIBLE PARTY: GSD Property Management Division
Charles Shelley (master plumber)

ESTIMATED DATE OF COMPLETION: February 2018

ASSESSMENT OF RESPONSE:

Management response as presented sufficiently addresses issues identified and corrective actions are appropriate.



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Audit Division

**FINDING # 5 – No Approved Policies and Procedures
(Risk Rating = Medium)**

BACKGROUND:

Formal Policies and Procedures provide a guide for meeting management’s objectives and define the steps employees should take when performing the responsibilities associated with their job functions. Policies and procedures that are thorough and appropriately detailed ensure consistency in operating procedures, assist in employee training, and help maintain quality, all of which enhance the ability to deliver consistent and high-quality service to customers. Additionally, policies and procedures (P&Ps) facilitate compliance with City ordinances, as well as State, Federal, or other regulatory agency legislation, requirements and guidelines.

FINDING:

During the audit, we asked for all P&Ps or standard operating procedures (SOPs) guiding the AMS operating and invoicing functions. The GSD Financial and Administrative Services Division provided Work Instructions for only three processes. However, policies related to call-outs, invoice review, and the posting processes were not included. Also, the Property Management Division did not provide any P&Ps or SOPs for the AMS call-outs process.

RECOMMENDATION:

We recommend that GSD develop and finalize complete policies and procedures for the contract plumbing call-out process to ensure compliance with the contract and stewardship of City resources.

**DEPARTMENT MANAGEMENT
RESPONSE:**

GSD concurs with the Controller’s Office findings and has added that function of creating and managing all P&Ps and SOP to our newly created Training and Development team’s job duties. Refer to Finding #1 for additional comments.

RESPONSIBLE PARTY: GSD Property Management Division and GSD Training Division

Property Management Division to work with Darnesha Davis-Callier (Division Manager – Training & Development Division)

ESTIMATED DATE OF COMPLETION: June 2018

ASSESSMENT OF RESPONSE:

Management response as presented sufficiently addresses issues identified and corrective actions are appropriate.



Office of the City Controller
Audit Division

**FINDING #6 – CONTRACT TERMS IMPROVEMENTS
(RISK RATING = MEDIUM)**

BACKGROUND:

Strategic Purchasing entered into a City-wide contract with American Mechanical Services (AMS) by executing Contract #4600012662 (Contract), effective June 5, 2014. The Contract requires the contractor AMS “to provide all labor, materials, supplies, equipment, tools, transportation, permits and insurance necessary to perform Plumbing Repairs, Minor Construction, and new installations at various city buildings.” The contract includes general requirements, which are covered in the first part of the agreement and Exhibit “B” Scope of Work, includes most of the requirements the Contractor is to follow in performing and invoicing for work performed.

FINDING:

We reviewed the Contract for key terms and compared them to actual practices. We found the following differences:

Paragraph 1.3 of Section III, Duties of City states, “the City will pay in less than 30 days in return for an early payment discount from vendor”. The contract was set up by Strategic Purchasing in SAP without an early payment discount, but there was no documentation to support this deviation from the executed agreement by the vendor.

The following contract terms from Exhibit B, Scope of Work were not followed:

- 1) 2.3, “The Contractor shall maintain a stock of commonly used service parts to ensure immediate availability”; and
- 2) 13.1, “Each invoice shall detail the following information
 - 13.1.3, City Ordinance Number (only original Ordinance on invoices);
 - 13.1.4, Copy of GSD work order;
 - 13.1.5, Copy of Contractor’s signed service ticket;
 - 13.1.7, Dates and times when services were performed (no times indicated);
 - 13.1.8, Parts or components repaired or replaced;
 - 13.1.9, Manufacturer model and part numbers installed detailing net unit percentage markup, and total cost per line item.”

The contract is silent on the mark-up for Sub-contractors such as ones providing concrete work or line locating. AMS used 10% on an invoice dated July 18, 2014, which was after the contract was signed, but later used 15% for like parts and supplies. GSD did not provide documentation to support this practice.

RECOMMENDATION:

We recommend that deviations from the terms of the contract should be documented. We also recommend that GSD should review the contract terms for any that would not

apply to a contract for this situation and remove them in future contracts. We further recommend that the mark-up for sub-contractor invoices should be specified in future contracts.

**DEPARTMENT MANAGEMENT
RESPONSE:**

GSD concurs with the Controller's Office findings and is committed to working with both the Finance Strategic Procurement Division and the City of Houston legal department to incorporate the appropriate language involving sub-contractor's mark-up for invoices into the new City-wide Plumbing service contract. Current contract with AMS will expire on 6/8/2019.

RESPONSIBLE PARTY: GSD Property Management Division and Legal Department
Eric Alexander

ESTIMATED DATE OF COMPLETION: May 2018

ASSESSMENT OF RESPONSE:

Management response as presented sufficiently addresses issues identified and corrective actions are appropriate.

EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

GENERAL SERVICES DEPARTMENT



CITY OF HOUSTON
General Services Department

Sylvester Turner

Mayor

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December 19, 2017

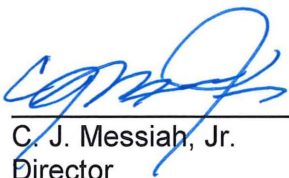
Mr. Chris B. Brown
City Controller
Office of the City Controller
901 Bagby, 8th Floor
Houston, TX 77002

**SUBJECT: PERFORMANCE/CONTRACT COMPLIANCE AUDIT - AMERICAN MECHANICAL SERVICES LLP
REPORT - ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES**

Dear Controller Brown:

I acknowledge that the management responses contained in the above referenced report are those of the Administration & Regulatory Affairs Department. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



C. J. Messiah, Jr.
Director

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