

OFFICE OF THE CITY CONTROLLER



FIRE DEPARTMENT

**PURCHASING CARD ACTIVITY
FINANCIAL RELATED AUDIT**

Judy Gray Johnson, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

July 23, 2003

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

SUBJECT: Fire Department
Purchasing Card Activity – Financial Related Audit (Report No. 03-09)

Dear Mayor Brown:

The City Controller's Office Audit Division has completed a Financial Related Audit of Purchasing Card (P-Card) activity for the Fire Department. The audit objective was to assist management with the assessment of the adequacy of internal controls related to P-Card activity within the Department. In addition, the audit evaluated compliance with City administrative policy and procedures, executive orders, and departmental standard operating procedures.

The report, attached for your review, concluded that internal controls over the P-Card activities are adequate to provide Department management with reasonable assurance that activities are performed in accordance with applicable City administrative policies and procedures and executive orders, except for the findings presented in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to actions taken or being taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Judy Gray Johnson
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Stephen O. Tinnermon, Chief of Staff, Mayor's Office
Chris Connealy, Chief, Fire Department
Philip Scheps, Ph.D., Director, Finance and Administration Department

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EXECUTIVE SUMMARY

- The established purchasing limit for a single transaction is \$750 and a monthly maximum of \$5,000. There was one P-Cardholder allowed to exceed the single purchasing limit by \$50.
- The P-Card Coordinator was not utilizing Exhibit 5, Purchasing Card Information Record Form when changes occurred with P-Cardholders and/or their purchasing limits.
- There are no periodic unannounced audits conducted of transactions made with P-Cards, which is stated as one of the responsibilities of a user department from Executive Order 1-42, Section 5.2.
- The P-Card Coordinator discarded 8 of 63 (13%) Exhibit 1, Internal Cardholder Agreement Forms for employees that were no longer employed.

SCOPE AND PURPOSE

We have completed a financial related audit of the Fire Department's Purchasing Card (P-Card) activity. Our objectives were to evaluate the Department's compliance with applicable City of Houston administrative policies and procedures, executive orders and the Department's own standard operating procedures related to P-Cards. Also, we evaluated the adequacy of internal controls related to the processing of P-Cards. The audit scope period was from July 1, 2001 through December 31, 2002.

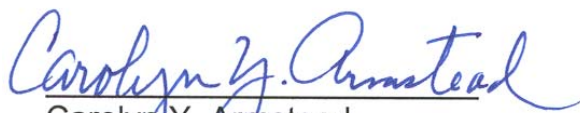
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and the adequacy of internal controls related to P-Card financial related activities. This was a financial related audit executed in accordance with Generally Accepted Government Auditing Standards.

Department management is responsible for establishing and maintaining a system of internal controls to efficiently and effectively perform financial related activities, and to adequately safeguard assets as an integral part of the Department's overall internal control structure. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected timely. 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

Based on the results of our audit, we conclude that internal controls are adequate for Purchasing Card activities at the Fire Department and provide management with reasonable assurance that P-Card activities are performed in accordance with applicable City of Houston administrative policies and procedures and executive orders, except for the findings presented in the body of the report.



Carolyn Y. Armstead
Auditor-in-charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

The Fire Department's (department) usage of the Purchasing Card (P-Card) began in July 1999. Each Assistant Chief or Division Head within the department determines who will receive a P-Card and is the approving authority for his/her Division purchases. The Senior Buyer for the department is designated as the P-Card Coordinator. A P-Card Transaction Form is completed by the requesting employee and/or P-Cardholder and must be pre-approved before any purchases are made. Monthly, Wells Fargo Bank statements of P-Card activity are distributed to the divisions. The P-Card Coordinator has division contacts that assist in the distribution and reconciliation of monthly statements along with accumulating and verifying that all supporting documentation was received. The P-Card Coordinator also ensures that the P-Card Administrator in the Strategic Purchasing Division receives the reconciled monthly statements and notification of any purchases against BPO Contracts in accordance with Executive Order 1-42, Purchasing Card Policy and Procedures (E.O. 1-42).

As of February 2003, the Fire Department had 54 active P-Cards, which included one card that was suspended due to non-compliance with Executive Order 1-42. P-Card purchases for the period July 1, 2001 through December 31, 2002 were approximately \$552,000. There was no lost or stolen cards identified or any fraudulent use of cards.

AUDIT FINDINGS AND RECOMMENDATIONS

PURCHASING CARDS

BACKGROUND

Executive Order (E. O.) 1-42, *Purchasing Card Policy and Procedures*, establishes "procedures for procuring goods and/or services using a Purchasing Card". Administrative Procedure (A.P.) 5-2, *Revised Procurement Procedures*, establishes "procedures for procuring goods and services that are consistent with E.O. 1-14, *Procurement and Payment Policies*, and procedures for changes in the procurement process that resulted from organizational and system changes".

- E.O. 1-42, Section 6.0 requires each using Department to establish limits for individual and group P-Cards.
- E.O. 1-42, Section 5.2.2 requirements include that the departmental P-Card Coordinator be responsible for monitoring purchases made by cardholders, reporting contract purchases by Vendor/Contract Number, enforcing timely compliance of submission requirements for monthly statement reconciliations, and designating an employee to conduct unannounced audits of transactions made with P-Cards and performing audits of all P-Card accounts and reconciliation of statements from the bank.
- E.O. 1-42, Section 5.2.3, requires Approving Managers (supervisors who approve monthly P-Card bank statements) to review and approve P-Card applications prior to submission to the Departmental P-Card Coordinator, review receipts and monthly bank statement reconciliations prior to submission to the P-Card Coordinator,

recommend suspension or cancellation of a card to the P-Card Coordinator when considered necessary, and notify the P-Card Coordinator when a cardholder is terminated so the card will be collected and purchasing privileges terminated.

- E.O. 1-42, Section 7.0 allows P-Cards to be used to purchase any item and/or service for “immediate use” not prohibited by the executive order, another policy or procedure approved by the Mayor, or an ordinance of the City of Houston.
- E.O. 1-42, Section 17.0 requires departmental P-Card Coordinators to maintain records of P-Card transactions, purchase documents and reconciliations.
- E.O. 1-42, Section 19.0 states, to request a new P-Card or make a change to an existing P-Card, use the Purchasing Card Information Record Form (Exhibit 5).

I. PURCHASING LIMITS

FINDING

The Fire Department has established the purchasing limit for a single transaction for each P-Cardholder to be \$750 and a monthly maximum purchasing limit of \$5,000. In one instance, a P-Cardholder was allowed to make a purchase for \$800, which exceeds the established single purchasing limit by \$50. Documentation was not available indicating whether an override or prior approval was obtained.

RECOMMENDATION

We recommend that in instances when P-Cardholders make purchases for an item that is an immediate need and the amount exceed their departmental purchasing limit, prior approval must be obtained before using the P-Card. If approval is obtained, documentation must be maintained with the receipt and submitted to the P-Card Coordinator for reconciliation to the monthly statement and submission to the P-Card Program Administrator.

Additionally, we also recommend that the P-Card Program Administrator obtain from the banking institution documentation of all overrides (approval over the limit) given to the P-Cardholder at the time of purchase.

II. EXHIBIT FORMS

FINDING

When notifying the P-Card Program Administrator regarding changes in the status of P-Card accounts, the P-Card Coordinator was not utilizing Exhibit 5, Purchasing Card Information Record Form, which documents changes to existing P-Card accounts, including purchasing limits, cancellations, suspensions and that the banking institution was notified of the status change by the P-Card Program Administrator.

RECOMMENDATION

We recommend that all changes in status of P-Cardholders be documented with the Exhibit 5 form as indicated in E.O. 1-42, Section 19.0 and forwarded to the P-Card Program Administrator. A copy should be retained with all other P-Card records.

III. UNANNOUNCED AUDITS

FINDING

P-Card transactions are reviewed by the P-Card Coordinator and periodically by the Deputy Director, however there are no periodic unannounced audits conducted of transactions made with P-Cards by a designated employee as stated in E.O. 1-42 as one of the responsibilities of the user department and P-Card Coordinator.

RECOMMENDATION

We recommend the department name a designated employee to perform unannounced audits of transactions of all P-Card accounts and reconciliation of statements from the bank as stated in E.O. 1-42. Subsequent to fieldwork, the Fire Department has designated an employee to conduct the unannounced audits.

IV. RECORDS MANAGEMENT

FINDING

Although the department is in compliance with E.O. 1-42 Section 17.0 in maintaining records of P-Card transactions, 8 of 63 (13%) Exhibit 1, P-Card Internal Cardholder (Employee) Agreement Forms were discarded for employees that were no longer employed in the department. All significant P-Card documents should be maintained for any future references or disputes.

RECOMMENDATION

We recommend the P-Card Coordinator not discard any significant documents related to P-Card activity.

EXHIBIT I



CITY OF HOUSTON

Fire Department

Lee P. Brown

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Chris Connealy
Fire Chief
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July 9, 2003

Judy Gray Johnson
City Controller
611 Walker
Houston, Texas 77002

Subject: Purchasing Card Activity Financial Related Audit-Fire Department

Dear Ms. Johnson:

Please find below our response to the final report of subject audit.

Finding I Purchasing Limits

The established purchasing limit for a single transaction is \$750 and a monthly maximum of \$5,000. There was one P-Cardholder allowed to exceed the single purchasing limit by \$50.

HFD Response:

We agree with this finding. During the period under audit, there were approximately fifty-four (54) P-Cardholders for the department. These cardholders were trained for the function and were aware of the limitations of P-Card purchasing. The isolated case involved a cardholder who exceeded the maximum limitation of a single purchase; the transaction went through and was approved by the bank. To establish control and ensure the bank only allows purchases within the limits set by the city policy, we believe problems of this nature should be addressed by the City P-Card Administrator with the bank.

HFD has advised the P-Card holder of strictly following the policy covering P-Card purchases.

Finding II Exhibit Forms

The P-Card Coordinator was not utilizing Exhibit 5 Purchasing Card Information Record Form when changes occurred with P-Cardholders and/or their purchasing limits.

HFD Response:

We agree with this finding. In the past, changes were e-mailed or called-in by HFD to the P-Card Administrator. HFD is currently utilizing Exhibit 5 to report changes affecting P-Cards.

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**Views of Responsible
Officials**

EXHIBIT I

Response to Purchasing Card Activity Financial Related Audit
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Finding III Unannounced Audits

There are no periodic unannounced audits conducted of transactions made with P-Cards, which is stated as one of the responsibilities of a user department from Executive Order 1-42, Section 5.2.

Response:

We agree with this finding. The P-Card audit has been included in the list of the department's audit universe. The department has immediately started unannounced audits of P-Card transactions.

Finding IV Records Management

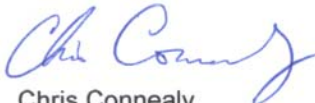
The P-Card Coordinator discarded 8 of 63 (13%) Exhibit 1, Internal Cardholder Agreement Forms for employees that were no longer employed.

Response:

While the Purchasing Card Policy and Procedures (E.O. 1.42) does not specifically cover this, we agree that keeping a complete file of agreement forms will improve the department's record management. HFD is currently keeping files of the agreement forms of employees who are no longer employees of the department/city.

We hope we were able to clarify the concerns presented during the audit. Please call Gracia Rosslow at 713-247-8721 if you need more information.

Sincerely,



Chris Connealy
Fire Chief

cc: Gracia Rosslow-Deputy Director-HFD

**Views of Responsible
Officials**