



Administrative Policy

# INTERNAL CONTROLS COMPLIANCE FOR PROCUREMENT AND PAYMENT

AP No.

AP 4-11

Effective Date:

Upon Approval

## 1. POLICY STATEMENT

This policy establishes requirements governing internal controls compliance with procurement and payment processes.

## 2. POLICY PURPOSE

2.1 The purposes of this policy are to:

- 2.1.1 provide effective internal controls for the purchase, receipt, and payment of goods and/or services by the City of Houston ("City");
- 2.1.2 define and communicate to departments their roles and responsibilities in relation to the payment process; and
- 2.1.3 establish the criteria that shall be used to delegate authority and responsibilities within the payment process.

## 3. SCOPE

This policy directive applies to all City departments and personnel as it relates to their requisitioning, purchasing, receiving, and paying functions.

## 4. DEFINITIONS

**Capital Equipment:** A physical asset for which the City paid \$5,000 or more to acquire, with an economically useful life of one year or more; the term does not include items or parts that merely prolong the useful life of another asset.

**Council-Approval Threshold:** The expenditure level requiring City Council approval as established by the City Charter which is equal to or greater than the State bid law requirement. Generally, \$50,000 per vendor/per fiscal year or patterns of payments across fiscal years that exceed \$50,000.

**Direct Payments:** Sometime referred to as Miscellaneous Payments or FV-60 Payments, this is an extremely limited payment option solely for one-time payments in the categories set out on the Direct Payments Compliance Checklist (See Attachment A to this policy) where: (1) a Purchase Order is not appropriate; and (2) the Department has confirmed that the vendor has not received payments in the current fiscal year (FY) (or a pattern of payments in the last three FYs) that would require a Purchase Order or circumvent the procurement process as set out in Administrative Policy (AP) 5-7 through and including AP 5-11.

**Emergency:** Circumstances that require action by an administrative official or City Council to obtain goods and/or services through an alternative method other than the formal bidding procedures required by Chapter 252 of the Texas Local Government Code; includes the following conditions described in that Code:

- (1) a procurement made because of a public calamity that requires the immediate appropriation of money to relieve the necessity of the municipality's residents or to preserve the property of the municipality;

Approved:

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03/13/2023

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- (2) a procurement necessary to preserve or protect the public health or safety of the municipality's residents; and
- (3) a procurement necessary because of unforeseen damage to public machinery, equipment, or other property.

The term "Emergency" also includes the conditions described in Section 15-49(2) of the City of Houston Code of Ordinances and AP 5-11.

Emergency Purchase Order (EPO): Has the meaning ascribed in AP 5-11.

Invoice: An itemized bill for goods and/or services from a City vendor.

Paying Function: Accepting, reviewing, and approving invoices for further processing or payment; data entry of invoices/payment vouchers and approval of computerized payment records as required.

Petty Cash Funds: City funds that are issued to City employees for expenditures related to City business, pursuant to AP 5-3.

Purchase Order (PO)/Service Release Order (SRO): Has the meaning ascribed in AP 5-11.

Purchasing Function: Originating, validating, and approving POs/change orders, product sourcing, bidding, tabulation of bids, data entry and approval of computerized requisitions and POs.

Receiving Function: Receiving goods and/or services from a City vendor authorized by a PO or contract; accepting and acknowledging receipt and data entry and approval of computerized receiving documents.

Requisitioning Function: Requesting the goods and/or services from the City department purchasing unit.

## **5. ROLES AND RESPONSIBILITIES**

- 5.1 It is the responsibility of the Finance Department to review and enforce departmental procedures pertaining to segregation of duties for purchasing, receiving and invoice processing functions.
- 5.2 It is the responsibility of the Controller's Office (Controller) to:
  - 5.2.1 Certify that funds are available for individual POs/change orders, which is currently accomplished through electronic verification.
  - 5.2.2 Ensure use of Direct Payment form as set out in Attachment B to this policy for non-PO related payments. The form must provide authorized approvals as listed on the departmental signature-authority memo submitted to Controller, at least one of which is the signature of a manager (Pay Grade 29 or above) responsible for the use of the goods or services purchased with the Direct Payment.
  - 5.2.3 Ensure that all payment of goods and/or services are issued to vendors in a timely manner.
  - 5.2.4 Perform the payment function.
- 5.3 It is the responsibility of each City department to:
  - 5.3.1 Establish the proper segregation of duties among personnel performing requisitioning, purchasing, paying, and receiving functions as required in this policy.
  - 5.3.2 Approve all requisitions for goods and/or services charged to the department's budget.
  - 5.3.3 Ensure that employees have obtained the proper purchasing approval prior to the authorization and receipt of goods and/or services from vendors.

- 5.3.4 Ensure that department employees involved in purchasing duties have evidence of successfully-completed purchasing training on file showing they understand the difference between purchasing by: (1) contract; (2) PO; (3) Direct Payment; and (4) P-Card.
- 5.3.5 Determine goods and/or services are received in accordance with the terms and conditions of the PO or contract.
- 5.3.6 Direct vendors to submit invoices to the appropriate accounts payable staff for payment processing.
- 5.3.7 Determine whether invoices from vendors are complete, accurate, and valid.
- 5.3.8 Approve all payments against PO and SRO charged to the department's budget, after determining that the goods or services are being used for their intended purpose.
- 5.3.9 Ensure authorized approvers for all invoices as listed on the departmental signature authority memo submitted to Controller.
- 5.3.10 Ensure that invoices over \$50,000 and all Direct Payment purchases over \$3,000 have 2<sup>nd</sup> level of management approval as provided in 5.2.1 above.
- 5.3.11 Departments are prohibited from purposely sending requests for Direct Payments that exceed the Council-Approval Threshold (currently \$50,000 per vendor/per fiscal year or patterns of payments across fiscal years that exceed \$50,000). Departments must notify and work with the Strategic Procurement Division (SPD) to seek Council-Approval when payments individually or in aggregate exceed the above threshold.
- 5.3.12 Unless otherwise approved by the Chief Procurement Officer or designee (CPO) or designee, ensure that payments against EPOs are not processed or paid prior to approval by City Council, if the purchase amount exceeds the Council approval threshold.
- 5.3.13 Ensure compliance with Direct Payment Compliance Checklist (See Attachment A).
- 5.3.14 Ensure overall compliance with policies and procedures relating to paying invoices.

## 6. PROCEDURES

### 6.1 Purchasing Function:

- 6.1.1 City employees must perform purchasing functions through PO, SRO, and EPO processes employees in accordance with applicable City policies, including without limitation 5-7. Goods and services purchased through other means, such as direct payments or on a P-Card, must be purchased or paid by City employees in compliance with the applicable City policies.
- 6.1.2 City employees shall not:
  - 6.1.2.1 Absent EPOs approved by the Chief Procurement Officer (CPO), purport to issue verbal POs. All POs must be in writing and issued through SAP);
  - 6.1.2.2 Represent to or inform a vendor of any changes, alterations, or modifications to a PO or SRO (including but not limited to an increase or decrease in the amount) unless and until the PO or SRO has first been modified in SAP to reflect the change, alteration, or modification;
  - 6.1.2.3 Obtain goods or services prior to obtaining approved purchasing documents;
  - 6.1.2.4 Violate conflict of interest policies as set forth in AP 2-22; or

6.1.2.5 Knowingly falsify purchasing documents.

## 6.2 Receiving Function:

6.2.1 City personnel shall not:

6.2.1.1 Order or receive goods and/or services without first obtaining the authorization required by applicable law, City policy and departmental policy;

6.2.1.2 Order or receive goods and/or services without first complying with applicable law, City policy and department policy;

6.2.1.3 Knowingly falsify receiving documents; or

6.2.1.4 Change or present documents to make it appear that delivery took place after proper authorization was obtained.

6.2.2 Receipt of goods and/or services procured with a PO or SRO must be recorded in the City's computer system within three working days after goods and/or services have been delivered and accepted by the department.

## 6.3 Paying Function:

6.3.1 Invoices must be submitted using the email address or mailing address (as applicable) shown on the PO or SRO (or using the City's electronic invoicing system) to avoid delays in payment.

6.3.2 All invoices must contain the following:

6.3.2.1 Invoice number;

6.3.2.2 The City PO, SRO, outline agreement (OA) or contract number, if applicable;

6.3.2.3 Vendor's name and address;

6.3.2.4 Description of the item(s) delivered or received;

6.3.2.5 Exact quantity of each item delivered or received;

6.3.2.6 Date of delivery to or receipt by the City;

6.3.2.7 Unit price for each item if a unit price was offered by the vendor;

6.3.2.8 Total amount of the charge(s) for the item(s) delivered or received. Total should not exceed the amount of the PO or SRO;

6.3.2.9 Name of the City Department that requested the item(s) or service(s);

6.3.2.10 The department, division or section to which the goods and/or services were provided.

6.3.2.11 The address to which the goods and/or services were provided.

6.3.3 Invoices are to be processed for payment or returned to the vendor by designated City employees within five business days of receipt.

6.3.4 Invoices are to be returned to vendors if they include errors or omit information required for further

processing. Errors may include freight or other charges not specified in the PO or SRO.

- 6.3.5 If an invoice is returned to the vendor, the payment terms shall be in accordance with PO or contract or Texas Prompt Payment Act.
- 6.3.6 City Department employees must review and approve invoices using 2-way match or 3-way match, as applicable. Once the service is performed, the employee must perform a 2-way match to compare the service contract and the invoice. Once the goods are received, the employee must perform a 3-way match to compare the contract, the invoice, and proof of delivery.
- 6.3.7 Reimbursement for employee purchases will be processed in accordance with applicable Executive Orders and Administrative Policies.

#### 6.4 Payment Terms/Prompt Payment Act:

- 6.4.1 The City of Houston's standard payment term is 30 days after receipt of invoice or receipt of goods or services, whichever is later, according to the Texas Prompt Payment Act (Tx. Government Code, Ch. 2251). However, the City will pay in less than 30 days in exchange for an early payment discount from vendor as follows:

- 6.4.1.1 Payment Time - 10 Days: 2% Discount

- 6.4.1.2 Payment Time - 20 Days: 1% Discount

City personnel responsible for the paying function must promptly handle each invoice upon receipt and review the contract or PO under which the invoice was issued to determine if the contract or PO permits the City to take an early payment discount. If so, such personnel shall make every effort to pay the invoice within 10 days of the City's receipt of invoice or goods or services, whichever is later, to apply the 2% discount (unless another time period or discount is set forth in the contract or PO) and failing that, within 20 days of the City's receipt of invoice or goods or services, whichever is later to apply the 1% discount (unless another time period or discount is set forth in the contract or PO). In the event, the City is permitted to take an early payment discount but does not make payment in accordance with the schedule below, the City shall not receive, and personnel shall not apply any discount, but must pay the invoice within the City's standard net-30 day payment requirements.

- 6.4.2 If the City fails to make a payment according to the early payment schedule above but does make the payment within the time specified by the Prompt Payment Act, the City shall not receive the discount, but shall pay no other penalty. When the payment date falls on a Saturday, Sunday, or official holiday when City offices are closed and City business is not expected to be conducted, the payment may be made on the following business day.
- 6.4.3 Payment must be made as required by Chapter 2251 of the Government Code.
- 6.4.4 Interest is paid at the rate set by and in accordance with Chapter 2251 of the Government Code.
- 6.4.5 Questions concerning payment for goods and/or services through the use of a payment voucher rather than a PO should be directed to the Office of the City Controller.
- 6.4.6 Alternate payment methods, e.g., direct payment vouchers, may be used for the expenditures outlined in Direct Payments Compliance Checklist (See Attachment A).
- 6.4.7 Absent CPO approval attempts to purchase through the Direct Payment process for an item not on list i will be rejected and a PO or contract will be required.

#### 6.5 Segregation of Duties within Departments:

6.5.1 No City employee shall perform the responsibilities that fall under any two of the three functions as defined in this policy: purchasing, receiving, or paying.

6.6 Policy Updates:

6.6.1 Finance Director and/or designee may promulgate changes to procedures related to implementing and effectuating this policy as required (i.e., implementation of electronic invoicing system).

**7. POLICY COMPLIANCE**

7.1 Violations of this policy will be reported to the Office of Inspector General. Consequences for violation may include:

7.1.1 Corrective action up to and including indefinite suspension or termination,

7.1.2 Referral to the appropriate authority for criminal prosecution, and/or,

7.1.3 Reduction or elimination of a department's purchasing authority.

**8. CONFLICT AND REPEAL**

This policy supersedes Administrative Procedure 4-11., Payment and Procurement Internal Controls, effective August 17, 2021, which shall be of no further force or effect. If the provisions of this policy conflict with any law, that law shall prevail.

**9. POLICY SPONSOR**

**Department:** Finance Department

Attachments:

- Attachment A – Direct Payments Compliance Checklist
- Attachment B – Direct Payment Form



# City of Houston

## Attachment A to AP 4-11

### Direct Payments

### Compliance Checklist

For amounts LESS THAN the Council-Approval Threshold, the following types of payments may be made using the direct payment method:

- Travel reimbursement or advance to City employee
- Airfare
- Registration fees (i.e., conventions, conferences, and seminars)
- Subscriptions, periodicals, and manuals
- Memberships and dues
- Advertising—Direct Media Buys Only (must use Purchase Order for marketing, creative work, or third-party vendor)
- Utility bills
- Petty cash reimbursements
- Refunds (e.g., water deposit refunds)
- Land purchases/appraisal fees
- Authorized juror payments
- Legal compromise and settlement payments
- Postage
- Late payments
- Credit memos (reimbursement)
- Bond debt service/fees
- Claims/Judgments
- Fines assessed against the City
- Court Reporters

**Before any payment that is not on the list above is made, the justification form in Attachment B must be completed and fully executed.**



**City of Houston**  
**Attachment B to AP 4-11**  
**Direct Payment Form**

General Information	Date:
Unit/Department	Phone No:
Contact Name:	Email:
Branch/Program or Project:	

Vendor Information
Vendor No: Vendor Name:
Invoice No: Total Invoice Amount:
Invoicing Date: Payment Method: Check/Wire:

Account Information	
GL Account:	Cost Center:
Fund Center:	WBS Element:
Functional Area:	Business Area:
Fund:	Grant:
Text:	Internal Order No:
Earmarked Fund:	

Type Of Expenditures		
Travel reimbursement or Advance to City Employee	Yes	No
Airfare	Yes	No
Registration fees (i.e., conventions, conferences, and seminars)	Yes	No
Subscription, periodicals, and manuals	Yes	No
Memberships and dues* Duration of Request:	Yes	No
Advertising - Direct Media Buys Only (must use Purchase Order for marketing, creative work, third-party vendor)	Yes	No
Utility bills	Yes	No
Petty cash reimbursements	Yes	No
Refunds (e.g. water deposit refunds)	Yes	No
Land Purchase/appraisal fees	Yes	No
Authorized juror payment	Yes	No
Legal compromise and settlement payments	Yes	No
Postage	Yes	No
Credit Memos (reimbursement)	Yes	No
Late payments	Yes	No
Bond Debit services/fees	Yes	No
Claims/Judgements	Yes	No
Fines assessed against the City	Yes	No
Court Reporters	Yes	No
Other -not listed in above category	Yes	No





## City of Houston

If Other, please explain reason Department is not handling as contract, PO, or P-Card and obtain approval signatures from Department Purchasing Unit (DPU) and Chief Purchasing Officer (CPO) below.

\* Justification:

If other type expenditure for purchase of goods or services? If **yes**, please explain and complete below approval from DPU and CPO:

DPU Approval	Date:
Chief Procurement Office Approval:	Date:

<b>Prepared By:</b>	Date:
Requested By:	Date:
Approved By:	Date:
Department Director:	Date: