

Fort Worth



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**Equipment Leases Audit**

November 22, 2019



**City of Fort Worth  
Department of Internal Audit**

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Fort Worth, Texas 76102

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**The Equipment Leases Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2019 Annual Audit Plan.**

### **Audit Objective**

The objective of this audit was to determine whether billings for leased equipment were in accordance with vendor bids, listed prices, applicable discounts, quotes, etc.

### **Audit Scope**

Our audit included a review of equipment lease payments from October 1, 2017 through September 30, 2018. Activity beyond this period was reviewed as deemed necessary.

### **Opportunities for Improvement**

Retention of price lists and price discounts to support vendor invoicing

Leasing of copiers and printers based on necessity

Equipment lease periods that are comparable to the number of hours the equipment is used

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## **Executive Summary**

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As a part of our FY2019 Annual Audit Plan, the Department of Internal Audit conducted an audit of equipment leased during FY2018. The City of Fort Worth (CFW) leases heavy equipment to complete projects, and leases other equipment (e.g., copiers and printers) to aid in the delivery of services to our citizens. During our audit, we identified opportunities to better manage equipment leases.

We concluded that documentation was not always available to support prices billed to and paid by the CFW. In instances where supporting vendor pricelists were not provided, Internal Audit was unable to verify whether amounts billed to and paid by the CFW were accurate. Supporting vendor pricelists were requested from the Purchasing Division of the Financial Management Services Department, user departments, cooperative agreement representatives and/or vendor's.

The City paid for some leased copiers and printers that were not used for at least 12 consecutive months. For example, from June 25, 2018 through June 24, 2019, the CFW was billed for 13 copiers/printers with zero usage. Total expenses incurred for those devices totaled \$3,096.00 based on monthly charges. The City also paid \$5,964.00 for leased copiers and printers that were used to copy or print 10 or fewer copies each month. Total expenses incurred for the zero and low usage devices, combined, totaled \$9,060.00 for the 12-month period.

Some heavy equipment vendors recorded machine hour usage onto invoices. When comparing recorded machine hours to hours the City leased the equipment, we noted that the equipment was sometimes substantially leased for substantially more hours than the recorded usage. It should be noted that in most instances, City management provided reasonable explanations. Additionally, machine hours are generally not tracked for a majority of types of equipment leased by the City of Fort Worth.

These findings are discussed in further detail, within the [Detailed Audit Findings](#) section of this report.



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## Background

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The City leases construction equipment from multiple vendors through City bid contracts or through cooperative purchasing programs. The State of Texas Cooperative (COOP) Purchasing Program is available for local governments, educational and non-profit assistance organizations, and is referred to as the Texas SmartBuy Membership Program. The City also participates in the BuyBoard, US Communities and other purchasing cooperatives.

Construction equipment leases are typically charged at daily, weekly or monthly rates, based on catalog or list prices that may be discounted. The CFW also leases copiers and printers. The Information Technology Solutions Department (ITS) coordinates and manages the City's leasing of copiers and printers.

In December 2013, the City entered into Contract 45231 with DOCUmentation of North Texas, Inc. (now known as UBEO of North Texas, Inc.), referred to hereinafter as UBEO.

- The contract specified a 60-month equipment lease that included monthly lease charges for 247 listed printers, a base number of color/greyscale prints/impressions, and additional charges for the number of pages printed above the images allowance.
- A separate quarterly invoice is billed for the number of pages over those allowed within the contract (e.g., overages). Overages are calculated based on cost per page.
- Contract supplements are executed on a quarterly basis to accommodate the need for equipment additions and deletions. In March 2016, Contract 45231 was expanded to include additional copiers/printers (1,159) for a new 60-month term. The August 2019 supplement listed a total of 1,247 copiers and printers.



## Objective

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The objective of this audit was to determine whether billings for leased equipment were in accordance with vendor bids, listed prices, applicable discounts, quotes, etc.

## Scope

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Our audit covered equipment leased from the following companies from October 1, 2017 through September 30, 2018. Activity beyond this period was reviewed as deemed necessary.

- Herc Rentals (formerly Hertz Rentals)
- Kirby-Smith
- Sunbelt Rentals
- UBEO (formerly DOCUmentation)
- United Rentals

This audit did not include lease-versus-buy analysis.

## Methodology

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To achieve the audit objective, the Department of Internal Audit performed the following:

- identified equipment lease vendors;
- obtained available vendor contracts, and price and discount lists from the Purchasing Division of the Financial Management Services Department, user departments, cooperative agreement representatives and/or vendor representatives;
- compared prices billed and paid for equipment leases to prices noted within vendor contracts, price lists and/or applicable discounts;
- observed copiers and printers at selected City facilities;
- requested departmental confirmation of copiers and printers not physically observed by Internal Audit;
- requested assistance from ITS in locating copiers and printers not physically observed by Internal Audit or confirmed by departments;
- compared printers and copier IDs (that were either observed by Internal Audit, accounted for by user departments, or accounted for by ITS) to equipment IDs charged to the City;
- reviewed quarterly usage reports to identify copiers and printers with zero or minimal usage; and,
- evaluated internal controls related to equipment leases.

We conducted this 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.



## Detailed Audit Findings

### 1. Vendor price lists did not always support invoiced amounts, and were sometimes not available.

#### United Rentals

Internal Audit was unable to verify the accuracy of billings for some equipment leased from United Rentals.

We reviewed purchase orders supporting 18 sampled invoices for equipment leases between September 1, 2017 and August 7, 2018.

- CFW purchase orders indicated that a Texas Multiple Award Schedule contract (TXMAS-7-51V080) governed 15 of the 18 sampled invoices. TXMAS-7-51V080 was a cooperative procurement that was effective from July 5, 2007 through December 14, 2018. However, contract pricing information, required to verify billing accuracy, was not available.

When requesting initial contract pricing information, the Purchasing Division indicated that the contract had been canceled by the contractor, and replaced with contract TXMAS-18-51V09. However, when reviewing TXMAS-18-51V09, Internal Audit noted that the effective date of the “replacement” contract was from November 1, 2018 through October 20, 2019, which was after our invoice dates of September 1, 2017 through August 7, 2018.

- A City-managed contract governed the remaining three (3) procurements via CFW Bid 13-0231. When comparing bid line items to the three sampled invoices, bid items differed from those on the invoices. For example, the bid document referenced pump and hose rentals, while the invoices referenced the rental of an industrial crane and electric scissor lift. Since the leased equipment was not included in the vendor’s bid, Internal Audit was unable to verify whether the vendor accurately invoiced the City.

#### Sunbelt Rentals

Cooperative procurement contract TXMAS-13-51V070 governed four (4) of the 12 Sunbelt Rentals invoices included in our sample. A procurement managed by the CFW governed the remaining eight (8) invoices.

- In reference to the TXMAS contract, TXMAS staff provided Internal Audit with information to support vendor pricing for three sampled invoices. Internal Audit traced the invoiced item to the TXMAS-13-51V070 price list. However, based on our test results, two of the invoices were under-billed a total \$713.42. One of the invoices was overbilled a total \$1,114.98. The pricing for the fourth item could not be verified, because it was not included on the price list.
- In reference to the eight (8) sampled items procured via CFW Bid 18-0210, Internal Audit concluded that the CFW was under billed a total \$3,664.60 on five (5) invoices, and was overbilled a total \$1,323.50 on one invoice. The remaining two (2) invoices could not be verified for the following reason.
  - The two invoices indicated that the City leased a motor grader. However, Sunbelt Rentals did not list a motor grader in its bid. When contacted, Sunbelt Rentals stated that the equipment



rented was a cold recycler and soil stabilizer machine (also known as a reclaimer), not a motor grader.

- Sunbelt’s bid specified, “Unlisted Industrial Equipment made available at Contractor’s Listed Price Less (-) your Quoted 10% (percentage) discount...”. The Purchasing Division recommended that the information be obtained from the vendor’s website. However, Sunbelt Rentals’ website did not list a cold recycler or soil stabilizer machine (i.e., reclaimer).
- Upon further inquiry, the Transportation and Public Works Department (TPW) informed Internal Audit that Sunbelt Rentals rented the reclaimer from Kirby-Smith, and then subleased the reclaimer to the City. When asked why the City did not rent the reclaimer directly from Kirby-Smith, TPW staff responded that the City’s rental contract with Kirby-Smith had reached the dollar maximum in the midst of two major jobs. Since Sunbelt Rentals did not lease reclaimers, there was no list price from which to verify billing accuracy.

Internal Audit did note that the subleasing of at least one of the reclaimers resulted in additional costs to the City. For example, Sunbelt Rentals invoiced the City \$22,741.73 for leasing a reclaimer from July 11, 2018 to August 7, 2018. However, Kirby-Smith invoiced Sunbelt Rentals only \$17,944.39 for the leasing of that same reclaimer during that same timeframe. (Internal Audit noted that the equipment number on Kirby-Smith’s invoice was the same as that on a City purchase order). As a result, the City paid approximately \$5,000.00 more to sublease the reclaimer from Sunbelt Rentals. Internal Audit did not receive support for Kirby-Smith’s invoicing of the second reclaimer that the City subleased from August 8, 2018 to August 19, 2018.

#### Kirby-Smith

A BuyBoard cooperative procurement contract (BuyBoard 515-16) governed the 24 sampled Kirby-Smith invoices. Although the Purchasing Division did not have the vendor’s price list in its possession, BuyBoard staff was able to provide price lists to Internal Audit.

After comparing Kirby-Smith invoices to vendor price lists, Internal Audit concluded that Kirby-Smith invoiced the City a total of \$5,617.00 less than the discounted list price on 19 of the 24 invoices. Purchasing staff stated that in order to remain competitive, vendors are allowed to offer pricing less than the discounted list price.

Vendor pricing for leased equipment billed on the remaining five invoices was not noted on the vendor pricelist provided. Internal Audit, therefore, could not verify billing accuracy for these five invoices.

#### Herc Rentals

A US Communities cooperative procurement (Contract 31172) governed the 25 sampled Herc Rentals invoices. Although the Purchasing Division was unable to provide supporting price lists, staff from within a local Herc Rentals store was able to provide Internal Audit with a price list. Based on our audit results:

- nine (9) invoices were paid at the contracted price;
- eleven (11) invoices were under-billed a total of \$5,181.00;
- pricing for three (3) invoices could not be verified, because the items were not listed on the price list provided; and,
- two invoices were billed where a vendor provided a gasoline bucket truck for \$9,454.00 more than the catalog price of the diesel bucket truck that was requested by the CFW. The vendor reportedly could not provide a diesel bucket truck specified in the vendor’s catalog, and instead provided the



higher priced gasoline truck. City management and legal staff indicated that, because the City accepted the higher priced truck, no recovery is possible.

During our review of heavy equipment lease invoices, Internal Audit also noted inconsistent heavy equipment tax rates billed to and paid by the City. These the variances were considered immaterial.

Section D.1 of CFW Finance Directive 16 states that prior to releasing payment, vendor invoice information is to be verified. However, our audit results determined that invoice information was not verified. Procuring departments did not always obtain and retain vendors' list prices. Failure to verify invoices, therefore, resulted in overpayments and underpayments.

**Recommendation 1A:** *The City Manager should require that Department Heads ensure that catalog and/or list prices are obtained and retained to verify amounts billed to and paid by the City.*

**Auditee's Response:** We concur and will work with Department Heads to ensure that pricing lists are available and are used to verify the amounts billed to and paid by the City.

**Responsibility:** Monica Hamilton

**Target Implementation Date:** January 1, 2020

**Applicable Assistant City Managers:** Valerie Washington

**Recommendation 1B:** *The City Manager should require that Department Heads ensure invoice accuracy by comparing catalog and/or list prices to vendor invoices prior to authorizing payment.*

**Auditee's Response:** We concur and will work with Department Heads to require that invoices are reviewed for accuracy by comparing amounts billed to the agreed upon price list prior to submitting invoices for payment.

**Responsibility:** Tenisha Brewer-Jones

**Target Implementation Date:** January 1, 2020

**Applicable Assistant City Managers:** Valerie Washington

**2. The City was billed for copiers and/or printers that had zero or minimal use for at least 12 consecutive months.**

UBEO invoices the CFW monthly for leased copiers and printers. UBEO also invoices the City quarterly for impressions, and usage over the base allowed number of impressions. These invoices are received and authorized for payment by the ITS Department.

Based on our review of invoices, the City was billed for copiers and printers that had zero or low usage for at least 12 consecutive months. We observed and/or were notified (by user departments) of leased copiers and printers that were either not in use, stored in empty offices or storage rooms and unused, or in unopened boxes and not connected to the network.

Based on billings for 12 consecutive months (from June 24, 2018 to June 25, 2019), the CFW was billed:



- \$3,096.00 for 13 copiers and printers with zero usage; and,
- \$5,964.00 for 24 copiers and printers with fewer than 10 pages printed each month.

Zero usage may have resulted after employees (to whom copiers or printers were assigned) resigned, terminated employment or transferred to another department. However, departments did not receive zero usage reports from ITS or the vendor. As a result, copiers and printers that could have been deleted from inventory and returned to the vendor were not identified.

An example of a partial, quarterly invoice for copier and printer rentals with zero or low usage is shown in the following illustration.

PO Box 791070  
San Antonio, TX 78279  
P - 888-201-8431  
www.ubeo.com

INVOICE NUMBER: INV828833  
CUSTOMER NUMBER: C071  
INVOICE DATE: 06/26/2019  
PAYMENT TERMS: Late charges of 1.5% per month are applicable

Cynthia Tyree  
City of Fort Worth  
200 Texas Street  
Fort Worth, TX 76102

**THANK YOU FOR YOUR BUSINESS**

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ID #	MODEL	SERIAL #	LOCATION	ADDRESS	BEGIN METER	END METER	TOTAL USAGE	RATE	INVOICE AMOUNT
D53653	KYO P305SDN	VG48121094	MUNI	1000 Throckmorton St Fort Worth, TX 76102	56	3,479	3,423		
D12187	KYO FS4200 Printer	LPD5X40132	Public Safety Bldg	1000 Throckmorton St Fort Worth, TX 76102	4,026	4,026	0		
D12200	Ricoh SPC440DN	X685P800326	Public Safety Bldg -	1000 Throckmorton St Fort Worth, TX 76102	11,027	11,089	62		
D13343	KYO FS4200 Printer	LPD5Z44015		505 W Felix Fort Worth, TX 76115	12,704	12,704	0		
D51299	RIC Aficio MP301SPF MFP	W917P901331	FIRE	450 E Rendon Crowley Rd Burleson, TX 76028	9,377	11,211	1,834		
D8471	KYO FS4200 Printer	NU43816843		450 E Rendon Crowley Rd Burleson, TX 76028	7,379	7,380	1		
D52221	RIC Aficio MP301SPF MFP	W918P902421	PARD	303 NW 20th St Fort Worth, TX 76164	118	500	382		

Source: CFW Accounts Payable files

Government Finance Officers Association standards state that governments must carefully monitor expenditures.

**Recommendation 2A:** *The Chief Technology Officer should require that ITS staff provide departments with documentation that lists copiers and printers with zero usage, no less than quarterly.*

**Auditee’s Response:** Concur.

**Responsibility:** Sr. Administrative Services Manager

**Target Implementation Date:** January 2020

**Applicable Department Head:** Roger Wright

**Applicable Interim Assistant City Manager:** Kevin Gunn

**Recommendation 2B:** *The City Manager should require that Department Heads request the removal of copiers and printers that are no longer necessary.*



**Auditee's Response:** We concur, and will use the data used in this audit to communicate with the applicable department heads to remove copiers and printers that have had minimal/zero usage over the past 12-months. Will establish a better internal tracking system to track usage information quarterly.

**Responsibility:** Tenisha Brewer-Jones, City Manager's Office/Mayor/Council Executive Assistant

**Target Implementation Date:** January 1, 2020

**Applicable Assistant City Managers:** Valerie Washington

**Recommendation 2C:** *The City Manager should direct the Chief Technology Officer to remove copiers and printers (or reassign as deemed appropriate) from City inventory when requested by Department Heads or when there is no use reported for three consecutive months, and justification for continued service has been repeatedly requested but not received from Department Heads.*

**Auditee's Response (CMO):** We concur, and City Management will work directly with the Chief Technology Officer and his team to remove copiers and printers from City inventory when requested by the Department, when there is no usage for three consecutive months, or justification for continued service has been requested two times but no response is provided by the Department.

**Responsibility:** Tenisha Brewer-Jones, City Manager's Office/Mayor/Council Executive

**Target Implementation Date:** January 1, 2020

**Applicable Assistant City Manager:** Valerie Washington

**Applicable Interim Assistant City Manager:** Kevin Gunn

**Auditee's Response (IT):** Partially Concur. IT Solutions can facilitate the removal of any device that the Department Heads ascertain as no longer needed. The Departments should monitor usage and provide justification for devices with no reported use for three consecutive months. Any device that is removed but later deemed as necessary will be considered as a new lease and therefore will incur an upfront charge for the equipment.

**Responsibility:** Sr. Administrative Services Manager

**Target Implementation Date:** January 2020

**Applicable Department Head:** Roger Wright

**Applicable Interim Assistant City Manager:** Kevin Gunn

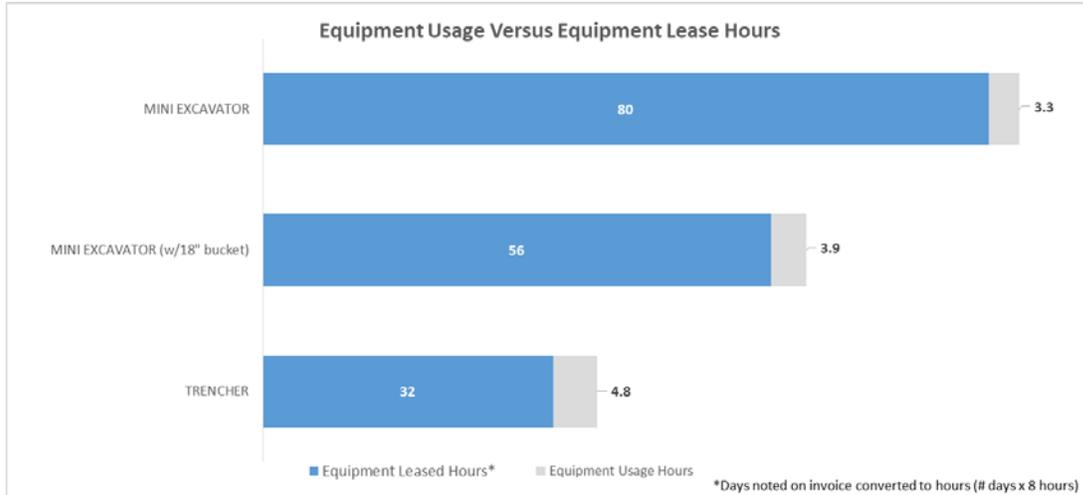
**3. Equipment was sometimes leased for substantially more hours than the equipment was reportedly used.**

We identified invoices that showed minimal equipment usage hours when compared to the equipment rental period. In other words, the total machine hours used (per the invoice) was considered low when compared to the total number of days the CFW leased the equipment. Some equipment rentals had valid reasons for low equipment usage.



United Rentals - From our review of United Rentals invoices, seven of the 18 invoices provided meter readings. Of those seven invoices, three had minimal usage when compared to the City’s rental period. For example, a mini-excavator was rented for two weeks with only 3.3 hours of recorded use. United Rentals indicated that equipment meter in/out readings reflect readings observed when equipment is checked in and out, and the ticket is closed.

A comparison of the number of machine hours used (per the vendor invoice) compared to the number of hours that the equipment was leased is noted in the following illustration.



Source: CFW invoice files

Good business practice would dictate renting equipment based on need (e.g., type of equipment needed, duration of time needed for a specific project, etc.) in order to minimize equipment rental costs. In some instances, the equipment may have been required for backup purposes only. Management also indicated that due to the amount of time it takes to make roundtrips, it is sometimes easier to leave equipment that is not used continuously at the site. There may also be instances where cost savings are achieved with longer rentals when taking into account multiple pickup and delivery charges.

**Recommendation 3:** *The City Manager should require that Department Heads ensure that equipment is leased for the minimum practical amount of time required, and that equipment utilization is maximized during rental periods in order to justify equipment rental costs.*

**Auditee’s Response:** We concur. We will work with the Budget Office to develop and document a process that will be used on an annual basis to review equipment leases as part of the City’s annual budgeting process/development. The process will include a review of the leases and the minimum practical amount of time required, as well as equipment utilization compared to equipment costs.

**Responsibility:** Monica Hamilton in partnership with Terry Hanson and the appropriate Budget Analyst

**Target Implementation Date:** January 1, 2020

**Applicable Department Head:** Lynda Johnson

**Applicable Assistant City Managers:** Fernando Costa and Valerie Washington



## Acknowledgements

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The Department of Internal Audit would like to thank all City departments for their cooperation and assistance provided during this audit.