



Office of the City Controller
FINANCE DEPARTMENT
Strategic Procurement Division
Procurement Performance Audit



Chris Brown
City Controller

Report # 2022-04

Courtney Smith
City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

August 17, 2021

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: 2022-04 FINANCE DEPARTMENT (FIN) STRATEGIC PROCUREMENT DIVISION (SPD)
PROCUREMENT PERFORMANCE AUDIT**

Mayor Turner:

The Office of the City Controller's Audit Division contracted the professional services of Horn Solutions, Inc. to conduct a performance audit of the City of Houston ("COH") Procurement Process as administered by the Finance Department's Strategic Procurement Division ("SPD"). SPD is the primary organization within the City authorized to issue bid invitations and requests for proposals, prepare and release purchase orders ("PO"), and administer supplier/vendor relationships and contracts. SPD's mission is to manage, facilitate, and provide the highest quality, value-added, procurement services that exceed the needs and expectations of its customers.

The primary audit objectives were to:

- Determine procurement processes related to the demand determination through purchase order processing phases of procurement;
- Determine compliance with applicable policies, procedures, ordinances, and/or guidelines;
- Determine if current procurement practices provide goods and services in a timely manner; and;
- Identify any potential bottleneck areas.

The engagement scope included the period from January 1, 2019 through March 31, 2020, which included purchasing activities from fiscal years 2019 ("FY2019") and 2020 ("FY2020").

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

- Well-defined and documented policies and procedures in the form of both Administrative Policies and a comprehensive Procurement Procedures Manual. The manual clearly aligns the related policies, procedure guidance, and applicable State laws, local government codes, and Federal grant requirements, as well as providing detailed guidance on the use



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of key systems (e.g., SAP, COH E-bid site) and key COH forms and approved document templates.

- Well-designed and easy to navigate website which provides detailed guidance to potential vendors regarding the bid / RFP lifecycle and access to all necessary forms, applications, and attachments applicable to conducting business with the COH.

Based on the procedures performed during the audit, the following opportunities for improvement and other noted exceptions were identified:

- Current document retention procedures were not adequate to facilitate the timely provision of supporting documentation for each procurement project selected for testing.
- Current reporting capabilities in SAP and E-bid do not facilitate efficient monitoring of whether expenditures below the statutory threshold satisfy the requirements related to contacting historically underutilized businesses (per Chapter 252 of the Texas Local Government Code) or obtaining the minimum number of quotes for these procurement types (per Code of Ordinances 15-52 and COH Administrative Policy 5-8 Informal Procurement). Because summary reports cannot be generated, the only means to monitor compliance and identify exceptions is to individually review the manual notes in each SAP PO.

Our audit procedures included an evaluation of the operational design and operational effectiveness of selected internal controls embedded within the business activities that are the responsibility of SPD. Internal controls for initiating, authorizing, recording, processing, and administering compliance requirements were included in this performance audit. To validate the operational effectiveness of the internal controls, selected testing was performed over an appropriate period-of-time to determine whether internal controls were operating as intended by SPD. The audit team selected a sample of twenty-five (25) procurements within the scope period for testing. As of June 8, 2021, the audit team did not receive complete documentation supporting seven of the twenty-five selected procurements. Due to this scope limitation, we are unable to determine an overall evaluation on the operating effectiveness of several of the internal controls, as detailed within the Exhibit - Summary of Controls Evaluated which is attached to this document.

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



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Respectfully submitted,

Chris B. Brown
City Controller

xc: Tantri Emo, Chief Business Officer/Director, Finance Department
City Council Members
Marvalette Hunter, Chief of Staff, Mayor's Office
Jerry Adams, Chief Procurement Officer, Finance Department
Arif Rasheed, Deputy Director, Finance Department
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

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EXECUTIVE SUMMARY

I. INTRODUCTION

The Audit Division of the Office of the City Controller engaged Horn Solutions Inc. to conduct an independent performance audit of the City of Houston Procurement Process as administered by the Finance Department's Strategic Procurement Division (SPD).

II. BACKGROUND

SPD is the primary organization within the City authorized to issue bid invitations and requests for proposals, prepare and release purchase orders, and administer term contracts. Its mission is to manage, facilitate, and provide the highest quality, value-added procurement services that exceed needs and expectations of its customers. SPD is one of the six divisions reporting to the Finance Department under the leadership of Tantri Emo, Chief Business Officer/Director. SPD is managed by Jerry Adams, Chief Procurement Officer. The division is comprised of six (6) buying groups, which were the focus of this procurement audit: Commodity & Equipment, Fleet, One-Time Purchases, Small Purchases, Specialized Commodities and Services, and Work Services.

SPD's roles and responsibilities include:

- Working with the City of Houston Departments to renew their contracts in a timely manner to ensure continuity of goods and/or services;
- Developing new contracts, from administering invitation to bid procedures (including establishing specifications for vendors), conducting specification workshops and pre-bid conferences, reviewing bids, and obtaining award recommendations from City of Houston Departments;
- Working with City of Houston Departments to prepare and issue Requests for Qualifications and Requests for Proposals;
- Monitoring SPD purchasing activities to ensure compliance with established policies and procedures, City ordinances, State laws, and other regulatory requirements;
- Process requisitions and issue purchase orders for non-contract goods and/or services in excess of the City of Houston Departments' spending authority; and
- Prepare Requests for Council Action to approve procurement contracts and non-contract purchase orders within the Council approval authority.

Based on the SAP data extracts provided to our team, during the 15 month-period from January 1, 2019 through March 31, 2020, SPD created over 5,000 purchase orders totaling approximately \$517 million. Of these, \$8.6 million were identified as emergency purchase orders, \$15 million as sole source procurements, and \$35 million as purchased through interlocal or cooperative agreements.

III. SCOPE AND OBJECTIVES

OBJECTIVES

As part of the City Controller's Fiscal Year 2019 Annual Audit Plan, Horn Solutions Inc. conducted an audit of the City of Houston - Finance Department's Strategic Procurement Division's procurement processes. The primary objectives were as follows:

- Determine procurement processes related to the demand determination through purchase order processing phases of procurement;
- Determine compliance with applicable policies, procedures, ordinances, and/or guidelines;
- Determine whether current procurement practices provide goods and services in a timely manner; and
- Identify any potential bottleneck areas.

SCOPE

The project scope included activities performed by the six SPD Buyer Groups: Commodities & Equipment, Fleet Services / Rolling Stock, One - Time Purchases, Small Purchases, Specialized Commodities and Services, and Work Services during the period from January 1, 2019 through March 31, 2020.

The engagement was conducted in three overlapping phases:

- Preliminary Survey and Planning – gathered information from appropriate sources to develop a detailed fieldwork plan;
- Fieldwork – gathered, analyzed, and evaluated evidence to meet the stated audit objectives; and
- Reporting – documented support for conclusions and communicated conclusions to stakeholders.

TEAM MEMBERS

- Courtney Smith – City Auditor, City of Houston
- John Sorrells – Managing Director, Horn Solutions, Inc.
- Carmen Church – Senior Manager, Horn Solutions, Inc.
- Gillian Boyer – Senior Manager, Horn Solutions, Inc.
- Brittany Stampley – Consultant, Horn Solutions, Inc.

IV. PROCEDURES PERFORMED

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, Horn Solutions Inc. performed the following procedures:

Preliminary Survey and Planning (Phase 1):

Gathered information from appropriate sources for use in the development of a detailed Fieldwork Plan (including a detailed Audit Program) to ensure the accomplishment of the engagement objectives. Activities included, but were not limited to, the following:

- Submitted an initial data request to SPD.
- Conducted an opening meeting with the City Controller's Office Audit Division and Finance Department representatives.
- Conducted an SPD opening meeting and strategy session with the Chief Procurement Officer and selected Division Managers.
- Interviewed key personnel from the buying groups listed below to understand the demand determination through purchase order phase(s) of the procurement process and evaluate operational design.
 - Small Purchases
 - Commodities & Equipment
 - One - Time Purchases
 - Fleet Services / Rolling Stock
 - Work Services
 - Specialized Commodities and Services
- Identified general inherent risks embedded within procurement processes that will be a key focus while completing the Fieldwork plan.

Fieldwork (Phase 2):

During fieldwork, evidence that met the stated audit objectives was gathered, analyzed, and evaluated. Fieldwork activities included, but were not limited to, the following:

- Prepared process flow diagrams for each procurement type used by SPD buying groups to illustrate the operational design of the in-scope processes.
- Prepared a Risk and Controls Matrix to detail inherent risks embedded within the processes, corresponding internal controls, and any identified significant residual risks.
- Developed the Testing Program for assessing the operational effectiveness of internal controls.
- Selected testing samples in accordance with Audit Division guidelines.
- Prepared documentation to identify preliminary exceptions and proposed recommendations.

Reporting (Phase 3):

During reporting, support for conclusions was documented and communicated to stakeholders. Activities included, but were not limited to the following:

- Prepared a formal internal audit report.
- Provided audit workpaper documentation to support conclusions reached.

V. AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with 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.

The scope of our work did not constitute an evaluation of the overall internal control structure of SPD 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 management and employees are compliant with laws, regulations, and policies and procedures. The audit objectives are to provide management with reasonable, but not absolute, assurance that the controls are in place, operating as intended, and effective.

VI. CONCLUSIONS & SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below. For detailed findings, recommendations, management responses, comments, and an assessment of responses, see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

CONCLUSION 1 – (Audit Objective #1: Determine procurement processes related to the demand determination through purchase order processing phases of procurement)

The Strategic Procurement Division’s processes and procedures for vendors and suppliers are very well defined and available to the general public through the COH website. From our review of the operational design of the Bid and Request for Proposal (or Request for Qualifications) processes, the procurements serviced by each buyer group during the in-scope period were aligned with these processes.

CONCLUSION 2 – (Audit Objective #2: Determine compliance with applicable policies, procedures, ordinances, and/or guidelines)

Of the twenty-five procurements selected for detailed attribute testing during the course of this audit, the complete set of requested documents was received for eighteen procurements. For these eighteen, the Strategic Procurement Division is generally in compliance with applicable City of Houston policies, procedures, and ordinances, with minor exceptions noted (see the six findings within the “Detailed Findings and Recommendations” section of this report). However, for the remaining seven sampled procurements, key documents were not available, or were not provided, for our review. As a result, there is no available documentation to support an evaluation that all processes and procedures were appropriately followed for those procurements. In addition, it took SPD a significant amount of time to produce supporting information, indicating there may be opportunity to improve document retention processes and procedures to ensure complete and appropriately approved documentation can be produced upon request, either internally or for independent third-party assessments being performed.

CONCLUSION 3 – (Audit Objective #3: Determine if current procurement practices provide goods and services in a timely manner)

Based on the projects evaluated during the course of this audit, the Strategic Procurement Division typically completes procurement activities in a reasonably timely manner once the scope of work/technical specifications are defined by the requesting Department(s). For all procurements selected for testing which were managed by the Small Purchases buying group, the time elapsed between purchase requisition date and purchase order date was five days or less. For the procurements selected for testing which were managed by the remaining five buying groups, the elapsed time was evaluated based on comparison of either department request date or start of applicable budget year to the Request for Council Action creation date. Elapsed time was typically between one to three months, with a few exceptions for more complex procurements extending to six to eight months.

CONCLUSION 4 – (Audit Objective #4: Identify any potential bottleneck areas)

As noted above, the Strategic Procurement Division completes procurement activities in a reasonably timely manner. Potential areas of process improvement to increase efficiency include: (1) ensuring SPD personnel are aware of the availability of the listing of approved interlocal and cooperative purchasing agreements to reference and facilitate effective use of available pricing alternatives; (2) enhancing the data capture and system reporting capabilities to facilitate monitoring compliance with regulations related to obtaining a minimum number of quotes for procurements below the statutory threshold; and (3) developing procedural guidance regarding required vendor documents by type of goods/services, by procurement method, and for each SPD buying group to ensure all documents are obtained and retained in a location that can be efficiently accessed in the future.

VII. ACKNOWLEDGEMENT & SIGNATURES

Horn Solutions would like to thank the Office of the City Controller’s City Auditor and the Strategic Procurement Division for their cooperation, time, and efforts throughout the course of the audit.



John Sorrells,
Managing Director

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

FINDING #1: Use of New Emergency Purchase Order (EPO) to Process Outstanding Invoice Amounts for an Existing EPO

TYPE: Control Operation

CRITERIA

In accordance with AP No. 5-11, Exceptions to Competitive Procurements, to evidence compliance with Texas State Local Government Code Section 252.022 (which states that emergency purchases can be made in situations of public calamity when there is an immediate need to relieve necessity of the municipality's residents or to preserve the property of the municipality; to preserve or protect the public health or safety of the municipality's residents; and to pay for unforeseen damage to public machinery, equipment, or other property), all emergency purchases are supported by an Emergency Purchase Justification Form, which documents the nature and cause of the emergency, and the estimated impact or damage (financial or otherwise) that may result from following standard procurement procedures. The Chief Procurement Officer (or designee) verifies that the Emergency Purchase Order (EPO) meets Texas Local Government Code requirements prior to approving the form and, for EPOs that exceed \$50,000, City Council approval must be obtained either before issuing the EPO or as soon as possible after issuing the EPO.

FINDING

The emergency purchase order (EPO) process was used to approve approximately \$46,000 of additional expenditures outstanding from invoice amounts related to an EPO-approved procurement of approximately \$137,000. The outstanding amounts were recorded in a new EPO number and new SAP PO number, rather than modifying the original PO. Because the total additional expense was less than \$50,000 (including current fiscal year spend for this vendor), and was processed in the fiscal year subsequent to the payments related to the initial \$137,000 PO, this EPO was submitted for only CPO approval, Council approval was not obtained.

As both the initial and the second SAP POs originated for this expense were dated in FY20, and the additional amount of \$46,000 represents a 34% increase over the original PO, specific approvals may not have been obtained in accordance with the standard COH procurement process procedures.

- Original PO (EPO-JSA-02222019, SAP PO #4500308580)
 - Amount: \$136,838
 - SAP PO Date: 8/23/2019
 - Approval: Council Motion #2019-0410 passed on 8/7/2019

- Second PO (EPO# JSA-11252019-001, SAP PO# 4500314498)
 - Amount: \$46,197
 - SAP PO Date: 12/3/2019
 - Invoice dates included in amount: September 2018 – September 2019
 - Approval: No RCA submitted

RECOMMENDATION

Additional expenditures on an approved PO should be processed through a PO modification to ensure all associated costs are accurately reported and approved appropriately.

Management Response	Person Responsible	Estimated Completion Date
PO modification may be one method of accomplishing this. SPD will investigate and develop a work instruction including corrective action.	Jerry Adams	July 30, 2021

ASSESSMENT OF RESPONSE

Sufficient

FINDING #2: Unapproved 0% MWBE Goal in ITB and Advertisement; RCA Indicated That 11% Was Advertised**TYPE: Control Operation****CRITERIA**

Per the COH Code of Ordinances, Chapter 15, Article V (Minority, Women and Small Business Enterprises (MWSBE)), it is the policy of the city to stimulate the growth of local minority, women and small business enterprises by encouraging the full participation of these business enterprises in various phases of city contracting. Section 15-84.1. (a) (4) states that, "each department director shall be accountable for the oversight and implementation of the following activities...reviewing each request for waiver or modification of participation goals prior to its submission to the office of business opportunity for approval". The audit team evaluated whether: (1) Office of Business Opportunity (OBO) approval was obtained for Minority, Women and Small Business Enterprises (MWSBE) waivers; (2) the approved participation goals were accurately included in the solicitation documents; and (3) the approved and advertised participation goals were summarized accurately in the Request for Council Action (RCA) submitted to City Council.

FINDING

The MWBE goal of 0% included in the invitation to bid (ITB) and advertisement for one procurement project was not yet approved by OBO when issued to prospective bidders. Also, contradictory to the above, the RCA indicated that 11% was advertised, with a subsequent reduction to 0% based on Pre-Award Good Faiths Effort.

- PO# 4500298341 (dated 3/5/19).
- The associated Invitation to Bid No. S80-N28810 (dated 11/9/18) and advertisement (11/9/18) included a 0% MWBE goal. However, the associated Request for Council Action (dated 12/5/18) indicated that the bid was issued with an 11% goal and that there was an approved Good Faith Effort submitted and approved by the OBO.
- While there is evidence of a submitted Goal Modification Request Form (11/1/18), there is no evidence of OBO approval.
- Finally, while there is a Pre-Award Good Faiths Effort Memo approved by OBO Deputy Director dated 1/4/19; it is after the ITB and advertisement that indicated a 0% goal, and also indicates that the project was advertised with an 11% goal.

The exact cause of the difference in the above stated documents is difficult to determine. Although there is evidence of an unsigned Solicitation Worksheet indicating a goal of 11%, while the signed version indicates "N/A" in the MWBE Goal data fields, this also does not clearly determine the cause for the error.

RECOMMENDATION

Enforce procedures to review and approve all ITB documents and advertisements prior to publication, including verification that approved MWBE waiver/good faith efforts documentation exists.

Management Response	Person Responsible	Estimated Completion Date
In collaboration with OBO, SPD is implementing a contract specific goal program. Further, no solicitation will be approved for advertisement without a compliant goal / goal waiver in the backup.	Jerry Adams	Completed 9/1/2020

ASSESSMENT OF RESPONSE

Sufficient

FINDING #3: The “Request to Purchase from Cooperative/Interlocal” Form Is Not Consistently Used to Document the Approval of All Exceptions to a Competitive Procurement

TYPE: Control Design

CRITERIA

Administrative Policy No. 5-11, Exceptions to Competitive Procurements, Section 5.4., Interlocal Agreements, indicates in 5.4.1, “A department seeking to purchase through an interlocal agreement shall complete the Request to Purchase from Cooperative/Interlocal form”.

FINDING

Current practice is that all emergency vehicles (e.g., vehicles procured for the Houston Fire Department) are purchased using interlocal agreements, without a “Request to Purchase from Cooperative/Interlocal” form being required. However, SPD is unable to locate documentation to support this variance from policy.

RECOMMENDATION

Adhere to policy requirements and obtain an approved “Request to Purchase from Cooperative or Interlocal” form for all such procurements, or alternatively, revise the policy document to allow these specific exceptions.

Management Response	<i>Person Responsible</i>	<i>Estimated Completion Date</i>
SPD realized this missing document. In previous corrective action, SPD is committed to developing a project document checklist which will be signed off and approved prior to advertisement.	Jerry Adams	July 1, 2021

ASSESSMENT OF RESPONSE

Sufficient

FINDING #4: SPD Does Not Utilize a Listing of Approved Interlocal And Cooperative Purchasing Agreements as Indicated by the Procurement Procedures Manual

TYPE: Process Improvement Opportunity

CRITERIA

Per Section 1.b of the Interlocal and Cooperative Purchasing Procedures section of the COH Procurement Procedures Manual (Strategic Procurement Division, Version 1.3, July 1, 2018), “SPD ensures that the listing of approved Interlocal and Cooperative Purchasing Agreements is up-to-date and available to all Buyers”.

FINDING

SPD Division Managers are unaware of a listing of approved Interlocal and Cooperative Purchasing Agreements and instead rely on their familiarity with previously used agreements to determine whether a specific purchase can be made through an interlocal or cooperative agreement. This may result in “missed” opportunities to utilize such agreements to facilitate efficient procurement and obtain the best value to the City.

RECOMMENDATION

Maintain a listing of approved Interlocal and Cooperative Purchasing Agreements for specific goods and services, and ensure this listing is available and accessible by all necessary SPD personnel.

Management Response	<i>Person Responsible</i>	<i>Estimated Completion Date</i>
SPD managers have since been advised (as well as all procurement staff) of this listing on the “Z” drive.	Jerry Adams	June 1, 2021

ASSESSMENT OF RESPONSE

Sufficient

FINDING #5: Lack of Efficient Means of Monitoring Compliance with Requirements for Contacting Historically Underutilized Businesses and Obtaining Minimum Number of Quotes

TYPE: Process Improvement Opportunity

CRITERIA

Expenditures exceeding \$3,000 and below the statutory threshold (currently \$50,000) are subject to requirements for contacting historically underutilized businesses as mandated by Chapter 252 of the Texas Local Government Code (Sec. 252.0215); and the minimum number of quotes required per the Houston Code of Ordinances (15-52). In addition, the COH Administrative Policy 5-8 Informal Procurement, states:

5.1.1 Informal bids must be solicited for purchases in excess of \$3,000 and up to the amount set by relevant law (currently \$50,000). Written quotations are required and must be current and properly documented. Quotations obtained for a specific requisition are considered stale after 90 days and must be refreshed before proceeding.

5.1.2 A no-bid response does not satisfy the three quotation minimum. If three quotations cannot be obtained, efforts shall be documented and reported to the CPO.

5.1.3 Before any expenditure of more than \$3,000 but less than \$50,000 is made, bids must be solicited from at least two Historically Underutilized Businesses (HUBs), if certified as such by the Office of Business Opportunity (OBO). If there are no OBO-certified firms for the particular purchase, the State of Texas Historically Underutilized Business Directory shall be consulted to determine if there are any locally certified HUBs eligible to bid on the project.

FINDING

SPD utilizes the eBid platform, which automatically engages all registered COH vendors for all bid opportunities. This action is automatic and is designed to meet the threshold of engagement of HUB vendors. In the event at least two historically underutilized businesses are not included in the population of registered COH vendors, and/or the three-quote minimum cannot be satisfied for a procurement, Buyers in SPD's Small Purchases division add notes to the SAP PO to evidence the efforts to meet the requirements. However, current reporting capabilities in SAP and E-bid do not facilitate efficient monitoring of whether expenditures below the statutory threshold are satisfying the requirements related to contacting historically underutilized businesses or obtaining the minimum number of quotes. Because summary reports cannot be generated, the only means to monitor compliance and identify exceptions is to individually review the manual notes in each SAP PO.

RECOMMENDATION

Implement a means to identify, and efficiently monitor, compliance with regulations related to contacting historically underutilized businesses and obtaining the minimum number of quotes.

Management Response	Person Responsible	Estimated Completion Date
<p>As referenced previously, SPD has instilled the use of the City’s eBid platform for all DPUs. By utilizing the eBid platform, all registered COH vendors are notified of every formal and informal procurement that is published. By virtue of this blanket notification, the City is engaging all available vendors, HUB and non HUB for every available solicitation, thereby meeting this requirement.</p>	<p>Jerry Adams</p>	<p>9/1/2020</p>

ASSESSMENT OF RESPONSE

Sufficient

FINDING #6: Lack of Efficient Means of Identifying Required Vendor Documents**TYPE: Process Improvement Opportunity****CRITERIA**

Multiple sections of the COH Procurement Procedures Manual reference required vendor documentation, including:

- Section 1.2 Purchase Order – vendor documents required to support a purchase order (Insurance forms, Drug Policy, Fair Campaign Ordinance);
- Section 3.1 Invitation to Bid (ITB) - vendor documents required to be evaluated to determine whether a bid is responsive (Signed “Offer and Submittal Form”, Any conditions in vendor bids, Electronic Bid Form, Fair Campaign Ordinance, Statement of Residency, Conflict of Interest Questionnaire, and Affidavit of Ownership); and
- Section 3.2 Request for Proposal - the vendor documents required to review a proposal’s responsiveness (Signed and notarized “Offer and Submittal Form”, Any conditions in vendor proposals, Affidavit of Ownership, Fair Campaign Ordinance, Statement of Residency, Conflict of Interest Questionnaire, M/WBE Participation Plan).

In addition, guidance on some required vendor documents is published on the Guide to Doing Business with The City page of the COH SPD website. Examples include:

- The Mayor's Drug Policy for Contractors states that as a condition of the award of any contract or purchase order for labor or services, the successful bidder must comply with the Mayor's Drug Detection and Deterrence Procedures for Contractors as specified in the Bid or Request For Proposal package by completing, printing, signing and submitting the mandatory Drug Forms.
- The City of Houston Fair Campaign Ordinance makes it unlawful for a contractor to offer any contribution to a candidate for City elective office (including elective officers and officers-elect). All respondents to a Request For Proposals must comply with Houston Code of Ordinance Chapter 18-36 as amended relating to the contribution and solicitation of funds for election campaigns....For the purpose of this ordinance, a CONTRACT is defined as each contract having a value in excess of \$30,000.00 that is let by the City for professional services, personal services, or other goods or services of any other nature whether the contract is awarded on a negotiated basis, request for proposal basis, competitive proposal basis or formal sealed competitive bids. A statement disclosing the names and business addresses of each of those persons will be required to be submitted with each bid or proposal for a city contract. Completion of the form entitled “Contractor Submission List” will satisfy this requirement.

FINDING

To assist SPD Buyer Groups address overflow, procurements for specific goods and services may be assigned to other Buyer Groups unfamiliar with these goods or services and the associated required vendor documents. Because each SPD Buyer Group may have different document requirements and retention practices, and specific characteristics of each procurement can also impact the documentation requirements, all required documentation may not be obtained to support the expense.

RECOMMENDATION

To ensure all required vendor documents are obtained, submitted with the RCA as necessary, and retained in the appropriate document retention location in a manner that can be efficiently accessed in the future, develop summarized guidance to facilitate buyers efficiently determining the complete list of required vendor documents applicable to each procurement. The guidance should identify required vendor documents based on the relevant characteristics, which may include:

- Type of solicitation (e.g., formal bid, informal bid, request for proposals (RFP), etc.);
- Type of procurement (e.g., goods, labor, services);
- SPD Buyer Group managing the procurement, and
- Alternative documents/forms that can satisfy the requirement.

As COH Forms are revised, consolidated, or deemed no longer required, updates to this procedure guidance could assist with timely notification to, and consistent understanding by, all impacted SPD personnel.

Management Response	Person Responsible	Estimated Completion Date
SPD spends a considerable amount of time cross-training procurement associates so that they have the expertise to process any of the common procurement methodologies with equal skill. We have recognized that a desktop procedure / manual will enhance the process, which will include a document checklist for each of the procurement processes.	Jerry Adams	9/1/2021

ASSESSMENT OF RESPONSE

Sufficient

EXHIBIT – Summary of Controls Evaluated

	Detailed Control Description	SPD Groups Subject to Control	Evaluation of Control Design Effectiveness	Test Sample Scope Limitations	Evaluation of Control Operation for Test Sample
1	Role-based authority limits and automated workflow in SAP enforce the limits defined by each Department and automatically submit purchase requisitions to appropriate approvers to release the requisition. The Purchase Requisition Line Release Strategy is based on funded/non-funded, grant/non-grant, amount, and type of material. In addition, SAP automated controls prevent the associated Purchase Order from being issued until each line of the purchase requisition has been appropriately approved.	RS S/OTP IP	Effective	None. Sufficient evidence of automated control functionality obtained.	Effective
2	SPD Buyers utilize a variety of methods to obtain complete and accurate scope of work/technical specifications prior to initiating procurement activities, including review of prior SAP purchase orders and award information and conducting workshops with Departments. Departments then review and approve the solicitation documentation prepared by the SPD buyer (Invitation to Bid (ITB), Request for Proposal (RFP)) prior to publication.	PS RA S/OTP WS	Effective	Of 21 samples > \$50k, ITB/RFP package approved by Department not received for 3	Inconclusive
3	A Memo of Understanding (MOU) is agreed to by SPD and the Department to document the appropriate procurement method, estimated budget, and procurement timeline.	C PS WS S/OTP	Effective	Of 21 samples > \$50k: -MOU not received for 2; -Only unsigned MOU received for 2	Inconclusive
4	Each Buyer verifies that a signed Certification of Funds (with current fiscal year and out years) has been provided to the Strategic Procurement Division, or that the applicable WBS has been established and funded in SAP, prior to initiation of procurement activity. In addition, a Certification of Funds Memo/Form A (updated if necessary to reflect final amounts for the recommended vendor(s)) is required to be included in the Request for Council Action (RCA) package.	C PS RS WS S/OTP	Effective	Certification of Funds not received for 2 of 25 samples.	Inconclusive
5	In accordance with AP No. 5-11, Exceptions to Competitive Procurements, to evidence compliance with Texas State Local Government Code Section 252.022 (which states that emergency purchases can be made in situations of public calamity when there is an immediate need to relieve necessity of the municipality's residents or to preserve the property of the municipality; to preserve or protect the public health or safety of the municipality's residents; and to pay for unforeseen damage to public machinery, equipment, or other property), all emergency purchases are supported by an Emergency Purchase Justification Form, which documents the nature and cause of the emergency, and the estimated impact or damage (financial or otherwise) that may result from following standard procurement procedures. The Chief Procurement Officer (or designee) verifies that the Emergency Purchase Order (EPO) meets Texas Local Government Code requirements prior to approving the form and (for EPOs > \$50,000) City Council approval must be obtained either before issuing the EPO or as soon as possible after issuing the EPO.	RS WS S/OTP	Effective	Of 5 EPO samples, approved Emergency Purchase Justification Form not received for 1	Inconclusive

SPD Buying Groups at the time controls were documented:
 CP-Commodity Purchases; IP- Informal Purchases; PS-Professional Services;
 RS-Rolling Stock (Fleet); WS-Work Services; S/OTP-Specialized/One-Time Purchases

EXHIBIT – Summary of Controls Evaluated *(continued)*

	Detailed Control Description	SPD Groups Subject to Control	Evaluation of Control Design Effectiveness	Test Sample Scope Limitations	Evaluation of Control Operation for Test Sample
6	In accordance with AP No. 5-11, Exceptions to Competitive Procurements, departments seeking to make a sole source purchase must complete the Sole Source Justification Form, which must be approved by the Chief Procurement Officer, or designee, prior to the purchase being made. If the purchase exceeds \$50,000, the City Council also must approve the purchase before the purchase order is issued.	C PS RS WS S/OTP	Effective	None	Effective
7	In accordance with AP No. 5-11, Exceptions to Competitive Procurements, departments seeking to purchase through a cooperative purchasing program or interlocal agreement must complete the Request to Purchase from Cooperative/Interlocal Justification Form which must be approved by the Chief Procurement Officer, or designee, prior to the purchase being made.	C PS RS WS S/OTP	Improvement Opportunities (See Findings #3 and #4)	None	Effective
8	For technology-related staff augmentation through a Cooperative agreement, in accordance with EO 1-59 (Technology related purchases from cooperatives), the Chief Procurement Officer (or designee) must approve the purchase if the services are expected to exceed 3 months, and Legal must approve services expected to exceed eighteen months or \$300,000 in the first 365 days, prior to the purchase being processed.	PS	Effective	None	Effective
9	For technology purchases through a Cooperative agreement, in accordance with EO 1-59 (Technology related purchases from cooperatives), the CTO/HITS Deputy CIO (or designee) approves the "Request to Purchase from Cooperative/Interlocal Justification Form" to evidence review for compliance with technology standards and existing contracts.	PS S/OTP	Effective	None	Effective
10	Prior to fulfilling any procurement project through a cooperative or interlocal agreement, the SPD Buyer performs an analysis of the pricing through the agreement, direct pricing from the vendor, and/or market pricing from other vendors to verify that the cooperative/interlocal agreement provides the best value to the City.	C PS RS WS S/OTP	Effective	None	Effective

SPD Buying Groups at the time controls were documented: CP-Commodity Purchases; IP- Informal Purchases; PS-Professional Services; RS-Rolling Stock (Fleet); WS-Work Services; S/OTP-Specialized/One-Time Purchases
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EXHIBIT – Summary of Controls Evaluated *(continued)*

Detailed Control Description	SPD Groups Subject to Control	Evaluation of Control Design Effectiveness	Test Sample Scope Limitations	Evaluation of Control Operation for Test Sample
11 In the event at least two historically underutilized businesses cannot be contacted, and/or the three-quote minimum cannot be satisfied, Buyers in SPD's Informal Purchases division add notes to the SAP PO to evidence the efforts to meet the requirements.	IP	Improvement Opportunities (See Finding #5)	None	Effective
12 To ensure compliance with the Texas State Local Government Code (Title 8. Acquisition, sale, or lease of property Subtitle a. Municipal acquisition, sale, or lease of property Chapter 252. Purchasing and contracting authority of municipalities), which details the requirements for competitive sealed bids, all expenditures in excess of \$50,000 follow a competitive procurement process, with any exceptions approved by the CPO prior to the purchase, and are approved by City Council.	CP PS WS RS S/OTP	Effective	Of 21 samples > \$50k, motion / ordinance not received for 3	Inconclusive Potential exception of 1 procurement (See Finding #1)
13 To ensure compliance with the Professional Services Procurement Act of the Texas Government Code (Chapter 2254) and the Houston Code of Ordinances Sec. 15-48, which mandate that price not be considered in such selection, all professional services of architects, engineers, and land surveyors are processed through the Request for Qualification (RFQ) process.	PS WS S/OTP	Effective	None	Effective
14 ITB/RFP package and advertisement are reviewed and validated against the scope of work/technical specifications and then approved by the SPD Group Manager and the Chief Procurement Officer prior to the advertisement being published.	CP PS RS S/OTP WS	Effective	Of 21 samples > \$50k: -Solicitation document not received for 1; -Advertisement not received for 1; -Evidence of approval of advertisement not received for 1	Inconclusive
15 To ensure compliance with Sec. 252.041. Notice Requirement, which requires that the date of the first publication be before the 14th day before the date set to publicly open bids and read them aloud, the SPD Division Manager and the Chief Procurement Officer approve all ITB/RFP packages and advertisements verifying that the due date is at least 14 days subsequent to the advertisement publication date.	CP PS WS RS S/OTP	Effective	Of 21 samples > \$50k: -Solicitation document not received for 1; -Advertisement not received for 1; -Evidence of approval of advertisement not received for 1	Inconclusive

SPD Buying Groups at the time controls were documented: CP-Commodity Purchases; IP-Informal Purchases; PS-Professional Services; RS-Rolling Stock (Fleet); WS-Work Services; S/OTP-Specialized/One-Time Purchases

EXHIBIT – Summary of Controls Evaluated *(continued)*

	Detailed Control Description	SPD Groups Subject to Control	Evaluation of Control Design Effectiveness	Test Sample Scope Limitations	Evaluation of Control Operation for Test Sample
16	The City Secretary's Office clocks the date and time each bid is submitted and read.	C PS WS RS S/OTP	Effective	None	Effective
17	The SPD Buyer creates a memo to support any bid/proposal deemed non-responsive and the applicable SPD Division Manager reviews and signs the memo.	CP PS WS RS S/OTP	Effective	None	Effective
18	In accordance with AP No. 5-9 Competitive Sealed Bids, and in compliance with the Houston Code of Ordinances Sec. 15-46, the SPD Buyer ensures that for best-value-bids, an evaluation committee of at least three members, selected in the same manner as an evaluation committee for an RFP, evaluates the bids based on criteria stated in the Invitation to Bid (ITB) by preparing the evaluation criteria worksheet based on the ITB and providing the document for use by the evaluation committee.	CP PS WS RS S/OTP	Effective	None	Effective
19	To ensure compliance with Houston Code of Ordinances Sec. 15-47. - Request for proposals, all RFP solicitation documents are approved by the Chief Procurement Officer prior to publication to ensure they state the scope of services, the process that will be followed, the criteria that will be considered in the evaluation of proposals, and a list of submission requirements. In addition, the SPD Buyer prepares the evaluation criteria worksheet based on the RFP and providing the document for use by the evaluation committee.	PS WS SOTP	Effective	Of 21 samples > \$50k: Approved solicitation documents not received for 1; RFP not received for 1 (needed to allow reconciliation to evaluation criteria worksheet)	Inconclusive
20	In accordance with AP No. 5-9 Competitive Sealed Bids, the SPD Buyer ensures that the Notice of Award/Notice of Intent to Award is only submitted to the successful bidder after City Council approves the award and the Chief Procurement Officer approves the memo.	CP PS WS S/OTP	Effective	Notice of Award/Notice of Intent to Award not received for 3 of 25 samples	Inconclusive

SPD Buying Groups at the time controls were documented: CP-Commodity Purchases; IP-Informal Purchases; PS-Professional Services; RS-Rolling Stock (Fleet); WS-Work Services; S/OTP-Specialized/One-Time Purchases

EXHIBIT – Summary of Controls Evaluated *(continued)*

Detailed Control Description	SPD Groups Subject to Control	Evaluation of Control Design Effectiveness	Test Sample Scope Limitations	Evaluation of Control Operation for Test Sample
21 For each informal purchases procurement project, the buyer reviews the SAP Vendor Spend Report to determine whether total fiscal year-to-date purchases from the vendor will exceed \$50,000 upon completion of the open procurement. In the case the threshold will be exceeded, the buyer will coordinate with the CPO to determine whether a contract should be executed.	IP	Effective	None	Effective
22 The Certification of Funds provided by the Department to SPD indicates whether a procurement project is grant-funded. To ensure compliance with grant-specific requirements, SPD completes agency-specific checklists and the Assistant Chief Policy Officer and/or Legal will be involved in evaluating the sponsor terms to the extent necessary.	CP PS RS WS S/OTP	Effective	Of 2 samples identified as grant-funded, agency-specific checklists not received for either	Inconclusive
23 The achievement of M/WBE participation goals defined in the solicitation documentation is summarized in the RCA package reviewed by City Council	CP PS RS WS S/OTP	Effective	Of 8 samples > \$50k, and not EPO/Sole Source/ Interlocal/ CoOp: -OBO Waiver not received for 1 -Documents which need to be reconciled to OBO documentation not received for 3 (e.g., RCA, solicitation documents)	Inconclusive Potential exception of 1 procurement (See Finding #2)
24 The Assistant Chief Policy Officer documents responses to protests and the Chief Procurement Officer reviews and signs the document prior to submission to the vendor, with a copy to Legal.	All	Effective	None	Effective
25 Automated SAP workflow ensures that POs are routed for approval and release in accordance with the Purchase Order Release Strategy, which defines approval requirements based on value and whether the PO includes capital project/capital Service Release Order or not.	All	Effective	None. Sufficient evidence of automated control functionality obtained.	Effective

SPD Buying Groups at the time controls were documented: CP-Commodity Purchases; IP-Informal Purchases; PS-Professional Services; RS-Rolling Stock (Fleet); WS-Work Services; S/OTP-Specialized/One-Time Purchases

EXHIBIT – Summary of Controls Evaluated *(continued)*

	Detailed Control Description	SPD Groups Subject to Control	Evaluation of Control Design Effectiveness	Test Sample Scope Limitations	Evaluation of Control Operation for Test Sample
26	In accordance with the City of Houston Code of Ordinances, Article II, Sec. 19., no contract shall be entered into until after an appropriation has been made therefor, nor in excess of the amount appropriated, and no contract shall be binding upon the city unless it has been signed by the mayor and countersigned by the controller.	All	Effective	Evidence of contract signed by the mayor and countersigned by the controllers not received for 2 of 25 samples	Inconclusive
27	Automated SAP controls generate an email notification to the SPD Manager or appropriate approver when a purchase order or outline agreement is modified and SPD Manager or appropriate approver approves the modification only if it is funded, appropriate, and necessary.	All	Effective	None	Effective
28	Automated SAP controls prevent issuance of a PO without funds availability in the associated WBS.	All	Effective	None	Effective
29	Automated SAP controls require that Finance and the City Controller's Office approve and release all SROs.	PS WS	Effective	None	Effective
30	Automated SAP controls require that POs/OAs only be entered for registered vendor ids.	All	Effective	None	Effective
31	For all purchases funded by federal, state or private grants, the RCA is routed to Finance-Grant Management prior to submission to the City Council Agenda Office via Novus approval workflow. Finance-Grant Management staff review the RCA for accuracy, ensure the requested grant funds are available, and verify that the purchase is in compliance with the grant terms and grant period.	CP PS RS WS S/OTP	Effective	Of 2 samples identified as grant-funded, evidence of RCA approval by Finance-Grant Management not received for either	Inconclusive
32	Prior to submitting the RCA to City Council, or creating an OA/PO, the SPD Buyer verifies all required vendor documentation has been obtained, including insurance forms, drug policy, and fair campaign ordinance. The Novus Administrator also verifies required documents have been loaded to Novus prior to submission of the RCA to City Council.	CP IP PS RS WS S/OTP	Improvement Opportunities (See Finding #6)	None	Inconclusive as there is not a formal list of the required documents and the documents provided for the 25 test samples varied.
33	The Department employee responsible for approving/releasing the outline agreement or purchase order in SAP reconciles the rates in the OA/PO to the contracted rates per vendor contract/cooperative agreement/interlocal agreement/quote/etc. as applicable.	CP PS WS S/OTP	Effective	SAP PO/OA not received for 4 of 25 samples.	Inconclusive

SPD Buying Groups at the time controls were documented: CP-Commodity Purchases; IP-Informal Purchases; PS-Professional Services; RS-Rolling Stock (Fleet); WS-Work Services; S/OTP-Specialized/One-Time Purchases

Acknowledgement Statement

Date: August 11, 2021

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: SPD PROCUREMENT PERFORMANCE AUDIT

I acknowledge that the management responses contained in the above referenced report are those of Finance Department management. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,

DocuSigned by:

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Tantri Emo, Director
Finance Department

Audit Team

Horn Solutions Inc.

City Auditor

Courtney Smith, CPA, CIA, CFE

Audit Plan reports available at:

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

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