

HOUSTON AIRPORT SYSTEM



FY2024 Follow-Up Audit Report

Report# 2024-05

OFFICE OF THE HOUSTON CITY CONTROLLER

CHRIS HOLLINS
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CHRIS HOLLINS

March 18, 2024

The Honorable John Whitmire, Mayor,

**SUBJECT: REPORT #2024-05
HOUSTON AIRPORT SYSTEM (HAS) – FY 2024 FOLLOW-UP AUDIT REPORT**

Mayor Whitmire:

As part of providing independent and objective assurance services related to efficient and effective performance¹, compliance, and safeguarding of assets, we perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.² We have completed follow-up procedures on remediation efforts performed by HAS management relating to:

Report Number	Report Title
2016-02	Construction Contract Performance Audit of Project 417F – Phase II and Phase III
2021-04	IAH Terminal Redevelopment Program Construction Contracts Performance Audit
2022-05	Comfort Systems Contract Compliance Audit

A total of four open findings were related to these reports.

Our follow-up audit process uses a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

The efforts of management and the procedures performed towards the remediation of the issues from previous audits are assessed under the four criteria below:

- (a) **Not Implemented:** No formal policy and/or no documented effort to address the audit finding.

¹ GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08

² IIA Standard 2500 Implementation Guidance – stresses the importance of having a process that “.... captures the relevant observations, agreed corrective action and current status.”



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- (b) **Incomplete/Ongoing:** Ongoing development of a process and/or effort toward a policy to address the audit finding.
- (c) **Substantially Implemented:** Significant effort directed toward remediation of the audit finding.
- (d) **Fully implemented:** Successful implementation of measures to address the audit finding.

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.³ Our conclusions are as follows:

Report #2016-02:

One open finding: Based on our procedures, we conclude that this finding has a status of “**Fully Implemented**” and is considered closed.

Report #2021-04:

Two open findings: Based on our procedures, we conclude that both findings have a status of “**Fully Implemented**” and are considered closed.

Report #2022-05:

One open finding: Based on our procedures, we conclude that this finding has a status of “**Fully Implemented**” and is considered closed.

Details of remediation activities are contained in Exhibit 1 of the accompanying report.

We would like to thank the Houston Airport System for their cooperation during the follow-up audit process.

Respectfully submitted,

Christopher G. Hollins
City Controller

³ See Exhibit 1 for the Detailed Remediation Assessment



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xc: City Council Members
Jim Szczesniak, Director, HAS
Kertecia Hampton, Deputy Assistant Director, HAS
Chris Newport, Chief of Staff, Mayor's Office
Courtney Smith, City Auditor, Office of the City Controller

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Background

As part of providing independent and objective assurance services related to efficient and effective performance¹, compliance, and safeguarding of assets, we perform follow-up audit procedures to ensure that corrective actions are taken related to issues reported from previous audits.²

We have completed our follow-up procedures regarding remediation efforts performed by management of the Houston Airport System (HAS) as they relate to findings contained in Audit Report #2016-02, *“Houston Airport System – Construction Contract Performance Audit (Clark Construction)”*; Report #2021-04, *“Houston Airport System (HAS) IAH Terminal Redevelopment Program (ITRP) Construction Performance Audit”*; and Report #2022-05, *“GSD - Comfort Systems Contract Compliance Audit.”*

Findings issued under these reports are as follows:

REPORT #	# OF FINDINGS
2016-02	1
2021-04	2
2022-05	1

Audit Scope and Objectives

The audit procedures described in this report are based on remediation efforts for the four open findings.

The objectives of our follow-up audit were to determine:

1. The status of each open item; and
2. The adequacy of the department’s remediation process to resolve open findings.

Procedures Performed

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained, reviewed, and assessed management’s status updates to open findings;
- Determined the findings for which management’s status updates indicated remediation;
- Determined and requested documentation necessary to

¹ GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08.

² IIA Standard 2500 Implementation Guidance stresses the importance of having “a process that captures the relevant observations, agreed corrective action, and current status.”

support the finding status reported by management; and

- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

Follow-up Approach

Our follow-up audit process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

MANAGEMENT STATUS UPDATES:

Our follow-up audit process includes sending requests for status updates on management's progress toward the remediation of open findings. Management provides status updates through an online portal. This information is then assessed by the follow-up auditor who considers (1) responsiveness to the original issue, and (2) remediation of the issue.

AUDIT/TESTING VERIFICATION:

A management status update indicating that a finding has been remediated is then tested/verified by the follow-up auditor prior to being closed.

The information received through management status updates is used as a basis for follow-up testing. If necessary, additional supporting information is gathered by the follow-up auditor to provide sufficient and appropriate evidence to achieve our objectives. Once the testing/verification of a department's findings has been completed, the department's remediation process is then assessed as one of the following four categories:

- **Not Implemented** - No formal policy and/or no documented effort to address the audit finding.
- **Incomplete/Ongoing** - Ongoing development of a process or efforts towards a policy to address the audit finding.
- **Substantially Implemented** - Significant efforts directed towards the implementation of the audit finding.
- **Fully Implemented** - Successful implementation of the finding remediation.

Conclusions

Based on the procedures performed, we believe we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.

CONCLUSION 1 - (AUDIT OBJECTIVE 1)

Based on work performed, the status of each open item is listed below:

- Audit Report #2016-02: This finding is considered closed.
- Audit Report #2021-02: These two findings are considered closed.
- Audit Report #2022-05: This finding is considered closed.

Please see Exhibit 1 for the Detailed Remediation Assessment.

CONCLUSION 2 - (AUDIT OBJECTIVE 2)

Based on audit procedures performed, our conclusions on management efforts to remediate findings are as follows.

Audit Report 2016-02:

- We conclude that implementation of financial controls to verify applications of payment with inspectors and contractors prior to processing for payment as part of corrective actions established by management is considered sufficient to address the finding. As a result, we determined that remediation efforts for this finding are "**Fully Implemented**" and the finding is considered closed.

Audit Report 2021-02:

- We conclude that the audits performed on the labor burden rates by the HAS internal audit department as part of the correction actions implemented by management, and the acceptance of responsibility for the decision regarding negotiating labor rates addresses the findings. As a result, remediation efforts for the two findings in this report are "**Fully Implemented**" and the findings are considered closed.

Audit Report 2022-05:

- We conclude that internal controls implemented by management including the centralization of administrative functions and the use of DocuSign for verification and approvals, are sufficient to address the finding. As a result, remediation efforts for this finding are "**Fully Implemented**"

and the finding is considered closed.

Please see Exhibit 1 for the Detailed Remediation Assessment.

Audit Standards

We conducted follow-up audit procedures in accordance with generally accepted government auditing standards issued by the Government Accountability Office and the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. 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.

Acknowledgment

We would like to thank HAS management and staff for their remediation efforts and their cooperation during the follow-up audit process.

City of Houston
Office of the City Controller - Audit Division
Project: FY2024 Follow-Up - Houston Airport System (HAS)

Exhibit 1 - Detailed Remediation Assessment, HAS FY2024 Audit Follow-Up Procedures

Audit Report #	Finding Title	Finding	Management's Status Update	Procedures Performed	Conclusion
2016-02	Construction Performance Audit - Potential Overcharges	We noted control weaknesses related to compliance with the Agreement that resulted in potential overcharges totaling \$1,411,695 and potential recoverable unsupported costs totaling \$2,014,227 on the applications for payment issued by Clark to HAS.	<p>In the months of January 19, 2017 and April 4, 2017 HAS Infrastructure Division set up INF Financial Control who verifies application of payment with the inspectors and contractors before the invoices are sent to the Contract Management Office for processing. According to Financial Controls, the Project Managers have always been involved in the review and approval of invoices. The policy document attached highlights the invoice review preparation, review and approval process instituted in April 2013. Since then, we have an application, ON-BASE, that is used for routing and signature protocol.</p> <p>ON-BASE approvals require sign off from the Project Manager, Design Manager, Resident Engineer, and Inspector prior to Financial Controls' involvement. A pencil draw meeting expedites the approval process with final routing to the respective parties for Contract Compliance and Financial Auditing, and supervisory reviews and approvals * Internal Audit performed an extensive audit and recovered \$1,023,962.19 from Clark Construction. The recovered amount was deducted from their final retainage payment.</p>	<p>As part of the audit process, we conducted a site visit to review management's corrective actions towards addressing the finding. We obtained an understanding of the INF Financial control system, including the ON-BASE approvals established by management, and observed that payment applications are verified with the inspectors and contractors prior to presentation to the Contract Management Office (CMO) for payment. Our review of the systems revealed the following processes:</p> <ol style="list-style-type: none"> 1. Vendor must provide narrative of work performed to aid verification; 2. Vendor must provide percentage of completed work for each phase; 3. Vendor must provide updated schedules; 4. Contract administrator reviews invoice(s) to ensure compliance; 5. Project management team approves invoice(s) based on the verification of work performed; 6. Management overview ensures that amounts being reviewed agree; and 7. Accounts Payable additionally reviews the invoice(s). <p>Based on work performed, we conclude that management's corrective efforts regarding this finding are considered sufficient. As a result, the finding is considered "closed."</p>	Fully Implemented.
2021-04	Pepper Lawson Waterworks - Labor Costs have not been audited to validate labor/labor burden was at actual cost	<p>Pepper Lawson Waterworks - Labor Burden rate of 55% was used during this contract. BDO observed this fact on the following change orders.</p> <p>(1) Change order PDF "CGMP-01-2017012e MPXX - Marriott Fit out for Temp PMO=Furniture R00.1" on page eight is titled "EXHIBIT D KEY PERSONNEL STAFF CLASSIFICATION AND RATES". Burden rate of 55% is listed to show Pepper Lawson Waterworks' staff hourly rates.</p> <p>(2) Change order PDF document "CGMP-02 - 20170303 MPXX - Marriott Fit out for Temp PMO R.1 APPVD 20170308" on page 11 is "EXHIBIT D KEY PERSONNEL STAFF CLASSIFICATION AND RATES." Burden rate of 55% is listed to show Pepper Lawson Waterworks' staff hourly rates.</p>	<p>Internal Audit Division (IAD) started reviewing Pepper Lawson Waterworks (PLW) on February 28, 2023. IAD is awaiting some documentation from ITRP and PLW. This PLW project certificate of final completion was signed 09/13/2022. The project is awaiting closeout and City Council approval. ITRP reviewed and discussed PLW's LBR calculation with HAS IAD. However, as indicated in the mgmt. response to the audit recommendation: "Recommendation noted. Clause 8.4.2.2 of the Pepper Lawson contracts affords the opportunity to the City to renegotiate the Labor Burden Rate based on audited, demonstrated, properly incurred actual costs, applied to subsequent period of delivery by the contractor. As the Pepper Lawson Construction duration for their principle GMP scope was 11 months in duration, it was not deemed necessary for the City to request such an audit be performed. As per 8.3.12, the City has the contractual rights to perform audits and may still chose to do so." Note, the audit rights in 8.4.2.2 are to be completed in each construction year of the Contract. This Contract construction duration was limited to 11 months. The rights in 8.3.12 are for a period of seven years after final payment.</p>	<p>As part of the audit process to assess management's corrective actions towards addressing the finding, we obtained an understanding of the efforts taken by management. As indicated in the original finding, management represented to us upon inquiry they did not consider it necessary to perform an audit of Pepper Lawson Waterworks' labor burden contained in the contract as this project was already in the close-out process, and as there were provisions for renegotiation of the labor burden rate as alternative pursuits. We obtained and reviewed the documentary evidence to support management's representation.</p> <p>Based on work performed, we conclude that management's corrective efforts are sufficient in addressing the finding. As a result, the finding is considered "closed."</p>	Fully Implemented.

City of Houston
Office of the City Controller - Audit Division
Project: FY2024 Follow-Up - Houston Airport System (HAS)

Exhibit 1 - Detailed Remediation Assessment, HAS FY2024 Audit Follow-Up Procedures

Audit Report #	Finding Title	Finding	Management's Status Update	Procedures Performed	Conclusion
2021-04	City in the process of auditing Hensel Phelps and Austin Gilbane; and negotiating labor rates with Burns & McDonnell	<p>It appears the International Terminal Redevelopment Program (ITRP) controls to address contractor labor burden are working as intended for those contractors with contracts exceeding one year.</p> <p>ITRP is in the process of auditing labor rates for Hensel Phelps and Austin Gilbane. In addition, ITRP is in the middle of negotiating with Burns & McDonnell's rates, which have not impacted the program as Burns & McDonnell have only invoiced preconstruction costs, which are lump sum.</p> <p>Furthermore, Stephen Buwalda advised, "the PMT identified and highlighted concerns with Burns & McDonnell Labor rates in 2019 and have sought to resolve the difference in Contract interpretations between the City and the Contractor. In addition, an audit which commenced prior to the BDO audit, is underway by HAS Internal Audit to perform a Labor Burden Audit on the ITRP Contractors. ITRP controls will continue to ensure correct Labor Burden rates are being reimbursed by the City per Contract."</p>	IAD performed audit on Hensel Phelps's Labor Burden Rate under Audit Report 2020-06 dated April 6, 2022 and on Austin Gilbane's Labor Burden Rate under Audit Report 2020-05 dated January 26, 2021. IAD performed an audit on Burns & McDonnell's (BM) Labor Burden Rate on April 21, 2021 under Audit Report 2020-08. Both the AGJV and HP recalculated LBRs were implemented with the respective vendors as per the following IAD Reports: HP-Report 2020-06 and AGJV – Report 2020-05. A 2021 and 2022 LBR audit has not yet been performed for either AGJV or HP by IAD. ITRP will request a LBR audit for AGJV and HP for 2021 and 2022.	<p>Audit procedures performed to assess management's corrective actions towards addressing the finding revealed that the Internal Audit Department (IAD) of HAS conducted several audits of the labor burden rates on ITRP contractors. We obtained the documentary evidence in connection with the HAS IAD audits performed as follows:</p> <ul style="list-style-type: none"> (a) 2020-05: Audit Report (b) 2020-06: Audit Report (c) 2020-08: Audit Report (d) 2022-05: Audit Report (e) 2022-06: Audit Report <p>Based on work performed, we conclude that the management efforts towards addressing the finding is considered sufficient. As a result, the finding is considered "closed."</p>	Fully Implemented.
2022-05	Non-Compliance with Change Order Procedures	<p>Audit procedures performed revealed the following exception:</p> <p>(a) A Change Order Request (COR) for emergency repairs under Contract #4600011869 did not have an approved signature and was not clearly marked "EMERGENCY," as required by the provisions of Section 5.7 of HAS AOP 10-02.</p>	Yes, all recommendations are fully incorporated into our existing processes with use of DocuSign, centralizing the administrative functions related to Maintenance Contracts oversight and compliance, and adopting a clearly defined approvals/verification routing system Division-wide. These improvements can be viewed and are monitored through Smartsheet, Conga Contract Intelligence, and our Enterprise Asset Management System (EAMS) regularly.	<p>As part of audit procedures performed to assess management's corrective actions towards addressing the findings, we conducted an onsite observation of the internal controls established by management regarding the change order procedures. Our review indicated that management has implemented the use of "Letter of Approval" signatures, proper templates for other work services (OSR), change order requests (COR) and work order request (WOR) review and approvals, as well as the utilization of the Conga Intelligence Program for contract management and document retention.</p> <p>Based on work performed, we conclude that management efforts towards addressing the finding is considered sufficient. As a result, the finding is considered "closed."</p>	Fully Implemented.

Audit Team

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Audit reports are available at:

<http://www.houstontx.gov/controller/audit/auditreports.html>