

**OFFICE OF THE CITY CONTROLLER**



**HUMAN RESOURCES DEPARTMENT  
CITY-WIDE TEMPORARY EMPLOYEE SERVICES AUDIT**

**Sylvia R. Garcia, City Controller**

**Judy Gray Johnson, Chief Deputy City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CONTROLLER  
CITY OF HOUSTON  
TEXAS

SYLVIA R. GARCIA

August 12, 2002

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

SUBJECT: Human Resources Department  
City-Wide Temporary Employee Services Audit (Report No. 01-09)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed a financial audit of the City's Temporary Employee Services. The primary objective of the audit was to evaluate internal controls related to the processing of temporary employee services invoices and the charge-back of these invoices to City departments.

The report, attached for your review, concludes that internal controls related to the processing of temporary employee services invoices and the charge-back of these invoices to City departments were adequate for the audit period. However, the auditors did note several opportunities, if implemented, would enhance the current procedures. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to actions being taken are appended to the report as Exhibit 1.

We commend the Department for taking immediate action on recommendations identified in the report. Also, we appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

  
Sylvia R. Garcia  
City Controller

xc: City Council Members  
Albert Haines, Chief Administrative Officer  
Oliver B. Spellman, Jr., Chief of Staff, Mayor's Office  
Philip Scheps, Director, Finance and Administration Department  
Lonnie Vara, Director, Human Resources Department

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## EXECUTIVE SUMMARY

### **Conclusion**

The results of our audit of the Human Resources Department's (HR) Temporary Employee Services indicated internal controls related to the processing of temporary employee services invoices and the charge-back of these invoices to City departments were adequate and effective for the period of July 1, 2000 through June 30, 2001. We did note some opportunities that, if implemented, would enhance the current procedures.

### **Findings**

- In verifying invoices paid to two of the selected agencies, the bill rates for the position of Health Inspector/Public Health Investigator were incorrect, with some amounts being underpaid and some amounts being overpaid, resulting in a net overpayment of invoice amounts.
- Monthly reports were not being reconciled in accordance to contract terms and there was no indication of the resolution of any reconciling differences for active and terminated temporary employees.
- In examining fidelity bond insurance certificates, eight of nine agencies (89%) did not include a "Loss Payable Endorsement" naming the City as payee.
- In our review of agency invoices, the time sheet forms that were provided to temporary employees and submitted by the agencies to the City for processing did not contain all the necessary information.

## SCOPE AND PURPOSE

We have completed an audit of City-Wide Temporary Employee services of the Human Resources Department. The scope of the audit consisted of reviewing selected invoices and other appropriate supporting documentation for the period of July 1, 2000 through June 30, 2001. The purpose of our audit was to evaluate internal controls related to the processing of temporary employee services invoices and the charge-back of these invoices to City departments.

The audit consisted principally of the following:

- Reviewed written procedures and conducted inquiries of division personnel.
- Reviewed appropriate sections of the agencies' contract agreements.
- Reviewed selected temporary employee invoices and their supporting documentation including original time sheets from the selected agencies noting agreement with the terms of agencies' contract agreements.
- Reviewed the accuracy and appropriateness of department charge-backs.


The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test the adequacy of the Department's controls over the processing of temporary employee services invoices and the charge-back of these invoices to City departments. This was a financial audit executed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

Department management is responsible for establishing and maintaining a system of internal controls to ensure the proper processing of temporary employee services invoices and the charge-back of these invoices to City departments as an integral part of the Department's overall internal control structure. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that the City is properly processing temporary employee services invoices and charging-back these invoices to City departments.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

## CONCLUSION

The results of our audit of the Human Resources Department's Temporary Employee Services indicated internal controls related to the processing of temporary employee services invoices and the charge-back of these invoices to City departments were adequate and effective for the period of July 1, 2000 through June 30, 2001. We did note some opportunities that, if implemented, would enhance the current procedures.

  
Carolyn Y. Armstead  
Auditor-In-Charge

  
Ken Teer  
Audit Manager

  
Steve Schoonover  
City Auditor

## INTRODUCTION

HR has had the responsibility for providing temporary employees to City departments since the early 1980's. During fiscal year ended June 30, 2001, the City expended approximately \$9.5 million on temporary services and at that time, there were eighteen agencies under contract to provide temporary employees. Temporary employees are used to provide assistance during staff shortages, perform special projects and meet fluctuating workflow and production demands in areas such as information technology. The Temporary Services Division (TSD) is responsible for approving and processing payment of invoices submitted by contracting agencies and the chargeback of those payments to City departments.

## FINDINGS AND RECOMMENDATIONS

### I. BILL RATES

#### FINDING

Each contracting agency has agreed with the City of Houston to certain payment terms for each type of temporary employee.

In examining invoices paid to selected agencies, we expanded our sample when we noted incorrect bill rates for the position of Health Inspector/Public Health Investigator. Our expanded sample for this position included 15 bill rates in total for two of the agencies. Some incorrect rates resulted in underpayments and others in overpayments, resulting in a net overpayment. The incorrect rates ranged from a low of \$11.63 to a high of \$12.50 per hour.

One hundred percent of our expanded sample for this position was invoiced by the agencies, and approved and paid by TSD at incorrect rates. We noted no additional incorrect bill rates for these two agencies other than the position of Health Inspector/Public Health Investigator. Thus, we believe the issue to be isolated to the position of Health Inspector/Public Health Investigator.

#### RECOMMENDATION

We recommend that the Temporary Services Division perform a more extensive review of the payments made for the position of Health Inspector/Public Health Investigator and seek reimbursement from the agencies, if appropriate. In addition, we recommend that the TSD update its database with the correct current bill rates.

### II. MONTHLY REPORTS

#### BACKGROUND

The contract agreement for each agency in Section II, DUTIES OF AGENCY, paragraph C, states "a monthly report will be provided to agency by the City on the 15<sup>th</sup> of each month

showing department name, division, temporary employee name, classification, bill rate, position type, start and termination date. Agency must reconcile report with their actual active and terminated employees and resubmit to the City of Houston within one week.”

**FINDING** Although the agencies are contractually obligated to reconcile the above report, we noted no documented evidence that the agencies had performed the required reconciliation.

**RECOMMENDATION** We recommend TSD require the agencies to certify that they reconciled the City’s report to their actual active and terminated employee data. Further, we recommend that TSD create and utilize a checklist of monthly contractual requirements.

### **III. FIDELITY BOND INSURANCE**

**BACKGROUND** Contract terms for each temporary services agency states that the agency is to furnish an employee dishonesty bond for \$100,000 to the City that shall remain in effect throughout the term of the contract. The bond shall include a “Loss Payable Endorsement” naming the City of Houston as payee and the agency as the party responsible for payment of any and all deductible amounts.

**FINDING** Eight of nine (89%) of the agencies examined did not include the “Loss Payable Endorsement” language naming the City of Houston as payee on the fidelity bond certificates. One agency’s fidelity bond certificate on file was not current and another agency did not have a certificate on file during the term of 9/00-9/01. In addition, one fidelity bond certificate had no expiration date, and the surety as well as the agency had the option to cancel the policy without notifying the City.

**RECOMMENDATION** We recommend that the TSD review and monitor all fidelity bond certificates to ensure not only compliance with the contract terms but also in the event of employee dishonesty, risks of not being covered is minimized.

### **IV. AGENCY FORMS**

**BACKGROUND** The agencies provide each temporary employee with a timesheet that is to be completed by the employee and approved by an authorized City of Houston supervisor. The time sheet along with the invoice is submitted to the City for payment. Information on the timesheets must be accurate and complete.



**FINDING**

In our review of agency invoices, the time sheet forms that were provided to temporary employees and submitted by the agencies to the City for processing did not contain all the necessary information. For example, one agency did not provide adequate space on its form for the complete name and signature of the employee.

**RECOMMENDATION**

The terms of the City's contracts with the agencies require the agencies to submit all reports as required by the HR Director. TSD should establish minimum requirements for timesheets and have the Director require the agencies to use and submit timesheets that meet the TSD's requirements.

# EXHIBIT 1



## CITY OF HOUSTON

Human Resources  
Department

## Interoffice

Correspondence

**To:** Sylvia Garcia  
City Controller

**From:** Lonnie Vara  
Human Resources Director

**Date:** July 25, 2002

**Subject:** TEMPORARY EMPLOYEE SERVICES  
AUDIT; HUMAN RESOURCES  
RESPONSE

**The purpose** of this memorandum is to respond to the Temporary Employee Services (TES) audit conducted for the period of July 1, 2000 through June 30, 2001.

We certainly agree with your assessment indicating internal controls related to the processing of temporary employee services invoices and the charge back of these invoices to city departments were adequate during the audit period. We also thank you for the opportunity of making recommendations to improve our service and internal controls.

**Details:** The Human Resources Department responses to the four findings are listed below:

### I. Bill Rates

#### Finding

Each contracting agency has agreed with the City of Houston to certain payment terms for each type of temporary employee.

In examining invoices paid to selected agencies, we expanded our sample when we noted incorrect bill rates for the position of Health Inspector/Public Health Investigator. Our expanded sample for this position included 15 bill rates in total for two of the agencies. Some incorrect rates resulted in underpayments and others in overpayments, resulting in a net overpayment. The incorrect rates ranged from a low of \$11.63 to a high of \$12.50 per hour.

One hundred percent of our expanded sample for this position was invoiced by the agencies, and approved and paid by TES at incorrect rates. We noted no additional incorrect bill rates for these two agencies other than the position of Health Inspector/Public Health Investigator. Thus, we believe the issue to be isolated to the position of Health Inspector/Public Health Investigator.

#### Recommendation

We recommend that Temporary Employee Services perform a more extensive review of the payments made for the position of Health Inspector/Public Health Investigator and seek reimbursement from the agencies, if appropriate. In addition, we recommend that the TES update its database with the correct current bill rates.

*Views of Responsible  
Officials*

# EXHIBIT 1

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## **Management Response**

- The recommendation is acknowledged and we have reviewed the discrepancies for materiality. We have since instituted a "database" audit review at the end of accounting period 12 and at the end of accounting period 13 of the contract rates to insure contract rates are correct.

## **II. Monthly Reports**

<b>Background</b>	The contract agreement for each agency in Section II, DUTIES OF AGENCY, paragraph C, states "a monthly report will be provided to agency by the City on the 15 <sup>th</sup> of each month showing department name, division, temporary employee name, classification, bill rate, position type, start and termination date. Agency must reconcile report with their actual active and terminated employees and resubmit to the City of Houston within one week."
<b>Finding</b>	Although the agencies are contractually obligated to reconcile the above report, we noted no documented evidence that the agencies had performed the required reconciliation.
<b>Recommendation</b>	We recommend TES require the agencies to certify that they reconciled the City's report to their actual active and terminated employee data. Further, we recommend that TES create and utilize a checklist of monthly contractual requirements.

## **Management Response**

- We have already instituted such procedures. The RFP for FY03 issues new instructions for the contracted agencies to provide the TES with a monthly report of active and terminated temporaries. The TES tracks receipt of these monthly reports and follow up to ensure compliance.

## **III. Fidelity Bond Insurance**

<b>Finding</b>	Eight of nine (89%) of the agencies examined did not include the "Loss Payable Endorsement" language naming the City of Houston as payee on the fidelity bond certificates. One agency's fidelity bond certificate on file was not current and another agency did not have a certificate on file during the term of 9/00-9/01. In addition, one fidelity bond certificate had no expiration date, and the surety as well as the agency had the option to cancel the policy without notifying the City.
<b>Recommendation</b>	We recommend that the TES review and monitor all fidelity bond certificates to ensure not only compliance with the contract terms but also in the event of employee dishonesty, risks of not being covered is minimized.

## **Management Response**

- The TES section will utilize MS Outlook to monitor the expiration dates of the insurance certificates (this has been in place throughout FY02 contract year) for FY03. At the present time all insurance certificates are current and contain the required coverage and language.

*Views of Responsible Officials*

# EXHIBIT 1

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## IV. Agency Forms

### Finding

In our review of agency invoices, the time sheet forms that were provided to temporary employees and submitted by the agencies to the City for processing did not contain all the necessary information. For example, one agency did not provide adequate space on its form for the complete name and signature of the employee.

### Recommendation

The terms of the City's contracts with the agencies require the agencies to submit all reports as required by the HR Director. TES should establish minimum requirements for timesheets and have the Director require the agencies to use and submit timesheets that meet the TES's requirements.

### Management Response

- We have already instituted such procedures. The RFP for FY03 is very specific and clear in regards to information required on timesheets, invoices, invoice coversheets, monthly reporting forms, and confirmation forms. The FY03 RFP sets forth the standard requirements for these forms. The proposals accepted for recommendation to City Council for FY03 contained TES approved timesheets, invoices, etc.

Questions regarding this response may be addressed to the writer at 713-837-9330 or Ramiro Cano at 713-837-9350.



Lonnie Vara  
Human Resources Director

LV:CAG

c: Steve Schoonover, City Auditor  
Ramiro Cano, Assistant Director  
Chas Smith, Division Manager  
Christine A. Gallegos, Administrative Supervisor

*Views of Responsible  
Officials*