



City of Houston

Judy Gray Johnson
City Controller

**IT Contract
Compliance
Internal Audit**

Texas Department of Information Resources



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

August 22, 2003

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

SUBJECT: Citywide – IT Contract Compliance Internal Audit
Texas Department of Information Resources (Report No. 03-17)

Dear Mayor Brown:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed a contract compliance internal audit of the Master Agreement (Agreement) between the City and Texas Department of Information Resources (DIR) for the acquisition of microtechnology hardware and software products and associated services. The objectives of the engagement included determining whether the goods and services acquired were in compliance with the City and State of Texas procurement laws and procedures; whether the contractor met the Agreement terms; and whether fees paid by the City to DIR for goods and services complied with the Agreement.

The report, attached for your review, noted several significant instances of non-compliance including a minimum of \$81,000 in overpayments to DIR for fees and internal control lapses in adhering to the City's procurement policies and procedures in obtaining appropriate authorizations, performing three-way matches, monitoring purchase order and receiver discrepancies, and invoice defacing. Draft copies of the matters contained in the report were provided to department officials. The views of the responsible Department officials as to actions being taken are appended to the report as Exhibit B.

We appreciate the cooperation extended to the JWI's auditors by department and contractor personnel during the course of the audit.

Respectfully submitted,

Judy Gray Johnson
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Stephen Tinnermon, Chief of Staff, Mayor's Office
C. O. Bradford, Chief, Police Department
Chris Connealy, Chief, Fire Department
M. desVignes-Kendrick, MD, MPH, Director, Health and Human Services Department
Robert M. Litke, Director, Planning and Development Department
Philip B. Scheps, Director, Finance and Administration Department
Richard M. Vacar, A.A.E., Director, Aviation Department

August 8, 2003

Ms. Judy Gray Johnson
City Controller
City of Houston
901 Bagby, 8th Floor
Houston, TX 77002

Dear Ms. Judy Gray Johnson:

We have completed the contract compliance internal audit of the Master Agreement for the acquisition of microtechnology hardware and software products and associated services between the City of Houston (the City) and the Texas Department of Information Resources as outlined in our engagement letter dated November 15, 2002, under Contract No. 51783. This report documents our final report and completes the services agreed to be provided by Jefferson Wells International (Jefferson Wells).

Our observations and recommendations noted during the performance of the procedures are presented in this report and management responses are included as attachments. Our procedures, which accomplished the project objectives, were performed through February 6, 2003, and have not been updated since that date. Our observations included in this report are the only matters that came to our attention, based on the procedures performed.

Jefferson Wells is pleased to have assisted the City Controller and management of the Strategic Purchasing Division, the Aviation Department, the Fire Department, the Health and Human Services Department, the Planning and Development Department, and the Police Department (the Departments), and we appreciate the cooperation received during this engagement from the City Controller's Office, the Departments and the Texas Department of Information Resources.

This report is intended solely for the information and use of the City, the Departments, the City Controller's Office and management of the Texas Department of Information Resources, and is not intended to be used for any other purpose.



Lisa D. Anderson
Jefferson Wells International



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Executive Summary

Background

- The Master Agreement between the City of Houston (the City) and the Texas Department of Information Resources (DIR) was entered into during April 2000 for the acquisition of microtechnology hardware and software products and associated services. Wherein DIR facilitates the City's purchase of specified microtechnology hardware and software products and associated services through a Qualified Information Systems Vendor maintained on its catalogue website, including coordinating the delivery of product/service to the City.
- This internal audit tested expenditures under the contract from five City departments: Aviation, Fire, Health, Planning & Development, and Police (the Departments). The purchases made by these Departments under the Master Agreement represent 47% of the total purchases made during the internal audit period.
- This internal audit included reviewing records of the City's Strategic Purchasing Division, the Departments and the Contractor, DIR.
- City Expenditures totaling \$15.2 million were processed to DIR during the period of April 2000 through June 2002.

Summary

- MWBE Participation – Records reviewed during fieldwork indicate that DIR is currently meeting its 30% MWBE Participation goal.
- Fee percentages charged by the Contractor to the City were above the Master Agreement stipulations and there is currently no mechanism in-place for departmental management to monitor these fees to provide reasonable assurance that products ordered were invoiced appropriately. Also, comparison of expenditure reports identified overpayments to the Contractor at a minimum of \$81,324.97. (See Exhibit A)



Executive Summary

Summary (Continued)

- The City did not provide a statement to all Catalogue Vendors containing substantially the terms of this Master Agreement before issuing an Order to the Contractor requesting that Catalogue Vendors provide such products.
- The Contractor did not comply with the Master Agreement procedures for Large Order Notification for charges over \$50,000 and the Order Delivery Dates. The authority to enforce these procedures currently lie with the Strategic Purchasing Division. However, due to the decentralized nature of the City, compliance with these procedures can only be effectively achieved by the Purchasing Departments.
- Internal control lapses were discovered in adhering to the City's procurement policies and procedures in obtaining appropriate authorizations, performing three-way match, monitoring purchase order and receiver discrepancies, and invoice defacing.
- 87% of fixed assets examined were physically located with appropriate tags attached during field work and 100% were identified in the Fixed Asset Report.



Project Objectives

- Determine whether City personnel acquiring goods and services through the Master Agreement complied with the City's procurement policies and procedures.
- Determine, as appropriate, whether the City and DIR personnel acquiring goods and services through the Master Agreement complied with the Master Agreement's terms. This will include, where appropriate DIR insurance requirements and MWBE requirements.
- Determine, as appropriate, whether City and DIR personnel acquiring goods and services through the Master Agreement complied with the City and State of Texas procurement laws.
- Determine whether the City or DIR have the responsibility of obtaining, where appropriate, three catalog proposals under the Master Agreement.
- Determine whether fees paid by the City to DIR for goods and services acquired through the Master Agreement complied with the Master Agreement's terms.
- Determine the adequacy of the City's systems of internal control related to the Master Agreement selected for this internal audit.



Procedures Performed

- Interviewed a representative sample of City personnel acquiring goods and services through the Master Agreement to document their understanding of all applicable procurement policies and procedures.
- Interviewed Strategic Purchasing personnel responsible for monitoring the Master Agreement and documented the process and monitored techniques utilized.
- Observed and reviewed the contract set-up within the system for the DIR contract and the system controls related to authority levels, contract availability monitoring, etc.
- Analyzed spend data under the contract for the following potential risk indicators:
 - Large dollar purchases
 - Transaction types not covered under the contract
 - Potential duplicate payments
 - Potential structured payments
 - Non-equipment charges
 - Non-business related software or services
 - Other unusual purchases
- Obtained a detailed transaction level confirmation in electronic form from DIR to validate the spend level through the Master Agreement.



Procedures Performed (Continued)

- Reconciled the electronic data file from DIR to the City's purchase data under the Master Agreement.
- Selected a representative sample of purchase transactions for goods and services through the Master Agreement.
- Conducted a review of supporting transactions and fee computations for DIR to substantiate a sample of the charges for the purchased goods and services.
- Conducted and interviewed City personnel to document an understanding of DIR's control processes to ensure compliance with their Agreement.
- Obtained listings of fixed asset additions for technology related assets from April 2000 through June 2002 and on a sample basis compared asset listings with the purchase data detail provided by the City.
- Reviewed supporting documentation from departmental purchasing departments for a sample of purchases under the Master Agreement.
- Physically inventoried and observed a sample of items purchased under the Master Agreement.



Observations and Recommendations

Strategic Purchasing Division

Ref. #	Observation	Recommendation
1)	<p><u>Required Catalogue Vendor Statements Not Obtained:</u> The Master Agreement states, "All Catalogue Vendors providing microtechnology hardware or software products under this Master Agreement shall be required to sign a statement created and provided by the City that contains substantially the same terms as the Master Agreement, before the City issues an Order to DIR requesting the Catalogue Vendor provide such products under this Master Agreement." No such statements were provided or obtained by the City.</p>	<p>The intent of these statements was to make sure that the Vendor is made aware of and agrees to certain obligations under this Master Agreement when providing products under this agreement. SPD should develop and monitor the receipt of these statements and require DIR to distribute the statements to all Vendors on an on-going basis.</p>
2)	<p><u>Noncompliance with Order Delivery Dates:</u> The Master Statement states that DIR will deliver all orders by the Order Delivery Date, which is defined as within 14 working days from the date of the Order. In the event that DIR cannot provide the products by the Order Delivery Date, DIR shall provide the Director with a "Notice of Inability to Meet Master Agreement Order Delivery Date" for that Order no less than 1 day prior to the Order Delivery Date.</p> <p>For 53% of the purchase orders reviewed, the Contractor did not deliver purchased items to the City by the Order Delivery Date defined for the Order and did not provide to the Director a "Notice of Inability to Meet Master Agreement Order Delivery Date".</p>	<p>We recommend that SPD delegate the authority to enforce compliance with the Order Delivery Date procedures to the Purchasing Departments as they actually monitor the receipt of goods and services.</p>



Observations and Recommendations

Strategic Purchasing Division (continued)

Ref. #	Observation	Recommendation
3)	<p>Large Order Procedures Not Followed:</p> <p>Per the Master Agreement for Large Purchase orders (over \$50,000), certain terms have not been complied with:</p> <ul style="list-style-type: none"> ➤ Purchase orders did not establish the Large Order Delivery Response Time, and ➤ Large Order Delivery Notifications had not been completed. <p>DIR should only submit an invoice to the City after the following:</p> <ul style="list-style-type: none"> • Within the prescribed response time, the Director or Purchasing Agent provides the Catalogue Vendor Representative a “Large Order Delivery Notification” stating the Order has been delivered to the City, the City is satisfied with the products, and is ready to be invoiced for such products, and • The Catalogue Vendor Representative forwards a copy of the “Large Order Delivery Notification” received from the Director to DIR’s Customer Service Representative. <p>OR</p> <ul style="list-style-type: none"> • If neither the Director or Purchasing Agent provides the Catalogue Vendor Representative with a “Large Order Delivery Notification” within the defined response time, the City will have deemed to have accepted the order. <p>Twenty of the 100 purchase orders tested were for Large Order purchases. None of the purchase orders reviewed were in compliance with the procedures described above.</p>	<p>The Master Agreement Large Order invoicing procedures for DIR were designed to ensure that the City has received and is satisfied with the products delivered by the Catalogue Vendor prior to DIR invoicing the City.</p> <p>We recommend that SPD delegate the authority to enforce compliance with the Large Order procedures to the Purchasing Departments as they determine satisfaction with the goods and services that they receive.</p>



Observations and Recommendations

Strategic Purchasing Division

Contractor Compliance – Texas Department of Information Resources (DIR)

<i>Ref. #</i>	<i>Observation</i>	<i>Recommendation</i>
4)	<p><u>Notification Procedures Not Followed:</u> The Master Agreement states that DIR is to respond via e-mail within 3 days of an order being issued with the following information:</p> <ul style="list-style-type: none"> Name of the Catalogue Vendor through which the Contractor provided the products. Names, telephone numbers, and e-mail address for the Catalogue Vendor personnel to serve as the City’s contacts for the orders – Catalogue Vendor Representative (CVR). <p>DIR did not submit any e-mails within 3 days of the authorized employee issuing the Order.</p>	<p>Per discussions with SPD, the information that this notification procedure is requesting is primarily provided at the time a quote is provided, either on the catalogue web site or an e-mail received from DIR with the quote for those items that are not on the catalogue web-site. Thus, this notification procedure is duplicative and its enforcement would not strengthen controls nor add value to the City’s purchasing process.</p> <p>We recommend that the City consider omitting this requirement in the next contract of this type.</p>
5)	<p><u>Noncompliance with Order Delivery Dates:</u> The Master Statement states that DIR will deliver all orders by the Order Delivery Date, which is defined as within 14 working days from the date of the Order. In the event that DIR cannot provide the products by the Order Delivery Date, DIR shall provide the Director with a “Notice of Inability to Meet Master Agreement Order Delivery Date” for that Order no less than 1 day prior to the Order Delivery Date.</p> <p>For 53% of the purchase orders reviewed, the Contractor did not deliver purchased items to the City by the Order Delivery Date defined for the Order and did not provide the Director a "Notice of Inability to Meet Master Agreement Order Delivery Date".</p>	<p>The intent of this requirement is to keep the City apprised of the occasions when a Vendor is unable to fulfill its delivery commitment on a timely basis. This enables the City to make alternative arrangements, if necessary.</p> <p>The City should instruct DIR to send a “Notice of Inability to Meet Master Agreement Order Delivery Date” when orders are not provided to the City within the Order Delivery Date no later than 1 day prior to the Order Delivery Date. This notice should include the actual date the ordered products will be delivered to the City.</p> <p>SPD should also consider meeting with DIR to determine how their performance could be improved related to timely delivery</p>



Observations and Recommendations

Strategic Purchasing Division

Contractor Compliance – DIR (continued)

Ref. #	Observation	Recommendation
6)	<p><u>Large Order Procedures Not Followed:</u> Per the Master Agreement for Large Purchase orders (over \$50,000), certain terms have not been complied with:</p> <ul style="list-style-type: none"> ➤ Purchase orders did not establish the Large Order Delivery Response Time, and ➤ Large Order Delivery Notifications had not been completed. <p>DIR should only submit an invoice to the City after the following:</p> <ul style="list-style-type: none"> • Within the prescribed response time, the Director or Purchasing Agent provides the Catalogue Vendor Representative a “Large Order Delivery Notification” stating the Order has been delivered to the City, the City is satisfied with the products, and is ready to be invoiced for such products, and • The Catalogue Vendor Representative forwards a copy of the “Large Order Delivery Notification” received from the Director to DIR’s Customer Service Representative. <p>OR</p> <ul style="list-style-type: none"> • If neither the Director or Purchasing Agent provides the Catalogue Vendor Representative with a “Large Order Delivery Notification” within the defined response time, the City will have deemed to have accepted the order. <p>Twenty of the 100 purchase orders tested were for Large Order purchases. None of the purchase orders reviewed were in compliance with the procedures described above.</p>	<p>The Master Agreement Large Order invoicing procedures for DIR were designed to ensure that the City has received and is satisfied with the products delivered by the Catalogue Vendor prior to DIR invoicing the City.</p> <p>We recommend that the City require DIR to comply with these Large Order invoicing procedures.</p>



Observations and Recommendations

Strategic Purchasing Division

Contractor Compliance – DIR (continued)

Ref. #	Observation	Recommendation
7)	<p><u>Fee Percentage Paid to DIR:</u> Fee percentages charged to the City were not in compliance with the payment terms of the Master Agreement. Pursuant to the Agreement, 2% is the basic fee percentage with an additional 1% charged for Custom Price Sheets, and 3% for the first purchase from a New Vendor requested by the City. Additionally, the City will pay the cost related to the City's request for an expedited delivery of a purchase, and any reduction in costs to DIR will be passed on to the City.</p> <p>During the internal audit, we noted the product/service costs listed on DIR's website and the price quotes provided by DIR are not always current. Thus, the actual cost to DIR may be more or less than the cost provided to the City. If the cost is less, the savings should be passed on to the City. However, if the price is greater, DIR is bound by the amounts on issued Purchase Order, which sets not to exceed maximums.</p> <p>See Exhibit A, which summarizes at a vendor level the amount overcharged to the City compared to actual vendor costs plus the appropriate DIR fee percentage. This schedule shows the minimum DIR owes the City of \$81,325. Such recovery could be in excess of \$160,800, since the detail provided nets results on a vendor basis rather than individual P.O. analysis, which could result in additional amounts due the City.</p> <p>(See Exhibit A)</p>	<ol style="list-style-type: none"> 1. The City should immediately require DIR to attach copies of Vendor Invoices to support its costs related to the products/services provided to the City. This would allow the Departments to verify that they are being invoiced for the correct amount. 2. The City should request actual vendor invoice detail on a P.O. basis for the entire contract period. 3. Based on the detail, an updated schedule (See Exhibit A) should be prepared to support a refund claim from DIR. 4. The City may consider validating the updated schedule by agreeing DIR's costs to the respective Vendor Invoices. 5. A refund from DIR should be obtained and credited to the appropriate departments based on the updated supporting schedule. 6. The City should instruct DIR to strengthen its controls over the invoicing process to ensure that the fees being charged the City are in accordance with the Master Agreement.



Observations and Recommendations

Aviation Department

Ref. #	Observation	Recommendation
1)	<p><u>Unlocated Fixed Assets:</u></p> <p>Twenty-five of the 87 fixed assets selected for physical observation could not be located by the end of our fieldwork. The Aviation Department will continue to research.</p>	<p>Aviation should complete its research to determine the status of the 25 fixed assets that could not be located during our fieldwork and adjust records as needed. Further, the Department should make the appropriate changes to strengthen controls over the location of fixed assets.</p>
2)	<p><u>Fee Percentage Paid to DIR:</u></p> <p>During our testwork of the fees charged by DIR, we noted instances where DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in-place for the Departments to validate the accuracy of the amount invoiced by DIR.</p>	<p>See the recommendation related to <u>Fee Percentage Paid to DIR</u> on page 13 of this report. SPD will follow through with DIR to receive the appropriate refund and will request that DIR provide vendor invoices.</p> <p>Upon DIR's attachment of vendor invoices, we recommend Aviation review the vendor invoices and calculate appropriate fees prior to invoice payment.</p>



Observations and Recommendations

Fire Department

Ref. #	Observation	Recommendation
1)	<p><u>Inadequate Support/Review of Certain Transactions:</u> Per review of the supporting documentation provided:</p> <ul style="list-style-type: none">• Three purchase orders reviewed listed products received that were not supported with documentation of receipt, such as a packing slip. Other items on the P.O. were appropriately supported, all items were paid for. Items without appropriate receiving support:<ul style="list-style-type: none">○ PO# 2157 Line Item 1, 2, & 3 for \$6543○ PO# 2705 Line Item 1 & 3 for \$5429○ PO# 3392 Line Item 1 for \$7488 <p>Eight purchase orders reviewed did not provide packing slips as adequate supporting documentation for our review in verifying the eight purchase orders were delivered to the City.</p>	<p>Strengthen controls by comparing the Receiving Document, Packing Slips, Purchase Order, and Invoice to determine the accuracy of items ordered versus received prior to processing an invoice. This procedure should establish sufficient supporting documentation for the payment of an invoice and fixed asset inventory.</p> <p>In addition, the Department should consider spot reviews by management of accounts payable documentation to ensure that the disbursement process is operating effectively.</p>
2)	<p><u>Unlocated Supporting Documentation:</u> 10% of the files reviewed were missing invoices and accounts payable information.</p>	<p>Identify the process weakness and then strengthen controls over document retention to ensure accurate filing and timely retrieval.</p>



Observations and Recommendations

Fire Department (continued)

<i>Ref. #</i>	<i>Observation</i>	<i>Recommendation</i>
3)	<p><u>Unlocated Fixed Assets:</u> Two of the 15 fixed assets selected for physical observation could not be located by the end of our fieldwork. The Fire Department will continue to research.</p>	<p>The Fire Department should complete its research to determine the status of the two fixed assets that could not be located during our fieldwork and adjust records as needed. Further, the Department should make the appropriate changes to strengthen controls over the location of fixed assets.</p>
4)	<p><u>Expenditure Difference:</u> There is a difference of \$1,085 when comparing DIR's Expenditure Report totaling \$408,660.50 and the City's Expenditure Report totaling \$409,745.50 for the 20 purchase orders tested.</p>	<p>The Fire Department should research and resolve this difference.</p>
5)	<p><u>Fee Percentage Paid to DIR:</u> During our testwork of the fees charged by DIR, we noted instances where DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in-place for the Departments to validate the accuracy of the amount invoiced by DIR.</p>	<p>See the recommendation related to <u>Fee Percentage Paid to DIR</u> for the Strategic Purchasing Division, on page 13 of this report. SPD will follow through with DIR to receive the appropriate refund and will request that DIR provide vendor invoices.</p> <p>Upon DIR's attachment of vendor invoices, we recommend the Fire Department review the vendor invoices and calculate appropriate fees prior to invoice payment.</p>



Observations and Recommendations

Health and Human Services Department

Ref. #	Observation	Recommendation
1)	<p><u>Expenditure Difference:</u> There is a difference of \$6,988 when comparing DIR's Expenditure Report totaling \$146,051.42 and the City's Expenditure Report totaling \$139,063.42 for the 20 purchase orders tested.</p>	<p>The Health Department should research and resolve this difference.</p>
2)	<p><u>Fee Percentage Paid to DIR:</u> During our testwork of the fees charged by DIR, we noted instances where DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in-place for the Departments to validate the accuracy of the amount invoiced by DIR.</p>	<p>See the recommendation related to <u>Fee Percentage Paid to DIR</u> for the Strategic Purchasing Division, on page 13 of this report. SPD will follow through with DIR to receive the appropriate refund and will request that DIR provide vendor invoices.</p> <p>If in the future DIR attaches vendor invoices, we recommend the Health Department review the vendor invoices and calculate appropriate fees prior to invoice payment.</p>



Observations and Recommendations

Planning and Development Department

Ref. #	Observation	Recommendation
1)	<p><u>Unlocated Supporting Documentation:</u></p> <ul style="list-style-type: none">• An Approved Requisition Form was missing from the Purchasing File for 40% of purchase orders reviewed at Main and 10% for Walker.• 40% of invoices were missing from the Accounts Payable file at Walker.• One invoice was missing at Main.	Identify the process weakness and then strengthen controls over document retention to ensure accurate filing and timely retrieval.
2)	<p><u>Additions Not Properly Authorized:</u></p> <p>As stated in the Master Agreement, the Director of the Department or such other person as the Director may designate must submit in writing to the Contractor an “Addition to Existing Order Document” authorizing additions and overages to purchase orders. The Director did not approve two purchase orders with an addition and/or quantity overage at Main.</p>	Establish procedures to ensure that additions to existing orders are properly authorized in accordance with the Master Agreement.
3)	<p><u>Incomplete Purchase Order Authorization:</u></p> <p>The City requires all purchases made under this Master Agreement to be approved by the IT Steering Committee. The IT Steering Committee approval was not provided or could not be determined for 10% of the purchase orders at Main.</p>	Establish procedures to ensure that all the required authorizations are acquired prior to issuing a purchase order and included with supporting documentation.



Observations and Recommendations

Planning and Development Department (continued)

Ref. #	Observation	Recommendation
4)	<p><u>Inadequate Support/Review of Certain Transactions:</u> Per review of the supporting documentation provided:</p> <ul style="list-style-type: none"> • One purchase order (PO# 479) reviewed at Main listed products received that had no corresponding documentation of receipt, such as a packing slip. Other items processed as received on that PO were supported by the packing slip. The City paid the entire invoice for the purchase order. The amount paid without receipt evidence was \$1,378. • Five of the purchase orders reviewed from Main did not provide packing slips as adequate supporting documentation for our review in verifying the five purchase orders were delivered to the City. • Receiving Documents and Packing Slips were not included in the Purchasing or Accounts Payable File as supporting documentation for all purchase orders reviewed at Walker. • A Line item on one invoice differed from one purchase order at Main. 	<p>Strengthen controls by comparing the Receiving Document, Packing Slips, Purchase Order, and Invoice to determine the accuracy of items ordered versus received prior to processing an invoice. This procedure should establish sufficient supporting documentation for the payment of an invoice and fixed asset inventory.</p> <p>In addition, the Department should consider spot reviews by management of accounts payable documentation to ensure that the disbursement process is operating effectively.</p>
5)	<p><u>Invoices Not Defaced:</u> Invoices in the Accounts Payable file were not defaced for 20% of the purchase orders at Main.</p>	<p>As a best practice, strengthen controls by defacing invoices after payment to alleviate a possible duplicate payment.</p>



Observations and Recommendations

Planning and Development Department (continued)

Ref. #	Observation	Recommendation
6)	<p><u>Unlocated Fixed Assets:</u> Nine of the 21 fixed assets selected for physical observation could not be located by the end of our fieldwork. P&D will continue to research.</p> <p>(Four at Walker and Five at Main)</p>	<p>P&D should complete its research to determine the status of the nine fixed assets that could not be located during our fieldwork and adjust records as needed. Identify the process weakness and make the appropriate change(s) to strengthen controls over the location of fixed assets.</p>
7)	<p><u>Fee Percentage Paid to DIR:</u> During our testwork of the fees charged by DIR, we noted instances where DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in-place for the Departments to validate the accuracy of the amount invoiced by DIR.</p>	<p>See the recommendation related to <u>Fee Percentage Paid to DIR</u> for the Strategic Purchasing Division, on page 13 of this report. SPD will follow through with DIR to receive the appropriate refund and will request that DIR provide vendor invoices.</p> <p>Upon DIR's attachment of vendor invoices, we recommend P&D review the vendor invoices and calculate appropriate fees prior to invoice payment.</p>



Observations and Recommendations

Police Department

Ref. #	Observation	Recommendation
1)	<p><u>Unlocated Supporting Documentation:</u> An Approved Requisition Form could not be provided during our fieldwork for one of the purchasing files reviewed.</p>	Identify the process weakness and then strengthen controls over document retention to ensure accurate filing and timely retrieval.
2)	<p><u>Inadequate Support/Review of Certain Transactions:</u> Per review of the supporting documentation provided: Seven of the purchase orders reviewed listed products received that had no corresponding documentation of receipt, such as a packing slip, while other items on those POs were supported by the packing slip. All such items were paid for. The amounts were:</p> <ul style="list-style-type: none">○ PO# 2200 Line Items 5, 11, & 15 for \$21,102○ PO# 2552 Line Items 1- 3, 5, 6, & 10- 13 for \$57,605○ PO# 2828 Line Items 4, 28, & 32 for \$4090○ PO# 3008 Line Items 7 & 13 for \$465○ PO# 3610 Line Items 1 – 13 & 15 – 18 for \$37,717○ PO# 4056 Line Items 1 – 12 & 14 – 22 for \$23,715○ PO# 4492 Line Items 15, 16, & 17 for \$5,340	<p>Strengthen controls by comparing the Receiving Document, Packing Slips, Purchase Order, and Invoice to determine the accuracy of items ordered versus received prior to processing an invoice. This procedure should establish sufficient supporting documentation for the payment of an invoice and fixed asset inventory.</p> <p>In addition, the Department should consider spot reviews by management of accounts payable documentation to ensure that the disbursement process is operating effectively.</p>



Observations and Recommendations

Police Department (continued)

<i>Ref. #</i>	<i>Observation</i>	<i>Recommendation</i>
3)	<p><u>Unlocated Fixed Assets:</u> Three of the 60 fixed assets selected for physical observation could not be located by the end of our fieldwork. The Police Department will continue to research.</p>	<p>The Police Department should complete its research to determine the status of the three fixed assets that could not be located during our fieldwork and adjust records as needed. Further, the Department should make the appropriate changes to strengthen controls over the location of fixed assets.</p>
4)	<p><u>Fee Percentage Paid to DIR:</u> During our testwork of the fees charged by DIR, we noted instances where DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in-place for the Departments to validate the accuracy of the amount invoiced by DIR.</p>	<p>See the recommendation related to <u>Fee Percentage Paid to DIR</u> for the Strategic Purchasing Division, on page 13 of this report. SPD will follow through with DIR to receive the appropriate refund and will request that DIR provide vendor invoices.</p> <p>Upon DIR's attachment of vendor invoices, we recommend the Police Department review the vendor invoices and calculate appropriate fees prior to invoice payment.</p>



SCHEDULE OF AMOUNT DIR OWES THE CITY
For the Period of April 1, 2000 through June 30, 2002

EXHIBIT A

	(1) Vendor Cost	Amount DIR Billed the City	Vendor Cost Minus Billed	Fee DIR Charged City	2% Fee Based on Vendor Cost	Amount Owed the City
13143599374003 ALLTEL SUPPLY	\$ 6,269.73	\$ 6,515.24	\$ 245.51	3.92%	\$ 125.39	\$ (120.12)
17602050928001 AMARCH	254,646.00	259,927.00	5,282.00	2.07%	5,092.90	(189.10)
25841208694000 ANALYTICAL COMP	1,336,472.06	1,363,795.15	27,323.09	2.04%	26,729.44	(593.65)
17423397979012 AUS RIBBON COMP	5,360.00	5,440.40	80.40	1.50%	107.20	26.80 (2)
11118906053007 AVNET ENT SOLUT	83,384.88	84,227.20	842.32	1.01%	1,667.70	825.38 (2)
17602985248000 BCS SYSTEMS	259,727.17	265,124.18	5,397.01	2.08%	5,194.54	(202.47)
17526060086000 CAPCO COMMUNICA	2,792.02	2,849.00	56.98	2.04%	55.84	(1.14)
19427632351000 COGNOS CORP	1,872.50	1,900.59	28.09	1.50%	37.45	9.36 (2)
17522614977015 COMP USA	-	(10,000.00)	(10,000.00)	0.00%	-	10,000.00 (2)
13820074303004 COMPUWARE CORP.	44,200.00	45,305.00	1,105.00	2.50%	884.00	(221.00)
17606310310000 CUSTOM EDGE INC	31,098.34	31,733.00	634.66	2.04%	621.97	(12.69)
17426168054000 Dell	192,458.31	204,162.94	11,704.63	6.08%	3,849.17	(7,855.46)
15415998820000 DLT SOLUTIONS	27,796.17	28,905.90	1,109.73	3.99%	555.92	(553.81)
14112982187005 ERGOTRON	4,887.50	4,992.80	105.30	2.15%	97.75	(7.55)
19527757322009 ESRI	519,396.10	539,565.50	20,169.40	3.88%	10,387.92	(9,781.48)
19537579245001 FILENET	124,929.41	126,945.55	2,016.14	1.61%	2,498.59	482.45 (2)
10430997501008 GARTNER GROUP	108,000.00	110,160.00	2,160.00	2.00%	2,160.00	-
14604313982000 GATEWAY 2000	118,286.05	119,766.00	1,479.95	1.25%	2,365.72	885.77 (2)
19532489168000 HART INFO SERV	4,424.00	4,515.00	91.00	2.06%	88.48	(2.52)
11308719852062 IBM	1,814.52	1,850.81	36.29	2.00%	36.29	-
14706818136006 INACOM BUSINESS	41,160.00	42,000.00	840.00	2.04%	823.20	(16.80)
17417635418011 KENT DATACOMM	206,929.53	240,825.27	33,895.74	16.38%	4,138.59	(29,757.15)
10613082154000 LEXMARK INTERNT	458,121.52	463,710.08	5,588.56	1.22%	9,162.43	3,573.87 (2)
19428711899002 ORACLE	2,866,223.39	2,860,016.93	(6,206.46)	-0.22%	57,324.47	63,530.93 (2)
17603706171002 OSAGE SYSTEMS G	58,071.00	59,059.00	988.00	1.70%	1,161.42	173.42 (2)
13635458113000 Q-MATIC CORP	20,572.17	20,969.65	397.48	1.93%	411.44	13.96 (2)
12236954785001 SHI GOV SOLUTIO	4,347,560.22	4,533,505.59	185,945.37	4.28%	86,951.20	(98,994.17)
12236955238000 SHI GOV SOLUTIO	140,401.02	146,730.37	6,329.35	4.51%	2,808.02	(3,521.33)
17603630751000 SIVELL CORP	78,675.00	80,249.00	1,574.00	2.00%	1,573.50	(0.50)
12230096484000 SOFTWARE HOUSE	764,309.75	788,513.35	24,203.60	3.17%	15,286.20	(8,917.40)
17600411197001 SWST DATACOM SY	18,427.41	18,795.95	368.54	2.00%	368.55	0.01 (2)
17603524376000 TOTAL IDENTIFIC	1,200.00	1,224.00	24.00	2.00%	24.00	-
17600458545001 US TECH	2,915,581.88	2,973,893.50	58,311.62	2.00%	58,311.64	0.02 (2)
11337984808027 Ziff Davis	12,670.00	13,022.00	352.00	2.78%	253.40	(98.60)
	\$15,248,194.23	\$15,639,440.32	\$382,479.30		\$ 301,154.33	
					Minimum Due City	(81,324.97)
					Sum of (2)s	(79,521.96)
					Total Due City	<u>\$ (160,846.93)</u>

(1) These amounts represent the accumulated costs paid by DIR to each respective vendor during the audit period, April 1, 2000 through June 30, 2002. As these are accumulated amounts and were not analyzed to the individual vendor invoice, the amount of the refund could be higher.

(2) These debits occurred due to vendor costs being greater than DIR's estimate, which the City should not be required to pay. See relevant discussion.



Views of Responsible Officials

Exhibit B

- Strategic Purchasing Division B-1
- Aviation Department B-2
- Fire Department B-3
- Health and Human Services Department B-4
- Planning and Development Department B-5
- Police Department B-6



CITY OF HOUSTON

Finance & Administration Department

Interoffice

Correspondence

To: Judy Gray Johnson, City Controller

From: Philip B. Scheps, Director

Date: July 10, 2003

Subject: Response to TPC and DIR Audits

RECEIVED
JUL 10 2003
CONTROLLERS
OFFICE

The purpose of this memo is to respond to the major findings contained in the two audits performed by Jefferson Wells on the City's contract arrangements with the Texas Procurement Center (TPC) and the Texas Department of Information Resources (DIR). Draft copies of these audits were provided to us for review in April 2003.

TPC Audit

Finding (Ref# 1): Of 31 purchase orders tested, only one fee had been negotiated to a fee of less than 5%, as allowed by contract.

Response/Corrective Action: We agree with the finding. I have instructed the purchasing agent to either negotiate on each contract that exceeds \$500,000 or to provide a memo to the file explaining why he chose not to do so. The appropriateness of the 5% fee should be determined on a case by case basis, depending on the complexity of the work performed by the contractor.

Finding (Ref# 7): Invoices totaling \$383,543 were paid in advance of services rendered.

Response/Corrective Action: Payment of Invoices is handled by each department's accounts payable staff. The City Purchasing Agent is directing TPC not to invoice the City before services are rendered (refer to attached Letter to TPC). In addition, the Purchasing Agent has instructed the City's end-user not to approve payment prior to receipt of services (refer to attached memo to purchasing & accounts payable staff).

Finding (Ref# 5): Certain items purchased were not within the scope of the contract.

Response/Corrective Action: We were aware of this error prior to the Jefferson Wells audit and the Purchasing Agent had already taken disciplinary action against the individual who allowed the improper purchase to occur. Since that time, all contract purchases are centralized under one individual, with strict instructions to adhere to the scope of the contract.

Finding (Ref#10): Insurance coverage provided by TPC does not meet the Master Agreement requirements.

Response/Corrective Action: The Automobile Liability insurance requirement was included in the master Agreement in error. A memo to the City's Legal department is attached.

Exhibit B-1 (Strategic Purchasing Division)

DIR Audit

Finding (Ref# 7): Fee percentages charged by the contractor were above the stipulated amount with no method available for the departments to monitor these fees.

Response/Corrective Action: The City Purchasing Agent has directed DIR to provide quotes for products with a separate line item for the agreed fee, and invoice accordingly (refer to attached Letter to DIR). In addition, DIR has been requested to provide a copy of the actual vendor invoice.

Finding (Ref# 7): Overpayments to the contractor in the amount of \$81,324 identified.

Response/Corrective Action: The City is in the process of recovering the overpayment incurred (refer to attached Letter to DIR). The Houston Airport System (HAS), procurement section is taking the lead on this item.

Finding (Ref# 1): City failed to provide terms of Master Agreement to Catalog Vendors.

Response/Corrective Action: The City's Purchasing Agent deems this requirement unnecessary since DIR is ultimately responsible for this contract, not their vendors. The Strategic Purchasing Division (SPD) is requesting our Legal department to delete this clause from the contract (refer to attached memo to the Legal department).

Finding (Ref# 3): City failed to enforce Large Order Notification procedure.

Response/Corrective Action: Due to logistics, SPD is delegating the authority to enforce this procedure to the departmental end-user.

Finding: Internal control lapses were discovered relative to authorizations, matching receiving reports, and other items.

Response/Corrective Action: The Purchasing Agent is advising the Departmental Purchasing Units (DPU) to comply with Administrative Procedure 5-2 (refer to attached memo to DPUs). Such procedure is available on the City's Intranet web site at <http://choice.net/purchasing/5-2.htm>



Philip B. Schepps, Director

- Attachments: Letter to DIR
Letter to TPC
Memo to Legal department
Memo to City's DPUs

- cc: Al, Haines, CAO
Calvin D. Wells, City Purchasing Agent

Exhibit B-1 (Strategic Purchasing Division)



CITY OF HOUSTON
Strategic Purchasing Division
Finance and Administration
Department

Lee P. Brown
Mayor

Calvin D. Wells, C.P.M.
City Purchasing Agent
P.O. Box 1562
Houston, Texas 77251-1562

T. 713.247.1684
F. 713.247.1811
www.cityofhouston.gov

July 9, 2003

Mr. Pat Hogan
Texas Department of Information Resources
300 West 15th St
Suite 1300
Austin, Texas 78701

Re: Audit Findings Contract# C51398

Dear Mr. Hogan,

As you are aware, Jefferson Wells conducted an audit on the subject contract for the period of April 1, 2000 through June 30, 2002. In an effort to bring the in compliance and more efficiently administer it, you are being requested to adhere to the following:

1. We are requesting a refund of \$81,324 from the sample audit. Refer to the attached Exhibit A.
2. Effective today, attach copies Vendor Invoices along with your DIR's invoice.
3. Effective July 15, 2003, provide City quotes with a separate line item showing the agreed 2% fee.
4. Improve performance on Order Delivery Dates clause. In the event DIR cannot provide the products by the Delivery Date, DIR shall provide the City with a "Notice of Inability to Meet Order Date" as stipulated on the Master Agreement, Exhibit A-7 though A-8.

Furthermore, we are requesting reseller invoices from April 21, 2000 to date so that a complete review is conducted. Please send me copies of all backup documents to my attention. The Houston Airport System (HAS) is assisting with this review.

Thank you for your cooperation. Should you have any questions, please call me at (713) 247-1684, or Jaime Garcia at (713) 247-1150.

for: Jaime Garcia
Calvin D. Wells, C.P.M.
City Purchasing Agent

Attachment: Jefferson Wells audit, Exhibit A

cc: Jaime Garcia, Strategic Purchasing Division
Diana Hoffman, HAS

CDW:jg

Council Members: Bruce Tatro Carol M Galloway Mark Goldberg Ada Edwards Addie Wiseman Mark A. Ellis Bert Keller Gabriel Vasquez Carol Alvarado Annise D. Parker Gordon Quan Shelley Sekula-Gibbs, M.D. Michael Berry Carroll G. Robinson Controller: Judy Gray Johnson

**Exhibit B-1 (Strategic
Purchasing Division)**



CITY OF HOUSTON
Strategic Purchasing Division
Finance and Administration
Department

Lee P. Brown
Mayor

Calvin D. Wells, C.P.M.
City Purchasing Agent
P.O. Box 1562
Houston, Texas 77251-1562

T. 713.247.1684
F. 713.247.1811
www.cityofhouston.gov

July 9, 2003

Mr. Leonard Childress
Texas Procurement Center
12777 Jones Rd.
Suite 320
Houston, Texas 77070

Re: Audit Findings Contract# C51399

Dear Mr. Childress,

As you are aware, Jefferson Wells conducted an audit on the subject contract for the period of April 1, 2000 through June 30, 2002. In an effort to bring the in compliance and more efficiently administer it, you are being requested to adhere to the following:

1. Effective today, attach copies Vendor Invoices along with your invoice.
2. Do not send invoices prior to the delivery of products and services.
3. Pay the interest that the City would have earned on the sample advance payments found (See Exhibit B).
4. Provide the missing vendor invoices supporting \$48,796.30 (\$46,472 * 1.05) not provided to the auditor, or refund the City for each missing invoice (See Exhibit A).
5. We are requesting a refund of \$5,485 resulted in an overpayment of purchase order number PG65004010, which had a negotiated fee of 3.5%.

Furthermore, we are requesting reseller invoices from April 21, 2000 to date so that a complete review is conducted. Please send me copies of all backup documents to my attention.

Thank you for your cooperation. Should you have any questions, please call me at (713) 247-1684, or Jaime Garcia at (713) 247-1150.

for: Jaime Garcia
for: Calvin D. Wells, C.P.M.
City Purchasing Agent

Attachment: Jefferson Wells audit, Exhibit A
Jefferson Wells audit, Exhibit B

cc: Jaime Garcia, Strategic Purchasing Division

CDW:jg

Council Members: Bruce Tatro Carol M Galloway Mark Goldberg Ada Edwards Addie Wiseman Mark A. Ellis Bert Keller Gabriel Vasquez Carol Alvarado
Annise D. Parker Gordon Quan Shelley Sekula-Gibbs, M.D. Michael Berry Carroll G. Robinson Controller: Judy Gray Johnson

**Exhibit B-1 (Strategic
Purchasing Division)**



CITY OF HOUSTON

Finance & Administration Department

Interoffice

Correspondence

To: Jo Wiginton, Senior Assistant City
Attorney
Legal Department

From: Calvin D. Wells, C.P.M.
City Purchasing Agent

Date: July 9, 2003

Subject: TPC and DIR Audits Legal Request
(Contract C51399 & C51398)

As you might be aware, the Controller's Office coordinated an audit on the subject contracts. Based on such audit findings, I'm requesting the following:

1. For TPC contract, delete the Automobile Liability insurance requirement.
2. For DIR contract, delete Paragraph T(1), Page 45 (Catalog Vendors Providing Products). I don't believe this requirement is necessary since DIR uses the QISV certification process.

Thank you for your cooperation. Should you have any questions, please contact me, or Jaime Garcia at (713) 247-1150.

for: Jaime Garcia
Calvin D. Wells, C.P.M.

cc: Jaime Garcia, SPD

CDW:jg

**Exhibit B-1 (Strategic
Purchasing Division)**



CITY OF HOUSTON

Finance & Administration Department

Interoffice

Correspondence

To: Department Purchasing Units
Accounts Payable Staff

From: Calvin D. Wells, C.P.M.
City Purchasing Agent

Date: July 9, 2003

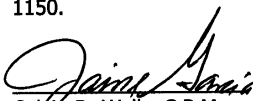
Subject: TPC and DIR Audits Guidelines
Contract C51399 & C51398

As you might be aware, the Controller's Office coordinated an audit on the subject contracts. Based on such audit findings, I'm directing all purchasing and accounts payable staff to adhere to the following:

1. Read and ensure full compliance of Administrative Procedure 5-2 (Procurement). The latest document is located on the City's intranet site at: <http://choice.net/purchasing/5-2.htm>
2. Read and ensure full compliance with Administrative Procedure 5-5 (High Technology Procurement). Such procedure is also located on the intranet at: <http://choice.net/purchasing/5-5.htm>
3. Do not approve any vendor payments prior to receipt of goods and services.
4. Effective today, for DIR contract, Page 28, Paragraph D, 1b, i & ii (Method of Payment for Large Orders Procedure), the Purchasing Agent delegates the authority to the Department Purchasing Units to enforce such procedure. This assignment is necessary due to the logistics involved to efficiently monitor this procedure. A copy of the DIR contract is located on SPD's intranet web site at: <http://www.choice.net/spd/technology.html>

Additional audit recommendations are being addressed to the Legal department and the vendors.

Thank you for your cooperation. Should you have any questions, please contact Jaime Garcia at (713) 247-1150.


Calvin D. Wells, C.P.M.

cc: Judy Gray Johnson, City Controller
Philip B. Scheps, Director
SPD Managers

CDW:jg

**Exhibit B-1 (Strategic
Purchasing Division)**

CITY OF HOUSTON
INTEROFFICE CORRESPONDENCE

TO: Ms. Judy Gray Johnson
City Controller

FROM: Director of Aviation
Houston Airport System

DATE: May 20, 2003

SUBJECT: Management Response to
Department of Information
Services Contract Compliance
Audit, Contract No. C51398

We have reviewed the April 21, 2003, draft report submitted by Jefferson Wells International audit staff pertaining to the audit of the Department of Information Services Contract Compliance audit (Contract C51398). The following response is provided to address the findings and related recommendations presented in the audit report.

1. **Audit Finding:** Unlocated Fixed Assets - Twenty-five of the 87 fixed assets selected for physical observation could not be located by the end of our fieldwork. Aviation will continue to research.

Audit Recommendation: Aviation should complete its research to determine the status of the 24 fixed assets that could not be located during our fieldwork and adjust records as needed. Identify the process weakness and make the appropriate change(s) to strengthen controls over the location of fixed assets.

Management Response: Prior to February 19, 2003, the 25 missing fixed assets, related to computer items, were located and made available for observation by the auditor. Records are currently being corrected as part of the annual Fixed Asset Inventory. The HAS IT Division, responsible for the installation and relocation of computers, is currently developing an electronic method for maintaining moves and adds and changes for computer items. The software should be in place within the next 120 days.

2. **Audit Finding:** Fee Percentage Paid to DIR - During our test work of the fees charged by DIR, we noted instances where DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in place for the Departments to validate the accuracy of the amount invoiced by DIR.

Audit Recommendation: Refer to the recommendation for Observation 1) Fee Percentage Paid to DIR, under contract Compliance for Strategic Purchasing Division. SPD will follow through with DIR to receive the appropriate refund and will request that DIR provide vendor invoices.

Exhibit B-2
(Aviation Department)

Ms. Judy Gray Johnson
City Controller

-2-

May 20, 2003

Management Response: We concur with the audit recommendation for SPD to follow through with DIR to receive the appropriate refund and request that DIR provide vendor invoices. The Houston Airport System, upon DIR's attachment of vendor invoices, will review the vendor invoices and calculate appropriate fees prior to invoice payment.



Richard M. Vacar, A.A.E.

RMV:RB:slh

cc: Mr. Richard Berrones
Ms. Diana Hoffman
Ms. Myrna Warford
Mr. Cesar Dijamco
Central File

Exhibit B-2
(Aviation Department)



CITY OF HOUSTON

Fire Department

Lee P. Brown

Mayor

Chris Connealy
Fire Chief
Houston Fire Department
1206 Dart Street
Houston, Texas 77007

T. 713.247.5083
F. 713.247.5004
www.ci.houston.tx.us/hfd

June 4, 2003

Judy Gray Johnson
City Controller
611 Walker
Houston, Texas 77002

Subject: IT Contract Compliance Internal Audit of the City's Contract with DIR

Dear Ms. Johnson:

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

Finding #1

Inadequate Support/Review of Certain Transactions:

Per review of the supporting documentation provided:

- Three purchase orders reviewed listed products received that were not supported with documentation of receipt, such as packing slip. Other items on the P.O. were appropriately supported, all items were paid for. Items without appropriate receiving support:
 - PO #2157 Line Item 1, 2, & 3 for \$6,543
 - PO #2705 Line Item 1 & 3 for \$5,429
 - PO #3392 Line Item 1 for \$7,488
- Eight purchase orders reviewed did not provide packing slips as adequate supporting documentation for our review in verifying the eight purchase orders were delivered to the City.

HFD Response:

The finding relates to the exceptions found on PO Nos. 2157, 2705, and 3392. Our review of the supporting Certificates of Acceptance, PO's and invoices disclosed exact three-way match necessary to make a valid payment to the vendor. Certificates of Acceptance are issued on the basis of documents (appropriate to type of items delivered) presented by the vendor at the time of delivery. Items such as software/service plans are not accompanied by packing slips when delivered. Instead, softwares are backed up by licenses that are later mailed to the buyer for security purposes. The subject PO's covered a mix of items such as equipment, software and service plans. Our IT department has assured the corresponding packing slips were

Exhibit B-3
(Fire Department)

**Response to Draft Report-Contract Compliance Audit
Page 2 of 3**

presented at the time of delivery, kept on file, and were made as a basis for issuing the certificates of acceptance.

The receiving and accounts payable sections have been advised to ensure packing slips are part, as necessary, of the support documents prior to payment of invoices.

Finding #2

Unlocated Supporting Documentation

10% of the files reviewed were missing invoices and accounts payable information.

HFD Response:

The finding relates to exceptions found on PO Nos. 2071 and 2703. PO #2071 and its supporting documents were found on file with the exact three-way match necessary to make a valid payment to the vendor. With regards to PO #2703, we could only provide copies of the invoice, the PO, and the payment information shown in the system. We could not find other information, such as the certificate of acceptance, despite diligent efforts to locate them. This information was provided to the auditors in our initial response dated March 5, 2003.

Finding #3

Unlocated Fixed Assets:

Two of the 15 fixed assets selected for physical observation could not be located by the end of our fieldwork. The Fire Department will continue to research.

HFD Response:

Exhibit E indicates two fixed asset items were not found during the audit. The items have been located since the date of the report. This information was provided to the auditors in our preliminary response dated March 5, 2003.

Exhibit B-3
(Fire Department)

**Response to Draft Report-Contract Compliance Audit
Page 3 of 3**

Finding #4

Expenditure Difference

There is a difference of \$1,085 when comparing DIR's Expenditure Report totaling \$408,660.50 and the City's Expenditure Report totaling \$409,745.50 for the 20 purchase orders tested.

HFD Response:

HFD believes this is a result of timing difference. HFD will contact DIR to confirm that the department did not have an outstanding balance during the period under audit.

Finding #5

Fee Percentage Paid to DIR

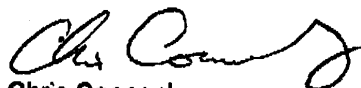
During our testwork of the fees charged by DIR, we noted instance where DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in place for the Departments to validate the accuracy of the amount invoiced by DIR.

HFD Response:

We agree with the finding. HFD looks forward to SPD to make changes to the Agreement to ensure the accuracy of the amounts billed by DIR to the City.

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

Sincerely,



Chris Connealy
Fire Chief

cc: Gracia Rosslow-Deputy Director-HFD

Exhibit B-3
(Fire Department)



CITY OF HOUSTON
Health and Human Services
Department

Interoffice

Correspondence

To: Judy Gray-Johnson
City Controller

From: M. desVignes-Kendrick, MD, MPH
Health and Human Services

Date: May 13, 2003

Subject: DEPARTMENT OF INFORMATION
SERVICES CONTRACT COMPLIANCE
AUDIT

Attached is the Houston Department of Health and Human Services' response to the subject audit's observations. I also wish to extend my thanks to JeffersonWells International for their cooperation.

M. desVignes-Kendrick, MD, MPH
Director
Houston Department of Health
and Human Services

xc: Earl Travis, Deputy Director, HDHHS
Steve Schoonover, City Auditor, City Controller's Office
Susan Bandy, Assistant Director, F & A
Monir Ibrahim, Division Manager, Internal Audit, HDHHS
Peter James, Finance Manager, HDHHS
Candy Davis, Audit Manager, JeffersonWells International

Attachment
JeffersonWells International Audit Draft Report
HDHHS Audit Report Responses

03 MAY 14 PM 1:4
CONTROLLER'S

**Exhibit B-4
(Health and Human
Services Department)**

Houston Department of Health and Human Services'
Response to Texas Department of Information Services Contract Audit
Observations, Performed by JeffersonWells International

OBSERVATION 1

There is a difference of \$6,988.00 when comparing DIR's Expenditure Report totaling \$146,051.42 and the City's Expenditure Report totaling \$139,063.42 for the 20 purchase orders tested.

RECOMMENDATION

The Health Department should research and resolve this difference.

HDHHS RESPONSE

The requested reconciliation was performed, revealing no discrepancy when correct amounts were used. We also contacted DIR and confirmed that no outstanding balance existed. The difference was apparently a timing issue caused by a transaction in process.

OBSERVATION 2

During our test work of the fees charged by DIR, we noted instances where DIR has charged the City more than the fee percentage outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in-place for the Department to validate the accuracy of the amount invoiced by DIR.

RECOMMENDATION

See the recommendation related to **Fee Percentage Paid to DIR** for the Strategic Purchasing Division, on page 8 of this report. SPD will follow through with DIR to receive the appropriate refund and will request that DIR provide vendor invoices.

If in the future DIR attaches vendor invoices, we recommend the Health Department review the vendor invoices and calculate appropriate fees prior to invoice payment.

HDHHS RESPONSE

We concur, provided Strategic Purchasing Division can secure DIR's compliance.

Exhibit B-4
(Health and Human
Services Department)



CITY OF HOUSTON
Planning & Development
Department

Interoffice

Correspondence

To: Judy Gray Johnson, City Controller
Controller's Office

From: Robert M. Litke, Director 

Date: May 2, 2003

Subject: **Department of Information Services
Contract Compliance Audit Responses**

This letter is in response to the Department of Information Services Contract Compliance audit of the Planning and Development Department. We have reviewed the draft report and responses are as follows:

Finding 1

Un-located Supporting Documentation:

An Approved Requisition Form was missing from the Purchasing File for 40% of purchase orders reviewed at Main and 10% for Walker. 40% of invoices were missing from the Accounts Payable file at Walker and one was missing from Main.

Department Response:

The department located all but one of the approved requisition forms that were missing from the purchasing file located at 3300 Main. The department will strengthen controls over document retention to ensure accurate filing and timely retrieval.

Finding 2

Additions Not Properly Authorized:

As stated in the Master Agreement, the Director of the Department or such other person as the Director may designate, must submit in writing to the Contractor an "Addition to Existing Order Document" authorizing additions and overages to purchase orders. The Director did not approve two purchase orders with an addition and/or quantity overage at Main.

Department Response:

The department will comply to ensure that additions to existing orders are properly authorized in accordance with the master agreement.

Finding 3

Incomplete Purchase Order Authorization:

The City requires all purchases made under this Master Agreement to be approved by the IT Steering Committee. The IT Steering Committee approval was not provided or could not be determined for 10% of the purchase orders at Main.

Exhibit B-5
(Planning and
Development Department)

Department Response:

The purchasing staff forwards requests with department's approval to the IT Steering Committee for authorization. Upon approval from the IT Steering Committee, requests and all supporting documentation are forwarded to SPD for issuance of a purchase order. The IT Steering Committee authorizations are not returned to the department. Effective December 9, 2002, the IT department has authorized the Chief Technology Officers to approve their own departmental purchases in accordance with Executive Order 1-44 and established technology standards.

Finding 4

Inadequate Support/Review of Certain Transactions:

Per review of the supporting documentation provided: One of the purchase orders reviewed at Main listed products received that had no corresponding documentation of receipt, such as a packing slip. However, all items processed as received were not supported by the packing slip. The City paid the entire invoice for the purchase order, and the amount paid without receipt of evidence was PO# 479 for \$1,378. Five of the purchase orders reviewed from Main did not provide packing slips as adequate supporting documentation for our review in verifying the five purchase orders were delivered to the City. Receiving Documents and Packing Slips were not included in the Purchasing or Accounts Payable File as supporting documentation for all purchase orders reviewed at Walker. A Line item on one invoice differed from one purchase order at Main.

Department Response:

The Accounts Payable section processes payment for purchase order invoices based upon a three-way match system. The three-way match is comprised of the invoice, PO and the receiving document. The receiving document is compared to the invoice to ensure that the items billed are reflective of items received. The received and invoiced items are compared to the PO to verify quantity ordered, pricing, and description. Subsequent to the audit, the department has located several of the missing packing slips and will work to ensure adequate record management of files and maintain all supporting documentation.

Finding 5

Invoices Not Defaced:

Invoices in the Accounts Payable file were not defaced for 20% of the purchase orders at Main.

Department Response:

The City's financial system controls minimize duplicate payments by not allowing the same invoice number to be entered twice. However, as a backup procedure the department's practice has been and continues to be to deface invoices as they are paid. During the period FY00 – FY01 the accounting section was short-staffed and invoices may not have been defaced due to the fact that the section concentrated on payment.

Exhibit B-5
(Planning and
Development Department)

Finding 6

Un-located Fixed Assets:

Nine of the 21 fixed assets selected for physical observation could not be located by the end of our fieldwork. P&D will continue to research. (Four at Walker and Five at Main)

Department Response:

The department has located all unfound assets. The items selected were computer network peripherals and were unfamiliar to the accounting personnel and thus were not readily identifiable.

Finding 7

Fee Percentage Paid to DIR:

During our test work of the fees charged by DIR, we noted instances where DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in-place for the Departments to validate the accuracy of the amount invoiced by DIR.

Department Response:

SPD is responsible for the DIR contract and is therefore, responsible for the compliance of the 2% increase allowed in the contract.

If there are any questions or comments regarding the responses, you may contact Marcia Wilson at 713 837-7732 or Brian Sedberry at 713 837-7948.

RML:BS:MW:rm

xc: Candy Davis

Exhibit B-5
(Planning and
Development Department)

CITY OF HOUSTON

INTER OFFICE CORRESPONDENCE

TO: Judy Gray Johnson
City Controller

FROM: C. O. Bradford
Chief of Police

DATE: June 10, 2003

SUBJECT: **Response to the Department of
Information Services Contract
Compliance Audit**

Attached is the management response to the final draft of the recent audit of the Houston Police Department, Budget and Finance Division regarding the Department of Information Services Contract Compliance. Jefferson Wells International conducted the audit.

Our responses to the findings are outlined below:

1. Observation -Unlocated Supporting Documentation

An Approved Requisition Form could not be provided during our fieldwork for one of the purchasing files reviewed.

Response

The Police Department requires that a Purchase Order can not be generated unless there is a signed Price Agreement Request (PG) which is the equivalent document to a Requisition Form. A PG is used for contract purchases. After receiving the specific Purchase Order numbers, the missing documents were found.

2. Observation - Inadequate Support/Review of Certain Transactions

Per review of the supporting documentation provided:

Seven of the purchase orders reviewed listed products received that had no corresponding documentation of receipt, such as a packing slip, while other items on those POs were supported by the packing slip. All such items were paid for. The amounts were:

- PO# 2200 Line Items 5, 11, & 15 for \$21,102
- PO# 2552 Line Items 1-3, 5, 6, & 10-13 for \$57,605
- PO# 2828 Line Items 4, 28, & 32 for \$4090
- PO# 3008 Line 7 & 13 for \$465
- PO# 3610 Line Items 1-13 & 15-18 for \$37,717.
- PO# 4056 Line Items 1-12 & 14-22 for \$23,715
- PO# 4492 Line Items 15, 16, & 17 for \$5,340.

Exhibit B-6
(Police Department)

Response

The City Advantage System pays by a 3-Way Match (Purchase Order, Invoice and Receiver). The Computer Services Division enters their own receivers in the Advantage System. The invoice is entered separately by Budget and Finance into the Advantage System. The system will not pay until there is an exact three-way match. If there is no exact three-way match the invoice will stay in suspense until Budget and Finance verifies delivery with Computer Services and then requests for the receiver to be entered into the system.

3. Observation - Unlocated Fixed Assets

Three of the 60 fixed assets selected for physical observation could not be located by the end of our fieldwork. The Police Department will continue to research.

Response

The asset testing for the Police Department began at 2:00 P.M., Thursday, January 16, 2003 and ended on Friday, January 17, 2003. The three assets cited as not seen by the auditor on the day of asset testing were accounted for by the officer in charge of inventory or officer assignee upon return to work the following week.

4. Observation - Fee Percentage Paid to DIR

During our test work of the fees charged by DIR, we noted instances where the DIR has charged the City more than the fee percentages outlined in the Master Agreement. As the contract does not require DIR to provide supporting documentation of its costs, there is currently no system in place for the Departments to validate the accuracy of the amount invoiced by DIR.

Response

This is a Strategic Purchasing Division issue. However, if provided the supporting invoices, HPD will review the vendor invoices and calculate appropriate fees prior to invoice payment.



C.O. Bradford
Chief of Police

COB:dlw

Exhibit B-6
(Police Department)