Office of the City Controller

HOUSTON FIRST CORPORATION

Procurement and Contract Compliance

Performance Audit

Chris Brown
City Controller

Report # 2020-06

Courtney Smith
City Auditor

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

February 11, 2020

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

SUBJECT: REPORT #2020-06 HOUSTON FIRST CORPORATION (HFC) PROCUREMENT AND CONTRACT COMPLIANCE PERFORMANCE AUDIT

Mayor Turner:

The Office of the City Controller's Audit Division contracted the professional services of Stinnett & Associates to conduct a performance audit of Houston First Corporation's (HFC) procurement process and contract compliance. HFC was established as a local governmental corporation in 2011 to operate the convention center, performing arts facilities and parking garages. HFC's responsibilities include operating, maintaining, developing and redeveloping facilities owned by the City of Houston (City), administering the annual budget, and collecting administering and auditing all hotel occupancy tax (HOT) funds in accordance with the terms of applicable City ordinances.

The primary audit objectives were to:

- Review the HFC procurement process;
- Evaluate the level of compliance with existing policies, procedures and/or guidelines;
- Review agreement(s) between the City of Houston and HFC; and
- Evaluate compliance with key terms and conditions of the agreement(s).

The engagement scope included the period from July 1, 2016 through December 31, 2018.

During the course of the audit, HFC management and staff demonstrated several strengths and best practices as listed below:

- HFC's General Counsel exercises oversight to help ensure compliance with state and federal regulations; and
- HFC's procurement team appears to be a clear, organizational hierarchy with appropriate Board oversight.

Based on the procedures performed during the audit, we concluded the following:

- Policies and procedures guiding the procurement process should be strengthened;
- Internal controls related to documentation should be strengthened to ensure consistency and compliance with existing procedures; and
- Hazard communication plans should be developed to ensure compliance with federal agency guidance.

In addition, we identified opportunities for the improvement of vendor performance monitoring and procedures and guidance for construction management roles.

CHRIS B. BROWN

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

We appreciate the time and effort HFC management and staff extended to the Audit team during this engagement.

Respectfully submitted,

Chris B. Brown
City Controller

cc: Brenda Bazan, President and Chief Executive Officer, Houston First Corporation
City Council Members
Marvalette Hunter, Chief of Staff, Mayor's Office
Harry Hayes, Chief Operating Officer, Mayor's Office
Frank Wilson, Chief Financial Officer, Houston First Corporation
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

City of Houston
Houston First Corporation – Procurement and Contract Compliance

2020

Report to Management

We want to thank everyone who assisted in the completion of this audit and appreciate the high level of cooperation we received, the genuine desire of all involved to identify opportunities to improve the process and the willingness to address any issues as quickly as possible.

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OBJECTIVES

As part of the City of Houston's Fiscal Year 2019 Annual Audit Plan, Stinnett & Associates conducted a review of Houston First Corporation's procurement and contract compliance processes. The primary objectives were as follows:

- Review the HFC procurement process
- Evaluate the level of compliance with existing policies, procedures and/or guidelines
- Review agreements between the City and HFC
- Evaluate compliance with key contract terms and conditions

SCOPE

The project scope included the period from July 1, 2016 through December 31, 2018. The engagement was conducted in three overlapping phases:

- Preliminary Survey and Planning
- Fieldwork
- Reporting

TEAM MEMBERS

- Melinda Stinnett, Principal
- Ronny Bedford, Senior Manager
- Ivette Armenta, Senior Associate
- Buerkie Klokpah, Senior Associate

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EXECUTIVE SUMMARY

I. INTRODUCTION

The Audit Division of the Office of the City Controller engaged Stinnett & Associates, LLC to conduct a performance audit of Houston First Corporation (HFC). The audit considered the policies and procedures applicable to the procurement of goods and services, as well as compliance with the key terms and conditions of two contracts: a Lease Agreement executed June 9, 2011 and amended May 22, 2018, and an Interlocal Agreement executed June 9, 2011.

II. BACKGROUND

HFC was formed in 2011 to operate the convention center, performing arts facilities and parking garages owned by the City of Houston (City). The City Council approved the transition of roles and responsibilities from a City department to a local governmental corporation in order to improve the coordination of the convention and entertainment services by bringing various entities responsible for generating and spending City hotel occupancy tax ("HOT") revenues under one governing body.

HFC's roles and responsibilities include:

- Leasing all previously existing facilities managed by the City's Convention & Entertainment Facilities Department (Department);
- Operating, maintaining, developing and redeveloping those existing facilities;
- Administering all the Department's obligations and responsibilities, as well as its revenue budgeted as part of the Department's budget, including municipal HOT receipts, license fees, and concession revenues; and
- As the City's agent, collecting, administering, and auditing all HOT funds in accordance with the terms of applicable City ordinances.

During the 30 month-period from July 1, 2016 through December 31, 2018, HFC created 2,014 POs totaling $256,581,408. Expenditures related to these POs totaled $237,920,486.

Subsequent to the scope period covered by this audit, HFC implemented a new Procurement Manual in January 2019 that replaced the Purchasing Policy.

III. PROCEDURES PERFORMED

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, Stinnett & Associates performed the following procedures:

PLANNING

- Conducted a kickoff meeting with the Office of the City Controller's Audit Division and HFC Management
- Developed and submitted an initial data request, including policies and procedures in place and a list of all POs created during the scope period (July 1, 2016 through December 31, 2018)
- Obtained and reviewed the purchasing policy to gain an understanding of the processes
- Conducted interviews with key purchasing personnel
- Identified key risks and controls for both procurement and contract compliance
- Obtained and reviewed applicable agreements with COH and HFC
- Coordinated discussions with COH to determine key contract terms and conditions
- Developed a test plan based on the audit objectives, risks and controls

FIELDWORK

- Selected a sample of purchase transactions designed to include the various purchasing methods
- Requested documentation including the PO, invoices, related contract, proposals, and other supporting documents to determine compliance with the purchasing policy
- Selected a sample of dates and locations that would allow us to review specific documentation for compliance with the Lease Agreement and Interlocal Agreement
- Requested documentation and performed testing to determine compliance with key terms and conditions
- Prepared and distributed periodic status reports to ensure COH and HFC management were aware of potential findings as they arose to facilitate related discussions in a timely manner

REPORTING

- Prepared and distributed a draft report to describe testing results and recommendations
- Conducted a closing meeting to discuss recommendations and management's written responses
- Prepared Stinnett & Associates' assessment of management's responses
- Obtained and incorporated HFC's Acknowledgment Statement in final internal audit report

IV. AUDIT METHODOLOGY

We conducted this performance audit under the direction of the City Controller's Audit Division, which follows Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. 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.

The scope of our work did not constitute an evaluation of the overall internal control structure of HFC or the City of Houston. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded, financial activity is accurately reported and reliable, and management and employees are compliant with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

V. CONCLUSIONS & SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses, see the "Detailed Findings, Recommendations, Management Responses, and Assessment of Responses" section of this report.

CONCLUSION 1 – (Audit Objective #1: Review the HFC procurement process)

Based on the procedures we performed, we concluded there is a need to strengthen policies and procedures to guide the procurement process and, in some cases, to better align the policies with what is actually occurring. See Findings #1 through #12 contained in the Section "Detailed Findings, Recommendations, Management Responses and Assessment of Responses".

CONCLUSION 2 – (Audit Objective #2: Evaluate the level of compliance with existing policies, procedures and/or guidelines)

Based on the procedures we performed, we concluded there is a need to strengthen internal controls and improve documentation to ensure consistency and compliance with existing procedures. See Findings #1 through #12 contained in the Section "Detailed Findings, Recommendations, Management Responses and Assessment of Responses".

CONCLUSION 3 – (Audit Objective #3: Review agreements between the City and HFC)

Based on the procedures we performed, we concluded the processes in place to establish and execute agreements between the City and HFC were generally considered effective. No findings were identified related to this objective.

CONCLUSION 4 – (Audit Objective #4: Evaluate compliance with key contract terms and conditions)

Based on the procedures we performed, we concluded there is a need to strengthen internal controls over Hazard Communication Plans, Remediation Plans After a Federally Declared Disaster, and Monthly Reconciliations. See Findings #13 through #15 contained in the Section "Detailed Findings, Recommendations, Management Responses and Assessment of Responses".

VI. ACKNOWLEDGEMENT & SIGNATURES

Stinnett & Associates would like to thank the City of Houston City Auditor and Staff and Houston First Corporation for their cooperation, time and efforts throughout the course of the audit.

Melinda F. Stinnett

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Melinda F. Stinnett
Managing Director

DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

PROCUREMENT

FINDING #1 – Lack of Timely Creation and Approval of POs (Risk Rating = Medium)

FINDING

Section 4.3 of the HFC Purchasing Policy states, "The HFC Purchasing Agent must approve emergency purchase orders before service is rendered or delivery is made." Section 11.0 of the HFC Purchasing Policy states, "Goods or services should not be received prior to the issuance of a purchase order or HFC contract."

We selected a sample of 25 purchase orders (POs), including Requests For Proposals (RFPs), Requests For Quotations (RFQs), Invitations To Bid (ITBs), Emergencies, and Job Orders. The dates the POs were approved were compared to the service dates or delivery dates, if we could determine them. Twenty (20) of these POs were approved after the goods or services were rendered, including two Emergency POs. Three (3) of the remaining POs were related to Job Orders, and we could not determine the service dates because the invoices did not include this information. In all of these cases, a contract or job order was dated the same day as, or prior to, the service date; however, contracts and POs generally serve different purposes and are not always interchangeable.

Management agreed POs are sometimes created after the receipt of these invoices, but stated POs are frequently used by the Finance Department for the sole purpose of tracking the expenditure of budgeted funds under a signed contract.

RECOMMENDATION

Management should ensure either POs are created and approved prior to goods and services being purchased or the policy is revised to describe those situations when a PO might be created after an invoice has been received. If the policy is revised, Management should also describe in the policy the other controls that are in place to ensure commitments to purchase goods and services are made only after appropriate approvals.

Management Response	*Person Responsible*	*Estimated Completion Date*
Management will comply with the recommendation.	Frank Wilson, CFO	January 31, 2020

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #2 – Inadequate Control of PO Authorization (Risk Rating = Medium)

FINDING

Management stated all POs are approved by the Purchasing Agent, and his approval is evidenced by his electronic signature on the face of the PO. Access restrictions in the Microsoft Dynamics AX system used for procurement are based on each user's unique ID and password, and Management's stated system controls prevent a PO from being created and approved by the same person.

However, when the Purchasing Agent needs to be away from the office for vacation, business travel, etc., the current practice entails disabling the function in AX that restricts access to approve POs to only the Purchasing Agent and giving PO approval authority to another member of the department. Approval by this user is accomplished by clicking the approval box on the electronic PO, which places the Purchasing Agent's signature on the PO. Since the POs approved by the Purchasing Agent look identical to the POs approved by another member of the department, it was not possible for us to determine whether the Purchasing Agent or another member of the Purchasing team reviewed and approved the POs in our sample.

Management stated the Purchasing Agent reviews an electronic list of all POs approved by the backup approver during his absence; however, this review is not documented.

RECOMMENDATION

Management should consider affixing the signature of the delegated approver, rather than the Purchasing Agent's electronic signature, to any POs they approve. Further, the Purchasing Agent's subsequent review of all POs approved by the backup person should be documented.

Management Response	***Person Responsible***	***Estimated Completion Date***
Management will create a written procedure to address this recommendation.	Mitch Miszkowski, Purchasing Agent	November 30, 2019

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #3 – Lack of Supporting Documentation for the Evaluation of Vendor Proposals (Risk Rating = Medium)

FINDING

Section 3 of the HFC Purchasing Policy describes the various processes to be used when requesting and awarding competitive bids/proposals for various types of work. The last paragraph in this section of the policy states, "...a selection committee will review and evaluate the proposals".

Subsequent to the scope period covered by this audit, HFC implemented a new Procurement Manual in January 2019. Accordingly, the transactions subject to that policy would have to be reviewed in a subsequent audit to determine compliance therewith.

A sample of POs approved during the scope period was selected that included examples of the various procurement methods. We requested and reviewed the documentation packets that supported the related contract proposal/bid evaluation and review process and noted the following:

- Five packets related to Invitations to Bid: Four of these packets did not include a scoring matrix; the one packet with a scoring matrix did not include any description or basis for the scores awarded to each proposal. Three of the packets did not mention a selection committee.
- Seven packets related to Requests for Qualifications: Three of the packets did not include a scoring matrix, and the packets that did include a scoring matrix did not always include a description or basis for the scores awarded to each proposal. Additionally, three of the packets did not include any evidence that a selection committee participated in the review.
- Seven packets related to Requests for Proposals: Two of the packets did not include a scoring matrix; the five packets with a scoring matrix did not include any description of basis for the scores awarded to each proposal. One packet did not include any evidence that a selection committee participated in the review.

Management stated each selection committee is responsible for documenting their selection process, and that some of the supporting documents requested could not be readily located due to several office relocations in the past five years.

RECOMMENDATION

Management should establish a uniform process for documenting the review and evaluation of vendor proposals to facilitate compliance with HFC's policies and promote transparency. The documentation should include guidance for scoring proposals as higher or lower and the names of the selection committee members. A record retention program should be implemented that includes creating electronic images of files to reduce paper copies and help ensure access to the records is safeguarded.

These efforts will help ensure HFC is able to demonstrate that a consistent, fair and impartial process was in place to support their evaluation and selection and strengthen public trust.

Management Response	***Person Responsible***	***Estimated Completion Date***
As of January 17, 2019, management has established a uniform process for documenting the review and evaluation of vendor proposals. This process will ensure that scoring matrices are utilized and maintained as part of the records for its selection process. Additionally, the names and titles of selection committee members will be part of the records. In addition, management will provide guidelines for scoring.	Frank Wilson, CFO	June 30, 2020

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #4 – Inadequate Documentation of Competitive Bidding Practices (Risk Rating = Medium)

FINDING

Section 3.1 of the HFC Purchasing Policy requires that competitive bids received be opened and read in public, General Counsel to review and recommend the winning bidder, and competitive bids be awarded on the basis of the lowest, responsible bid.

A sample of five POs related to contracts awarded through the competitive bidding process purchasing method was selected for testing. Management provided the supporting documentation used to evaluate each of the proposals received. We noted the following:

- There was no evidence stating whether the competitive bids received were publicly read. Management stated that they only read the bids out loud if vendors are present at the appointed time and no documentation is generated to state who was present or whether the bids were read out loud.
- There was no evidence that General Counsel provided a recommendation regarding the decision to award a contract to a particular vendor. Management stated General Counsel was involved but does not document the review or recommendation.
- The documentation supporting the award of the contract to the lowest bidder was not consistent and did not always provide sufficient evidence to support the selection of one bid over another.

RECOMMENDATION

Management should consider the following:

- Document the date, location, time, and vendors, who are present when the public reading of bids is conducted;
- Ensure evidence of the General Counsel's review and recommendation for awarding contracts is included in the documentation; and
- Establish a uniform process for the review, evaluation and selection of the lowest responsible vendors and retain such documentation.

Management Response	*Person Responsible*	*Estimated Completion Date*
The Purchasing Agent has elected to implement a sign-in sheet to record the date, location, time and attendance at the public bid opening. The form was first implemented on June 25, 2019. Under the current policy General Counsel does not make contract award recommendations; evaluation and selection criteria are stated in each solicitation and posted to the HFC website. (See also Section 6.4 and Article 7 of the Procurement Manual made effective January 17, 2019.)	Mitch Miszkowski, Purchasing Agent	Effective June 25, 2019

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #5 – Failure to Competitively Bid a Contract (Risk Rating = Medium)

FINDING

Section 3.0 of the HFC Purchasing Policy describes the various processes to be used when requesting and awarding competitive bids/proposals for various types of work. The first sentence in this section of the policy states, "With the exception of professional services, purchases over $50,000 are considered a formal bid and must go through the formal competitive bidding process…".

One of the six POs tested as part of the RFP process was not related to a proposal/bid posted on HFC's website. The contract for $412,662 was awarded to a vendor without a formal request for proposal/bid being posted, no competitive bids were received, and no selection committee was involved in the selection of this contractor.

RECOMMENDATION

Management should ensure competitive bids are employed, as required by the purchasing policy, or revise the purchasing policy to address situations where an alternate approach may be warranted.

Management Response	***Person Responsible***	***Estimated Completion Date***
Management concedes that the process utilized for the parking guidance system selection made by the former Chief Operating Officer and approved by the former President, should have been documented more clearly. The revised procurement manual dated January 17, 2019 provides specific guidance that requires a different procurement process for future procurements.	Frank Wilson, CFO	January 17, 2019

ASSESSMENT OF RESPONSE

Management's response does not adequately address the issue identified. Both RFP and competitive bid procurement methods were allowed in the Purchasing Procedure that was in effect during our review, but Management stated the documentation should have been clearer—presumably because the facts warranted using a method other than the one that was required by the policy. The revised Procurement Manual lists additional procurement methods that were not included in the previous manual but does not describe a process for selecting an alternate approach, when warranted—such as documenting the justification and obtaining approval at an escalated level.

FINDING #6 – Inappropriate Procurement Method Used (Risk Rating = Medium)

FINDING

In our review of RFQs, one of the seven POs we selected was dated February 21, 2017 and was approved for an amount of $740,945. This PO related to a construction contract awarded in 2014 for $3,038,680. HFC policy requires that this contract be awarded under the Invitation to Bid procurement method.

Section 3.1 of the HFC Purchasing Policy describes the differences between small construction projects and large construction projects and states, "With the exception of professional services, purchases over $50,000 are considered a formal bid and must go through the formal competitive bidding process…." According to Section 3.2, RFQs are used for certain professional services that include, but are not limited to, accounting, architecture, landscape architecture, land surveying, professional engineering, real estate appraising, and services provided in connection with the professional employment or practice of a person who is licensed or registered.

RECOMMENDATION

Management should ensure competitive bids are employed as required by HFC's purchasing policy or the policy is revised to describe those situations where an alternate approach is warranted and the approvals that are required, if there will be a departure from the primary procurement methods.

Management Response	***Person Responsible***	***Estimated Completion Date***
This recommendation was addressed in Houston First Corporation's Procurement Manual dated January 17, 2019. It should be noted that the vendor was selected as a result of the Construction manager-at-risk (CMAR) method in accordance with applicable law. While HFC routinely selects construction contractors via a low bid process (when design plans have been finalized), due to the necessity of completing the Avenida project before the 2017 Super Bowl and the size and complexity of the reconstruction of the Avenida Plaza, Partnership Tower, and North Garage, HFC determined that the CMAR method for selecting the general contractors for these projects was warranted.	Frank Wilson, CFO	January 17, 2019

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #7 – No Evidence to Support Incentive-Based Payments (Risk Rating = Medium)

FINDING

Section 3.3 of the HFC Purchasing Policy states, "Several of HFC's larger Service Contracts are performance based, meaning that the Contractor is eligible to receive performance incentive payments, contingent upon meeting established performance goals". The policy includes an example of a performance report card to calculate the degree to which the contractor's performance goals have been met.

From the sample of POs reviewed, we noted one of the vendors received three incentive payments totaling approximately $3,200 for security services during 2018, but no supporting documentation could be provided by Management to confirm an evaluation was completed based on either a performance report card or criteria outlined in Exhibit C of the contract, which describes the point system to be used when evaluating the vendor's performance related to four stated goals.

RECOMMENDATION

Management should ensure incentive payments are not made without a documented report card or other written evaluation of performance, as described in HFC policy, and the documentation should be retained as evidence of the evaluation.

Management Response	***Person Responsible***	***Estimated Completion Date***
Management will create a written procedure to address this recommendation.	Frank Wilson, CFO	January 31, 2020

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #8 – Lack of Purchase Requisitions (Risk Rating = Medium)

FINDING

Section 2.0 of the HFC Purchasing Policy states, "Requisitions for goods must clearly state the quantities, descriptions, specifications and delivery date," and "Requisitions to obtain services must contain a clearly developed scope of services indicating the services needed, responsibilities of provider and dates that services must be rendered."

None of the 25 POs selected for review during this audit were supported by a purchase requisition. HFC's management stated purchase requisitions are not consistently used in their current practice.

RECOMMENDATION

Management should either employ requisitions in conformance with the current policy any time goods or services will be purchased or establish alternative processes that mitigate the specific risks the purchase requisition was designed to address and revise the purchasing policy, accordingly.

Management Response	***Person Responsible***	***Estimated Completion Date***
Management will create a written procedure that outlines when requisitions are required.	Lisa Hargrove, General Counsel	March 31, 2020

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #9 – No Periodic Review of Policies (Risk Rating = Medium)

FINDING

For the period under review, HFC had a detailed Purchasing Policy to guide the delivery of goods, materials and services at competitive prices and in accordance with Texas law. Management stated this Purchasing Policy was developed prior to HFC's inception and adopted by HFC upon its establishment in 2011. The policy was not dated to show when it was implemented, and Management could not provide evidence that the policy had been reviewed to determine if updates were needed to reflect the current requirements, processes or objectives of Management.

Subsequent to the scope period covered by this audit, HFC implemented a new Procurement Manual in January 2019. Accordingly, the transactions subject to that policy would have to be reviewed in a subsequent audit to determine compliance therewith.

Additionally, HFC had a Code of Conduct for Vendors that established expectations for vendors who bid, propose or otherwise seek to provide goods and services to HFC. This Code was also not dated to show when it was implemented, and Management could not provide evidence that the Code had been reviewed or updated to reflect the current requirements, processes or objectives of Management.

RECOMMENDATION

Management should consider requiring a periodic review of HFC's policies and procedures on an established frequency, such as annually. The review should be documented.

Management Response	***Person Responsible***	***Estimated Completion Date***
Management remains committed to updating policies and procedures periodically in accordance with best practices and changes to applicable law and updated its manual January 17, 2019. Future reviews will be documented no less often than every three (3) years.	Lisa Hargrove, General Counsel	January 17, 2019

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #10 – Lack of Guidance for Credit POs (Risk Rating = Medium)

FINDING

Management provided an Open PO report generated from the Enterprise Resource Planning system for the period from July 1, 2016 through December 31, 2018 that included 47 PO lines with credits totaling $1,105,016.30. The HFC Purchasing Policy does not provide any guidance regarding the creation or approval of credits on a PO.

Management stated that a credit PO is sometimes used to correct an error when posting an invoice or payment against an existing PO. In the two examples we selected, Management stated the invoices were posted to the wrong accounting periods and the credits were requested by Accounts Payable to remove the invoices so they could be posted to the correct periods. However, there was no requirement to obtain approval from an authorized person in the department requesting a credit to correct an error.

RECOMMENDATION

Management should consider establishing formal procedures to ensure the appropriate use, supporting documentation and authorized approval for credits in POs.

Management Response	***Person Responsible***	***Estimated Completion Date***
Management has directed the Purchasing Agent to prepare a protocol on the creation, use and approval of PO credits due to minor or technical errors for the review and approval of the CFO.	Mitch Miszkowski, Purchasing Agent	November 30, 2019

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #11 – Inadequate Guidance for Monitoring, Closing and Cancelling POs (Risk Rating = Medium)

FINDING

Section 10.0 of the HFC Purchasing Policy states, "After a PO has been issued and it is determined that the item is no longer needed or a remaining balance requires liquidation, the end user must request in writing to cancel or close the Purchase Order."

The policy does not address the following:

- How should open POs be monitored to determine when the underlying activity has ended (services completed, or goods delivered)?
- What information should be provided in the written request to cancel or close a PO?
- Who should approve the request to cancel or close a PO?
- How is a PO cancelled or closed in the system?
- How may a cancelled or closed PO be re-opened, if additional invoices are received?
- What documentation should be retained, as evidence of the cancellation or closure?

RECOMMENDATION

Management should consider revising the purchasing procedure to establish processes for monitoring, cancelling and closing POs. Consideration should be given to utilizing the system to automatically flag POs without activity in the past 60 days for evaluation and action.

Management Response	*Person Responsible*	*Estimated Completion Date*
Management has directed the Purchasing Agent to prepare a protocol on closing POs, whether prompted by a departmental request or due to an extended period of inactivity. Such protocol will be subject to review and approval by the CFO.	Mitch Miszkowski, Purchasing Agent	November 30, 2019

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #12 – Lack of Comprehensive Guidance for Emergency POs (Risk Rating = Medium)

FINDING

Section 4.0 of the HFC Purchasing Policy defines emergency situations as those circumstances that require action by an HFC official to obtain goods or services without the bidding process. Approval requirements are identical to the requirements for other POs.

The policy states, "For purchases above $50,000, an emergency exists only in the case of a public calamity, where it becomes necessary to act at once:

a) To relieve the necessity of citizens;
b) To preserve property of the City and/or HFC;
c) To preserve or protect the health and safety of citizens; or
d) In case of unforeseen damage to public property, machinery or equipment as specified by State law."

Management stated the decision to designate a PO as an emergency is usually based on a request or placing a telephone call to the Purchasing Agent and no justification is documented. However, best practices would require written justification when designating a purchase as an emergency, including a description of the damage that would occur if the need is not satisfied immediately and why the requirements could not have been anticipated and met through normal procurement methods. Approval for emergency purchases is typically required by someone at a level higher than the approver of other POs to ensure the designation, which allows controls to be temporarily circumvented to protect personal safety or property, is warranted.

RECOMMENDATION

Management should consider revising the requirements for emergency purchases to require written justification that includes a description of the damage that would occur if the need is not satisfied immediately, an explanation as to why the requirements could not have been anticipated and met through normal procurement methods, and it should be approved by someone at a level higher than the approver for other POs.

Management Response	***Person Responsible***	***Estimated Completion Date***
Emergency Procurements, including definitions, principles and approval authority, have been incorporated into the Procurement Manual made effective January 17, 2019 (see Article 12).	Lisa Hargrove, General Counsel	January 17, 2019

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

CONTRACT COMPLIANCE

FINDING #13 – No Written Hazard Communication Plan (Risk Rating = High)

FINDING

Public-sector employers in Texas with hazardous chemicals (defined as either a health hazard or a physical hazard) in their workplaces are subject to the Texas Hazard Communication Act (THCA), Texas Health and Safety Code, Chapter 502. The THCA requires public-sector employers to develop, implement, and maintain at the workplace a written hazard communication program that describes how the employer will provide information, training and appropriate personal protective equipment to their employees, who may be exposed to hazardous chemicals in their workplaces. Public-sector employers must also compile a Workplace Chemical List that includes those chemicals normally present in excess of 55 gallons or 500 pounds. The list should be updated as necessary, but at least annually, dated and signed by the person responsible for compiling it, and maintained in the workplace for 30 years. The list may be prepared for an entire facility or individual work areas.

Management stated that there was no written hazard communication plan in place for any HFC facilities during the period of our audit. A Hazard Communication Program was subsequently implemented for the George R. Brown Convention Center in January 2019.

RECOMMENDATION

Management should ensure a written hazard communication plan is in place for each facility or work area where hazardous chemicals are stored that complies with all requirements of the THCA.

Management Response	*Person Responsible*	*Estimated Completion Date*
The Chief Operating Officer has been tasked to amalgamate and update existing facility-specific policies and inventories provided by in-house contractors to ensure THCA compliance, as operations have been recently consolidated under his leadership. He has also been tasked with providing the necessary training to the staff at the various facilities to ensure compliance.	Luther Villagomez, COO	June 30, 2020

ASSESSMENT OF RESPONSE

Management's response partially addresses the issues identified. Updating the existing Hazard Communication Program for one location will provide some of the information that must be included in the written hazard communication plans required for each facility or work area, but we cannot confirm that solely updating existing policies and inventories will meet the specific requirements of the THCA. Written hazard communication plans established by HFC will need to be mapped to the specific requirements from the Texas Hazard Communication Act and reviewed after the Estimated Completion Date in a follow-up project to determine the degree to which they comply with the requirements of the THCA.

FINDING #14 – Lack of Remediation Plans After a Federally-Declared Disaster (Risk Rating = Medium)

FINDING

Article 10.04 of the Lease Agreement, as amended on May 22, 2018, requires the parties to establish and approve federally-declared disaster procedures and protocols that establish the roles and responsibilities for remediation efforts in compliance with FEMA, US HUDD, and other agency guidance. HFC Management stated these disaster response procedures and protocols have not yet been developed.

RECOMMENDATION

Management should establish appropriate disaster recovery procedures and ensure they are approved by both HFC and the City of Houston.

Management Response	*Person Responsible*	*Estimated Completion Date*
Management will create a written procedure to address this recommendation.	Lisa Hargrove, General Counsel	June 30, 2020

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

FINDING #15 – Monthly Reconciliations Not Provided (Risk Rating = Medium)

FINDING

Article 5.04 of the Interlocal Agreement establishes HFC's responsibility for administration, collection, accounting and auditing of the City's HOT receipts. HFC is required to provide to the City's Finance Department, a monthly reconciliation regarding HOT collections. Management stated these reconciliations are performed, but they have not been provided to the City of Houston on a monthly basis.

RECOMMENDATION

HFC Management should ensure these reconciliations are provided monthly to the City's Finance Department, as required by the Interlocal Agreement.

Management Response	*Person Responsible*	*Estimated Completion Date*
Management has reviewed this matter and determined that a temporary interruption of monthly reporting to the City's Finance department did occur. Monthly reconciliation reporting is now being sent to the appropriate contact in the City of Houston's Finance Department.	Frank Wilson, CFO	March 1, 2019

ASSESSMENT OF RESPONSE

Management's response adequately addresses the issues identified, and the corrective actions are appropriate.

Houstonfirst.SM

Acknowledgement Statement

February 7, 2020

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: HOUSTON FIRST CORPORATION PERFORMANCE/CONTRACT COMPLIANCE AUDIT REPORT– ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES

I acknowledge that the management responses contained in the above referenced report are those of Houston First Corporation. Further, the report indicates on the bottom of page 2 that subsequent to the scope period covered by this audit, HFC implemented a new Procurement Manual in January 2019 that replaced the Purchasing Manual previously in place. The corporation's new Procurement Manual is responsive to most of the report findings, as noted in management's responses. In addition, I understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,

Frank F. Wilson

Frank F. Wilson
Chief Financial Officer
Houston First Corporation

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