

CITY OF HOUSTON

Annise D. Parker
City Controller

Steve Schoonover
City Auditor



HOUSTON FIRE DEPARTMENT LONG-TERM CONTRACTOR RELATIONSHIPS PERFORMANCE AUDIT

Report No.: 2010-08



People count.



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

December 3, 2009

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Houston Fire Department – Long-Term Contractor Relationships
Performance Audit - Report No. 2010-08

Dear Mayor White:

In accordance with the City's contract with MFR, P.C. (MFR), MFR has completed a Performance Audit of the Houston Fire Department's Long-Term Contractor relationships. The original objectives of the audit were to:

- Determine to what extent the use of long-term (greater than seven years) contractor relations had benefited the City.
- Determine to what extent such relationships (greater than seven years) were in compliance with the applicable procurement laws.
- Review the cost-benefit of such long-term contractor usage and the appropriateness of their continued selection.

The report, attached for your review, concluded that the one contractor relationship identified has benefited the City by providing consistent, specialized, quality professional services for an extended period. However, MFR did note two issues of an operational nature that were brought to the attention of HFD management.

Also, MFR had a limitation in scope pertaining to compliance with the applicable procurement laws as the City maintains the bid documentation for two years in accordance with the Texas State Library & Archives Commission requirements. Therefore, MFR had inadequate information to conclude on whether the City was in compliance with applicable procurement laws and continued vendor selection for long-term contracts.

The observations and recommendations identified during the audit are included in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The Views of Responsible Officials as to actions being taken are appended to the report as Exhibit A.

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We commend Department management for their timely efforts to take action to remedy the deficiencies identified by MFR. We also appreciate the cooperation extended to the MFR engagement team by Department personnel during the course of the audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Annise D. Parker". The signature is written in a cursive style with a large initial "A".

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Phil Boriskie, Fire Chief, Houston Fire Department
Alfred Moran, Director, Administration and Regulatory Affairs Department



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December 1, 2009

Controller Annise D. Parker
Office of the City Controller
City of Houston
901 Bagby, 8th Floor
Houston, TX 77002

Re: Houston Fire Department Long-Term Contractor Relationships Performance Audit

Dear Controller Parker:

MFR, P.C. (MFR) has completed the City of Houston's (the City) City-Wide Long-Term Contractor Relationships Performance Audit of the Houston Fire Department (HFD). This audit was outlined in our engagement letter dated December 3, 2008 under Contract No. 56546, approved by City Council Ordinance No. 2004-1296.

The original objectives of our audit were to:

- Determine to what extent the use of long-term (greater than seven years) contractor relations had benefited the City.
- Determine to what extent such relationships (greater than seven years) were in compliance with the applicable procurement laws.
- Review the cost-benefit of such long-term contractor usage and the appropriateness of their continued selection.

In accordance with our engagement letter dated December 3, 2008, the scope of our audit includes any currently active long term contracts that are greater than seven years old as of September 30, 2008, either initiated by or on behalf of HFD (sole participant/spending authority).

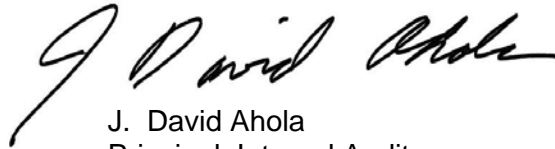
Our detailed test procedures for the attached performance report, were performed through April 30, 2009. We accomplished the objectives except for those related to compliance with applicable procurement laws and the appropriateness of their continued vendor selection. The limitations occurred due to the fact that the City maintains the bid documentation for only two years in accordance with the Texas State Library & Archives Commission requirements. Our observations included in the attached report are the only matters that came to our attention based on the procedures performed.

Because of inherent limitation in controls, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that the validity of such conclusions may be altered because of changes made to the system or controls, the failure to make needed changes to the system or controls, or deterioration in the degree of effectiveness of the controls.

The attached report is intended solely for the information and use of HFD management as well as the Office of the City Controller, and is not intended to be used for any other purpose. MFR is pleased to have been given the opportunity to work on this engagement and we appreciate the cooperation received from your office and the HFD.

Very truly yours,

MFR, P.C.

A handwritten signature in black ink that reads "J. David Ahola". The signature is written in a cursive style with a large initial "J".

J. David Ahola
Principal, Internal Audit


JDA/ea



**HOUSTON FIRE DEPARTMENT
LONG-TERM CONTRACTOR RELATIONSHIPS
PERFORMANCE AUDIT**

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HOUSTON FIRE DEPARTMENT LONG-TERM CONTRACTOR RELATIONSHIPS PERFORMANCE AUDIT

EXECUTIVE SUMMARY

Background

On September 28, 2007 MFR completed the preliminary survey of the City-Wide Long-Term Contractor Relationships Performance Audit Phase One (Phase One).

For Phase Two, the detailed fieldwork stage, MFR selected three City departments for further analysis; the Houston Fire Department (HFD), the Public Works and Engineering Department (PWE), and the Houston Airport System (HAS). This report on the HFD is one of three reports issued to the City as a result of the further analysis of the selected departments in Phase Two of the audit.

Objectives and Scope

The original objectives of the audit were as follows:

- Determine to what extent the use of long-term (greater than seven years) contractor relations had benefited the City.
- Determine to what extent such relationships (greater than seven years) were in compliance with the applicable procurement laws.
- Review the cost-benefit of such long-term contractor usage and the appropriateness of their continued selection.

MFR had a limitation in scope pertaining to compliance with the applicable procurement laws as the City maintains the bid documentation for two years in accordance with the Texas State Library & Archives Commission requirements. This also prohibited MFR from determining the appropriateness of the vendor continued selection.

The scope of the audit was any currently active long-term contracts that were greater than seven years old as of September 30, 2008, either initiated by or on behalf of HFD (sole participant/spending authority).



Overall Conclusion and Assessment

The HFD long-term contractor relationship has benefited the City by providing consistent specialized, quality professional services for an extended period. For the selected contract, as noted above, MFR had inadequate information to conclude on whether the City was in compliance with applicable procurement laws and continued vendor selection. Based on our testing, we could not conclude that the City was acquiring the services in the most economical manner.

MFR noted two issues of an operational nature that were brought to the attention of HFD Management during fieldwork and are as follows:

- HFD did not have a documented process for closeout procedures for contracts which had expired or were no longer valid;
- The contractor did not submit invoices with adequate details of the work performed and hours billed.



OBSERVATIONS AND RECOMMENDATIONS





Detailed Background

During Phase One of the audit, MFR obtained an electronic download of the contract data from the City's Advantage Financial Management System (AFMS). MFR identified in excess of 1,100 contracts for the entire City that were in effect for over seven years. For Phase Two of the audit, MFR obtained electronic downloads of contract data from SAP as well as a manual list of the contract data prepared by HFD. MFR reconciled the AFMS contract data download, SAP electronic contract download and the manual list of contract data provided by HFD. Through the reconciliation process, MFR identified one HFD contract with Baylor College of Medicine for professional psychological services, the only active long-term contract for \$1,121,618 that was greater than seven years old as of September 30, 2008.

Audit Methodology

As part of the planning phase, MFR gained an understanding of the contract data conversion process from AFMS to SAP.

To accomplish the scope and objectives of this performance audit, the MFR team performed the following audit procedures:

- Prepared for and conducted an entrance conference with department management responsible for administering the long-term contract.
- Conducted interviews and performed a walk through to assess operating effectiveness of management controls, and performance of the related long-term contract.
- Identified, documented, and assessed the department's processes to monitor the long-term contract.
- Researched and reviewed applicable procurement laws, policies, and procedures and determined whether the City was in compliance with the regulations.
- Verified the completeness and accuracy of the long-term contract identified during Phase I.
- Determined through interviews and the review of documentation, the reasons for their continued use by the City rather than utilizing City employees or other contractors.
- Determined if the original scope of contracted work had been expanded.
- Assessed, on a test basis, the level of compliance by the contractor with the scope, objectives, and contract terms by reviewing a corresponding sample of supporting invoices.
- Determined whether the contractor was delinquent in payment of the City's property taxes by reviewing the tax records at the Harris County Appraisal District website.

The following exceptions were noted based on MFR performing the procedures outlined above.



OBSERVATIONS AND RECOMMENDATIONS

1. CLOSEOUT POLICIES AND PROCEDURES

Observation

In discussions with HFD, it was determined that HFD did not have a documented process for closeout procedures for contracts which had expired or were no longer valid. Based on these discussions, without the proper close out policies and procedures in place, HFD may be at risk of new purchase orders being issued or additional payments being made if there are unspent funds remaining on the contract.

Recommendation

HFD should establish written policies and procedures to close contracts that terminate or expire. The policies and procedures should require the contract to be closed in SAP and any unspent funds be transferred to the appropriate fund.

2. INVOICE DOCUMENTATION

Observation

Out of a total of 32 invoices or (\$358,099), MFR judgmentally selected ten of these invoices. We then performed a review to ensure the documents were billed according to the scope and objectives of the contract and properly approved for payment. The contractor did not submit invoices with the details of the work performed for the hours billed. Due to the nature of the contract, the information was deemed confidential and sensitive.

Recommendation

HFD should require their contractor for psychological services to submit invoices with a broad explanation of the work performed and include the hours billed. For example the invoice description would contain the number of hours for counseling sessions and the hourly billing rate as well as the date(s) the service(s) was provided.



EXHIBIT A

Views of Responsible Officials



EXHIBIT A



CITY OF HOUSTON

Fire Department

Bill White

Mayor

Phil Boriskie
Fire Chief
1205 Dart Street
Houston, Texas 77007

T. 713.247.5083
F. 713.247.5004
www.cityofhouston.gov

November 30, 2009

Annise D. Parker
City Controller
900 Bagby
Houston, Texas 77002

Re: Long Term Contract Response

Dear Ms. Parker:

Noted below is my response to the observations and recommendations to your recent audit of Houston Fire Procurement as it relates to long term contracts:

1. Policies and procedures used to close out contracts - The City of Houston does not have a formal closeout procedure for closing out contracts that have expired or otherwise invalid. The real issue was to have a procedure in place that would alleviate money allocated to a contract being left encumbered to a contract that is no longer valid. This would put that allocation back in the Department's general fund. Houston Fire F/A requires that all users review encumbered funds and open purchase orders. Those that are not required are closed out thus releasing those allocated funds back to the general fund for that Division. While there is not a definitive policy stating this function, it is encouraged and at the end of the budget year required for all cost centers to perform this review. As an additional step, HFD Procurement will initiate a check-off list of procedures or items to be completed to ensure the proper close out of a contract.
2. Invoices with details of hours of work performed – The contractor provided invoices with only a broad explanation of the actual hours. The lack of detail was due, in part, to the confidentiality of the individuals that must be maintained. As a result HFD Procurement will meet with the parties to confer the proper documentation required. A written explanation or plan will be given to each of the responsible parties, with copies going to HFD Accounts Payable. Additionally, an addendum will be added to the contract document that specifies the protocol, in detail, for invoicing. This invoicing includes number of hours per week and type of service performed. HIPPA rules prohibit identification of personnel receiving the services.

**Views of Responsible
Officials**

Council Members: Toni Lawrence Jarvis Johnson Anne Clutterbuck Wanda Adams Mike Sullivan M.J. Khan Pam Holm James G. Rodriguez
Peter Brown Sue Lovell Ronald C. Green Jolanda "Jo" Jones Melissa Noriega Controller: Annise D. Parker

EXHIBIT A

Houston Fire appreciates your assistance in this review of HFD long term contracts. Please feel free to provide additional recommendations, as we strive for excellence.

Sincerely,



Phil Boriskie
Fire Chief
Houston Fire

Off. 713.247.5083
Phil.boriskie@cityofhouston.net

Cc: J. David Ahola
Principal, Internal Audit Services
One Riverway, Suite 1900
Houston, Texas 77056-1951

Jack Williams, Assistant Fire Chief
Neil DePascal, Deputy Director, HFD

**Views of Responsible
Officials**