

OFFICE OF THE CITY CONTROLLER



**SOLID WASTE MANAGEMENT DEPARTMENT
PURCHASING CARD ACTIVITY AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

May 16, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Solid Waste Management Department
Purchasing Card Activity Audit (Report No. 04-20)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of Purchasing Card (P-Card) activity for the Solid Waste Management Department (Department). The audit objective was to evaluate the Department's compliance with applicable City of Houston administrative policies and procedures, executive orders and the Department's own standard operating procedures related to P-Cards. Also, the audit evaluated the adequacy of internal controls related to the processing of P-Cards.

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

We commend the Departments for taking immediate steps to implement our recommendations. Also, we appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Thomas M. Buchanan, Director, Solid Waste Management Department
Judy Gray Johnson, Director, Finance and Administration Department

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FINANCE AND ADMINISTRATION DEPARTMENT - EXHIBIT I

SOLID WASTE MANAGEMENT DEPARTMENT - EXHIBIT II

EXECUTIVE SUMMARY

- €# Executive Order (E.O.) 1-42 should be revised, to more accurately reflect the current accepted uses being allowed with the P-Card. The language in Sections 5.2.2, 12.0 and 15.0 of requiring P-Card Coordinators and P-Cardholders to report contract purchases should be removed from E.O. 1-42 in order to reflect current practices.
- €# Six of the 32 monthly statement reconciliations sampled, indicated items with receipts totaling \$2,720 were purchased to restock inventory, which is prohibited by E.O. 1-42, Section 8.0.
- €# Our testing for possible bid splitting revealed, purchases were made from one vendor without a contract for more than \$25,000 in a 12-month period.
- €# There are no periodic unannounced audits conducted of transactions made with P-Cards, which is stated as one of the responsibilities of a user department from E.O. 1-42, Section 5.2.
- €# Five of 32 monthly statement reconciliations examined were not signed and dated by an Authorized Approver as indicated on the reconciliation and required by E.O. 1-42.

SCOPE AND PURPOSE

We have completed an audit of the Solid Waste Management Department's Purchasing Card (P-Card) activity. Our objectives were to evaluate the Department's compliance with applicable City of Houston administrative policies and procedures, executive orders and the Department's own standard operating procedures related to P-Cards. Also, we evaluated the adequacy of internal controls related to the processing of P-Cards. The audit scope period was from May 1, 2003 through April 30, 2004.


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

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

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

CONCLUSION

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



Carolyn Y. Armstead
Auditor-In-Charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

The Solid Waste Management Department's (department) usage of the Purchasing Card (P-Card) began in June 1999. The Department Director has designated the Deputy Director of Support Services as P-Card Coordinator. Executive level managers determine who will receive a P-Card and is the approving authority for his/her Division purchases. All managers and/or their employees will undergo P-Card training before they are issued a P-Card. Monthly, Wells Fargo Bank statements of P-Card activity are distributed to the divisions. The P-Card Coordinator has the responsibility of coordinating with the City's P-Card Administrator issuance, reporting, and control of P-Card activities. The P-Card Coordinator also ensures that the P-Card Administrator in the Strategic Purchasing Division (SPD) receives the reconciled monthly statements and notification of any purchases against BPO Contracts in accordance with Executive Order 1-42, Purchasing Card Policy and Procedures (E.O. 1-42).

As of April 2004, the Solid Waste Management Department had 24 active P-Cards. P-Card purchases for the period May 1, 2003 through April 30, 2004 were approximately \$341,000.

AUDIT FINDINGS AND RECOMMENDATIONS

PURCHASING CARDS

BACKGROUND

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

≠# E.O. 1-42, Section 5.2.2 requirements include that the departmental P-Card Coordinator be responsible for monitoring purchases made by cardholders, reporting contract purchases by Vendor/Contract Number, enforcing timely compliance of submission requirements for monthly statement reconciliations, and designating an employee to conduct unannounced audits of transactions made with P-Cards and performing audits of all P-Card accounts and reconciliation of statements from the bank.

≠# E.O. 1-42, Section 5.2.3, requires Approving Managers (supervisors who approve monthly P-Card bank statements) to review and approve P-Card applications prior to submission to the Departmental P-Card Coordinator, review receipts and monthly bank statement reconciliations prior to submission to the P-Card Coordinator, recommend suspension or cancellation of a card to the P-Card Coordinator when considered necessary, and notify the P-Card Coordinator when a cardholder is terminated so the card will be collected and purchasing privileges terminated.

- ≠ E.O. 1-42, Section 7.0 allows P-Cards to be used to purchase any item and/or service for “immediate use” not prohibited by the executive order, another policy or procedure approved by the Mayor, or an ordinance of the City of Houston. E.O. 1-42, Section 8.0 prohibits using the P-Card for restocking inventory.
- ≠ E.O. 1-42, Sections 14.0 and 15.0, require that monthly P-Card statements be reconciled, signed by the P-Card Coordinator, and reviewed by the Approving Manager. Monthly reconciliations indicate with a statement that with the Authorized Approver’s signature attest that the expenditures listed were reviewed and approved.
- ≠ A.P. 5-2, Section 4 C (3) defines purchases made for the same specific commodity repeatedly and the aggregate exceeds \$25,000 during a 12-month period as bid splitting.

I. REVISION OF EXECUTIVE ORDER

FINDING

Sample testing of 32 monthly statements revealed that 27 statements, which included purchases from contract vendors, did not include references to BPO numbers and amounts in the spaces provided.

The Controller’s Office has conducted five P-Card audits, and in two of the previous audits, Reporting Contract Purchases was a finding. We discussed the issue with SPD and they informed us the process of having the department report BPO numbers was not effective and efficient, so a new process was implemented to manage contracts purchases.

SPD no longer uses the monthly summaries turned in by the department to update the BPO procurement monitoring process. Instead, SPD obtains P-Card transaction information from the bank then compares the transactions to the open contract roster to identify drawdown amounts, and then the drawdown amounts are posted into the Advantage System. These steps are performed to ensure contracts will not be over spent.

RECOMMENDATION

We recommend E.O. 1-42 should be revised to remove the language in Sections 5.2.2, 12.0, and 15.0 requiring P-Card Coordinators and P-Cardholders to report contract purchases in order to reflect current practices.

II. RESTRICTED PURCHASES

FINDING

Sample audit testing of P-Card monthly statement reconciliations and the supporting receipts revealed, transactions totaling \$2,720 for 6 of the 32 monthly statements were for items purchased for the purpose of

restocking inventory. In one instance the P-Cardholder indicated directly on the receipt that the purchase was for inventory. E.O. 1-42, Section 8.0 prohibits using the P-Card for this reason.

RECOMMENDATION

We recommend management re-emphasize to all P-Cardholders the importance of being aware that restocking inventory is prohibited according to P-Card policy and procedures and items are to be purchased for immediate use. Items purchased to replenish supplies should be accomplished through established purchasing procedures with approved contract vendors.

III. NON CONTRACT PURCHASES

FINDING

The City's Administrative Procedures 5-2, Revised Procurement Procedures, the State Bid Laws as well as the Texas Local Government Code limit purchases from one vendor to \$25,000 a year unless the items were procured using a contract entered into through a formal bid process. Our audit testing for possible bid splitting revealed, purchases were made from one vendor without a contract for the same items repeatedly over a 12-month period. The purchases totaled \$37,500, which exceeds the \$25,000 limit.

RECOMMENDATION

We recommend the department should seek through the Strategic Purchasing Division a contract from vendor(s), which purchases are made for the same items that's needed repeatedly through out the year.

IV. UNANNOUNCED AUDITS

FINDING

Division managers/supervisors as well as the P-Card Coordinator/Deputy Director review P-Card transactions, however, there are no periodic unannounced audits conducted of transactions made with P-Cards as stated in E.O. 1-42 as one of the responsibilities of the user department and P-Card Coordinator. Through interviews with Internal Review personnel, the section conducted one unannounced P-Card audit in March 2001, however an unannounced audit has not been conducted since that time.

RECOMMENDATION

We recommend the department name a designated employee to perform periodic unannounced audits of transactions for all P-Card accounts and reconciliation of statements from the bank as required in E.O. 1-42.

V. MONTHLY STATEMENT RECONCILIATION SIGNATURES

FINDING

Five of 32 (16%) monthly P-Card statement reconciliations examined were not signed and dated by an Authorized Approver as required in E.O. 1-42 Sections 14.0 and 15.0. Signature and timely review by an Authorized Approver provides evidence attesting to fact that the statements were completed properly and accurately.

RECOMMENDATION

We recommend that management re-emphasize to all Approving Authority in the department, the importance of the monthly statement reconciliation process and that statements are to be properly signed and dated.

EXHIBIT I



CITY OF HOUSTON

Finance & Administration Department

Interoffice

Correspondence

To: Annise D. Parker, City Controller

From: Judy Gray Johnson, Director

Date: April 18, 2005

Subject: P-Card Audit Report-Solid Waste Management Department

In response to the audit on the Solid Waste Department P-Card activity by the Controller's Office, I offer the following responses to the audit findings relevant to Finance and Administration:

- Executive Order 1-42 should be revised to more accurately reflect the current accepted uses being allowed with the P-Card. The language in Sections 5.2.2, 12.0 and 15.0 of requiring P-Card Coordinators and P-Cardholders to report contract purchases should be removed from E.O. 1-42 in order to reflect current practices.
 - We recommend E.O. 1-42 be made less restrictive in the types of purchases that may be made with a P-Card.
 - A draft of Executive Order 1-42 is under review. Within this draft, Sections 5.2.2, 12.0 and 15.0 requiring contract purchase reporting on the previously used Exhibit 4 form will be removed. The current practice of P-Card Coordinators/P-Cardholders reporting contract purchases is being further discussed to see if an automated process can be found.

If you have any questions, please let me know.

A handwritten signature in cursive script, appearing to read "Judy Gray Johnson".

Judy Gray Johnson, Director
Finance and Administration

Views of Responsible Officials

EXHIBIT II



CITY OF HOUSTON

Department of Solid Waste
Management

Interoffice

Correspondence

To: Annise D. Parker
City Controller

From: Thomas Buchanan

Date: February 11, 2005

Subject: Management's Response
Purchasing Card Activity Audit

The Department of Solid Waste Management strives to be above normal in all aspects of operations and management. I would like to thank you for bringing to our attention procedural improvements that could be made as it relates to compliance with Executive Order 1-42.

You will find our responses to the findings in the attached document. If you require additional information or would like to discuss changes in our procedures please contact Annette Booker at 713-837-9173.

A handwritten signature in black ink, appearing to read "Thomas M. Buchanan".

Thomas M. Buchanan
Director
Department of Solid Waste Management

**Views of Responsible
Officials**

EXHIBIT II

City of Houston Department of Solid Waste Management Purchasing Card Activity Report Management's Response

II. Restricted Purchases

Finding Sample audit testing of P-Card monthly statement reconciliations and the supporting receipts revealed transactions for items purchased for the purpose of restocking inventory.

Response We concur with this finding and have discontinued use of the card for restocking inventory and supplies.

III. Non Contract Purchases

Finding Purchases were made from one vendor in excess of \$25,000 in a twelve-month period.

Response We concur with this finding. We will analyze our purchasing habits from this vendor and all vendors without a contract to determine and assure ourselves that we are not in violation of city procedures, state laws as well as the local government code by exceeding the non-contract purchase limit of \$25,000 a year. We will use the city's budget fiscal year as the guide for the limit.

IV. Unannounced Audits

Finding The department has only conducted one unannounced internal audit of P-Card transactions since the inception of the program in June 1999.

Response We concur with this finding. We will designate an employee to perform periodic unannounced audits on an annual basis.

V. Monthly Statement Reconciliation Signatures

Finding P-Card statement reconciliations were not signed and dated by an Authorized Approver.

Response We concur with this finding. The Deputy Director now signs and dates as the Approving Authority and as the P-Card Coordinator for those P-Card holders that are under his immediate supervision.

**Views of Responsible
Officials**