



General Services Department Follow-Up Audit Report

Issued by the
Internal Audit Office
August 8, 2011

**City of El Paso
Internal Audit Office
General Services Department Follow-Up Audit**

EXECUTIVE SUMMARY

The Internal Audit Office conducted a follow-up audit on the General Services Department – Billing System Review Audit Report dated October 1, 2008. Based on the Follow-Up Audit fieldwork, we have determined the status of the recommendation for each audit finding as outlined in the table below:

Finding No.	Description of Findings	Status
1	A contract violation was identified in a contract between the City and Vendor 1. Vendor 1 did not route pricelist adjustment requests through the Purchasing Department for approval before new prices became effective.	Implemented
2	The General Services Department does not actively provide user departments with supporting documentation to substantiate the billing of fuel and maintenance costs for each month's billing transactions.	Implemented
3	The General Services Department has been using a contract to procure service work from Vendor 1 when the contract's scope only defines the purchase of McNeilus proprietary parts. No labor rates are stated in the contract. We identified a total of \$61,295.00 in labor charges for just two parts reviewed for which service was invoiced.	Implemented
4	We identified a total of \$295,485.08 in questionable grab arm purchases from Vendor 1 by the General Services Department.	Implemented
5	We identified a total of \$161,188.98 in questionable replacement hydraulic cylinder purchases from Vendor 1 by the General Services Department. It appears General Services was purchasing rebuilt cylinders and paying for new or remanufactured cylinders.	Implemented
6	We identified \$75,482.68 in hydraulic cylinder work purchased from Vendor 1 while Vendor 2 had a contract with the City for the same time period. The General Services Department procured \$2,693.96 of hydraulic cylinder work from Vendor 2 for the same time period.	Implemented
7	We identified purchases totaling \$10,126.77 for the replacement hydraulic cylinders from Vendor 1 that appeared to be covered under a manufacturer's warranty.	Implemented
8	We identified one invoice from Vendor 1 for service work charged at \$80.00 per hour for labor.	Not Applicable
9	We identified \$52,249.33 in questionable labor charges due to Vendor 3 not providing either the number of hours charged or the labor rate used to calculate the total hours invoiced. The lack of labor billing data does not allow a comparison to be made to the contract stated labor rates.	Not Applicable

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10	We identified invoices totaling \$1,841.95 from Vendor 4 while a contract existed with Vendor 5 for towing of city-owned vehicles. We also identified a total of \$400.00 in questionable expenditures for towing charges invoiced by Vendor 5.	Implemented
11	We identified an internal control breakdown of segregation of duties within the Parts Counter operations.	Implemented

Based on the results of this follow-up audit, we have determined that (9) nine of the eleven original findings are implemented and (2) two are no longer applicable.

For a detailed explanation of the findings and current observations please refer to the appropriate finding contained in the body of this Audit Report.

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BACKGROUND

The *Generally Accepted Government Auditing Standards*, Standard 4.09 and 6.09, and the *International Standards for the Professional Practice of Internal Auditing*, Standard 2500.A1, require a post audit follow-up on all audit recommendations made in order to ascertain that appropriate corrective action is taken to address reported audit findings. The Internal Audit Office has conducted a Follow-Up Audit of the *General Services Department – Billing System Review Audit Report* dated October 1, 2008.

AUDIT OBJECTIVES

The audit objective of the follow-up process is to determine whether the Audit Findings have been adequately addressed and to ascertain that actions taken on Audit Findings remedy the underlying conditions. When the Follow-Up Audit is performed, the auditor will designate if finding was Implemented, In Progress, Not Applicable, or Not Implemented.

AUDIT SCOPE

The Follow-Up Audit was limited to a review of the 11 findings and related recommendations of the original Audit Report titled “*General Services Department - Billing System Review Audit*” dated October 1, 2008.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with General Services’ personnel to obtain an understanding of their current processes,
- Reviewed internal policies and procedures,
- Reviewed several vendor contracts conducting business with the General Services Department, and
- Tested several vendor invoices to ensure that contract requirements and pricelist was being adhered to.

We conducted this Performance Audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, 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.

This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* by the Institute of Internal Auditors.

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ORIGINAL FINDINGS, ORIGINAL RECOMMENDATIONS, MANAGEMENT'S RESPONSE TO ORIGINAL FINDINGS, CURRENT OBSERVATION, AND STATUS

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

<p><u>Finding 1</u></p> <p style="text-align: center;"><u>Contract Violation</u></p> <p>Vendor 1 violated the pricelist adjustment provision of contract #2006-013 with the City for McNeilus specific proprietary parts and the current pricelist dated April 15, 2008 should be considered void. The pricelist adjustment request was not routed through the Purchasing Department for approval and the vendor did not send the request at least 30-days before new prices became effective. Instead the vendor routed the pricelist directly to General Services without prior approval and 106-days after higher prices were in effect. Therefore, the pricelist included in the contract file dated October 15, 2005 appears to be the only properly approved pricelist.</p>
<p><u>Recommendation</u></p> <p>The General Services Department should ensure that all parts and service costs on invoices are consistent with the approved pricelist of October 15, 2005. If any new price lists are submitted by Vendor 1, these pricelists should be routed to the Purchasing Department Manager 30 days prior to the new prices taking effect.</p>
<p><u>Management's Response</u></p> <p>The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.</p>

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Management's Response (cont.)

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

Current Observation

Contract # 2006-013 has been terminated and the General Services Department is no longer conducting business with Vendor 1. A new vendor is now providing parts for City's McNeilus equipped refuse vehicles and awarded Solicitation No. 2009-064 – McNeilus Proprietary Parts and Services.

We conducted a review of several invoices to ensure that parts and services costs on invoices were consistent with the new approved pricelist. Our testing results are outlined below:

- 19 out of 21 (90.48%) parts reviewed contained a cost consistent with the approved pricelist.
- 2 out of 21 (9.52%) parts reviewed contained a cost not consistent with the approved pricelist.
 - A part was charged at \$550.38 when the approved pricelist listed the part at \$428.39, a variance of \$122.02. Management affirmed they were going to seek reimbursement.
 - A price was charged at \$91.99 when the approved pricelist listed the item at \$88.35, a variance of \$3.64. Management affirmed they were going to seek reimbursement.

During our invoice review, it was determined that a pricelist adjustment was made. We confirmed that the pricelist adjustment was made according to the contract requirements on adjusting a pricelist.

Status

Implemented.

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Finding 2

Lack of Supporting Documentation

The General Services Department does not have a review or authorization process in place before user departments are billed through a transfer of funds for fuel and service charges to ensure the amounts charged and department accounts are correct.

The General Services Department does not provide user departments with supporting documentation to support the billing of fuel and maintenance costs for the month.

Recommendation

The General Services Department should strengthen billing controls by implementing a management-level review and authorization of user department fuel and maintenance charges before the funds transfer is processed.

Also, the General Services Department should provide a summary of fuel and maintenance costs charged to each user department on a monthly basis. This monthly summary should at the minimum list the vehicle/equipment serviced or repaired including their identification number, total fuel charges, total service charges, and if sent out to an external vendor, a reference to the vendor's invoice number so that the user department can research the costs incurred at a later date, if needed. This would ensure that user departments have adequate supporting documentation readily available.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

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Current Observation

General Services has set up several controls to ensure that charges for fuel and services are approved by user departments before they are billed. In addition, General Services is providing *Summary Billing Reports* on a monthly basis for user departments to review their fuel and service costs. These reports are readily available for user departments under the City Public Drive, which all City departments have access too. The report contains the total monthly charges for fuel consumption and the total monthly service costs for each department.

The report lacks; which vehicles/equipment were serviced, if vehicles were sent to an external vendor, and/or a reference to the vendor's invoice number so that user departments can research the costs incurred at a later date. However, this information can be easily obtained from General Services if the user departments request the information or if access to the Fleet Focus system is granted. General Services has determined that it is not efficient to provide a detail billing report for each user department due to the amount of paperwork and staff time implicated to produce these reports.

Status

Implemented.

Finding 3

Unauthorized Service Work

The scope of contract #2006-013 between Vendor 1 and the City only defines the purchase of McNeilus specific proprietary parts and not the procurement of "service" work. No labor rates are stated in the contract.

Based on our review of labor hours charged for service work performed for the repair or replacement of two parts selected at random for testing, we identified a total of \$61,295.00 in labor charges billed to the General Services Department. The breakdown of costs are:

- 40 invoices totaling \$41,227.50 in labor charges for hydraulic cylinders; and,
- 31 invoices totaling \$20,067.50 in labor charges for grab arms.

Recommendation

The General Services Department should ensure that it adheres to the scope and other provisions of all the contracts it utilizes.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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Management's Response (cont.)

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Aduato, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

Current Observation

Contract # 2006-013 has been terminated and the General Services Department is no longer conducting business with Vendor 1. A new vendor is now providing parts for City's McNeilus equipped refuse vehicles and awarded Solicitation No. 2009-064 – McNeilus Proprietary Parts and Services.

We conducted a review of several invoices to verify if unallowable services or goods were been acquired from the new vendor. We did not identify any unallowable goods or services being acquired at this time.

Status

Implemented.

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Finding 4

Overpayment of Grab Arms

Based on our review of the approved pricelist dated October 15, 2005 under contract #2006-013 between Vendor 1 and the City, we identified a total of \$295,485.08 in questionable replacement grab arm purchases by the General Services Department. The breakdown of overpayment costs are:

- 21 invoices totaling \$14,340.20 in questionable purchases; and,
- 19 invoices totaling \$281,144.88 where the part number could not be traced to the approved pricelist dated October 15, 2005.

Recommendation

The General Services Department should ensure that all parts and service costs on invoices are consistent with approved pricelists.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Aauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

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Current Observation

Contract # 2006-013 has been terminated and the General Services Department is no longer conducting business with Vendor 1. A new vendor is now providing parts for City's McNeilus equipped refuse vehicles and awarded Solicitation No. 2009-064 – McNeilus Proprietary Parts and Services.

A review of 21 parts purchased from the new vendor was conducted to ensure that parts and service costs on invoices were consistent with the approved pricelist. Our testing results are outlined below:

- 19 out of 21 (90.48%) parts reviewed contained a cost consistent with the approved pricelist.
- 2 out of 21 (9.52%) parts reviewed contained a cost not consistent with the approved pricelist.
 - A part was charged at \$550.38 when the approved pricelist listed the part at \$428.39, a variance of \$122.02. Management stated they were going to seek reimbursement.
 - A price was charged at \$91.99 when the approved pricelist listed the item at \$88.35, a variance of \$3.64. Management stated they were going to seek reimbursement.

Status

Implemented.

Finding 5

Overpayment of Hydraulic Cylinders

Based on our review of the approved pricelist dated October 15, 2005 under contract #2006-013 between Vendor 1 and the City, we identified a total of \$161,188.98 in questionable replacement hydraulic cylinder purchases by the General Services Department. The breakdown of overpayment costs are:

- 61 invoices totaling \$28,505.23 in questionable purchases;
- 43 invoices totaling \$83,302.32 where the part number could not be traced to the approved pricelist dated October 15, 2005; and,
- 63 invoices totaling \$49,381.43 that did not reference the manufacturer's part number making it impossible to trace the invoiced cost to the approved pricelist.

Recommendation

The General Services Department should ensure that all parts and service costs on invoices are consistent with approved pricelists.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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Management's Response (cont.)

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

Current Observation

Contract # 2006-013 has been terminated and the General Services Department is no longer conducting business with Vendor 1. A new vendor is now providing parts for City's McNeilus equipped refuse vehicles and awarded Solicitation No. 2009-064 – McNeilus Proprietary Parts and Services.

A review of 21 parts purchased from the new vendor was conducted to ensure that parts and service costs on invoices were consistent with the approved pricelist. Our testing results are outlined below:

- 19 out of 21 (90.48%) parts reviewed contained a cost consistent with the approved pricelist.
- 2 out of 21 (9.52%) parts reviewed contained a cost not consistent with the approved pricelist.
 - A part was charged at \$550.38 when the approved pricelist listed the part at \$428.39, a variance of \$122.02. Management stated they were going to seek reimbursement.
 - A price was charged at \$91.99 when the approved pricelist listed the item at \$88.35, a variance of \$3.64. Management stated they were going to seek reimbursement.

Status

Implemented.

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Finding 6

Unauthorized Purchases of Hydraulic Repair Services

Based on the review of hydraulic cylinder work procured from January 2008 through August 2008, General Services appears to have procured \$75,482.68 of hydraulic cylinder work from Vendor 1 without having an active contract to provide hydraulic repair services with the City.

Vendor 2 was under contract #2008-020 to provide hydraulic repair work for the City. For the same time period stated above, General Services procured \$2,693.96 of hydraulic cylinder work from Vendor 2.

Recommendation

The General Services Department should ensure an active contract exists for each vendor that the department procures services or goods from. Also, the General Services Department should cease immediately to procure hydraulic cylinder work from Vendor 1.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

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Current Observation

Contract # 2006-013 has been terminated and the General Services Department is no longer conducting business with Vendor 1. A new vendor is now providing parts for City's McNeilus equipped refuse vehicles and awarded Solicitation No. 2009-064 – McNeilus Proprietary Parts and Services.

We conducted a review of several invoices to verify if unallowable services or goods were been acquired from the new vendor. We did not identify any unallowable goods or services being acquired at this time.

Status

Implemented.

Finding 7

Purchases of Hydraulic Cylinders Still Under Warranty

We identified \$10,126.77 in purchases of replacement hydraulic cylinders from Vendor 1 that appeared to be covered under a manufacturer's warranty.

Recommendation

The General Services Department should determine whether parts and hydraulic cylinders are covered under warranty before they are replaced. The General Services Department should investigate if the hydraulic cylinders were covered under warranty.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

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Management's Response (cont.)

Responsible Party

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

Current Observation

Our review revealed that General Services has a system in place to track parts covered under warranty. General Services is utilizing a system called Fleet Focus to monitor, track, and identify parts under warranty. In addition, several procedures have been set up by the General Services Department to identify parts that are covered under warranty before a part is replaced.

We reviewed several work orders containing parts that should have been covered under warranty to determine if parts were being properly tracked by General Services. Our sample consisted of 48 instances containing parts under warranty. Our testing results are outlined below:

- 29 out of 48 (60.4%) warranty instances were tracked by General Services.
- 9 out of 48 (18.8%) warranty instances were not tracked by General Services, resulting on a potential reimbursement of \$3,018.37 for the user department. General Services agreed to review these warranty instances and processed credit to those warranties that are valid. These instances were considered immaterial in nature. No further follow up will be necessary.
- 10 out of 48 (20.8%) warranty instances were considered void by General Services due to the part being damaged and not defective, which voided the warranty.

Status

Implemented.

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Finding 8

Overpayment of Labor Charges

General Services paid \$80.00 per hour for labor charges on one invoice from Vendor 1 that contained a one-hour labor charge for a miscellaneous repair.

Recommendation

The General Services Department should ensure that the \$80.00 charge on the invoice is correct.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

Current Observation

Contract # 2006-013 has been terminated and the General Services Department is no longer conducting business with Vendor 1. A new vendor is now providing parts for City's McNeilus equipped refuse vehicles and awarded Solicitation No. 2009-064 – McNeilus Proprietary Parts and Services.

Given that this finding is in reference to an overpayment from the previous vendor and the issue is not in regards to the new vendor, we have determined that the finding is no longer applicable. However, testing was performed on other findings to ensure that the new vendor is not overcharging and providing unallowable goods or services.

Status

Not Applicable.

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Finding 9

Unsupported Labor Charges

Based on our review of the approved labor rates stated on contract #2004-107 between Vendor 3 and the City, we could not complete our testing due to the invoices reviewed lacking important labor billing data. The review of labor hours identified invoices submitted by Vendor 3 that do not have the number of hours charged or the labor rate used to calculate the total hours invoiced. Contract #2004-107 stated a shop labor rate of \$83 per hour and a “journey man” labor rate of \$65 per hour. The lack of labor billing data does not allow a comparison to be made to the contract stated labor rates. Therefore, the \$52,249.33 identified in labor charges are considered questionable.

Recommendation

The General Services Department should ensure that all labor charges on invoices are consistent with the stated terms contained in the Contract #2004-107 with Vendor 3.

Management’s Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City’s Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

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Current Observation

Contract # 2004-107 is no longer active and no contract extensions were exercised with Vendor 3 or any other vendor. The General Services Department has decided to conclude all service work contracts due to management evaluating their Fleet operations and determining that work can be done in-house.

Status

Not Applicable.

Finding 10

Unauthorized Towing Charges

General Services Department processed 25 invoices totaling \$1,841.95 from Vendor 4 submitted from November 14, 2005 through March 5, 2007 while a towing contract was in effect with Vendor 5 for city-owned vehicles. The contract with Vendor 5 was later terminated for convenience effective June 24, 2008 and rebid.

We identified 7 invoices totaling \$400.00 in questionable towing charges provided by Vendor 5 based on the towing pricelist in effect during the period the invoices were submitted.

Recommendation

The General Services Department should ensure that all towing charges and fees on invoices are consistent with approved towing pricelists in effect and that only contracted vendors are used.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

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Management's Response (cont.)

Responsible Party

Patricia D. Aduato, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

Current Observation

We reviewed several towing invoices to verify if towing charges and fees were being assessed per the relevant contract. Our testing identified the following:

- 13 out of 14 (92.86%) invoices contained towing charges consistent with the approved towing pricelist.
- 1 out of 14 (7.14%) invoices contained a charge that was not consistent with the approved towing pricelist.
 - This invoice contained a questionable \$50.00 charge. We were not able to determine what made up the \$50.00 charge. However, the amount of the charge is considered immaterial in nature. No further review will be necessary.

Status

Implemented.

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Finding 11

Lack of Segregation of Duties

There is an internal control breakdown of segregation of duties within the Parts Counter operations. The parts counter area employs four Materials Specialists and a Materials Supervisor who all have the ability to order parts, receive parts, issue parts, and update parts information in the Fleet Focus vehicle maintenance database system.

Recommendation

We recommend the General Services Department address the segregation of duties issue within the Parts Counter operations by implementing controls that will prevent any one person from having the means to order, receive, and issue inventory items.

Management's Response

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

Responsible Party

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

Implementation Date

December 31, 2008; Final business work plan by May 2009.

Current Observation

Our review identified that the General Services Department has developed Policies and Procedures to address the process of ordering and receiving parts at the Parts Counter Section. These Policies and Procedures include measures to prevent any one person from having the means to order, receive, and issue inventory items.

Status

Implemented.

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General Services Department Follow-Up Audit**

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

Based on the results of this Follow-Up Audit, we have concluded work on the audit objectives of the General Services Department Follow-Up Audit. This is a first Follow-Up Audit conducted on the original Audit Report dated October 1, 2008. The results of this Follow-Up Audit indicate that nine (9) of the original findings have been implemented and two (2) are no longer applicable. No additional follow up will be necessary.

According to the documents and procedures reviewed, it was evident that the Management Team at General Services expended a great deal of effort in implementing the agreed upon recommendations. General Services' Management Team and Staff where willing to make changes in their business practices. Because of this effort a tremendous amount of improvement is apparent in the way General Services conducts business. We appreciate the Management Team and Staff's willingness to cooperate in the completion of this Follow-Up Audit.

We wish to thank the General Service's management and staff for their assistance and courtesies throughout this audit.

Signature on File
Edmundo S. Calderon, CIA, CGAP, MBA
Chief Internal Auditor

Signature on File
Miguel A. Ortega
Auditor

Distribution:

Legislative Review Committee – Finance, Internal Audit, Engineering/CIP & Management Services
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