

OFFICE OF THE CITY CONTROLLER



**AVIATION DEPARTMENT
PURCHASING CARD ACTIVITY AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



ANNISE D. PARKER

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

March 3, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Aviation Department
Purchasing Card Activity Audit (Report No. 05-02)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of Purchasing Card (P-Card) activity for the Aviation 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 over the P-Card activities at the Department are adequate to provide management with reasonable assurance that P-Card activities are performed in accordance with applicable City of Houston administrative policies, procedures and executive orders, except for the findings presented in the body of the report. Draft copies of the matters contained in the report were provided to Aviation 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
Michael Moore, Chief of Staff, Mayor's Office
Anthony Hall, Chief Administrative Officer
Richard Vacar, Director, Aviation Department
Judy Gray Johnson, Director, Finance and Administration Department

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FINANCE AND ADMINISTRATION DEPARTMENT – EXHIBIT I

HEALTH AND HUMAN SERVICES DEPARTMENT – EXHIBIT II

EXECUTIVE SUMMARY

- €# Executive Order 1-42 should be revised, to more accurately reflect the current accepted uses of the purchases being allowed with the P-Card.
 - Ø E.O. 1-42 should be rewritten so that it is less restrictive in the types of purchases that may be made with a P-Card.
 - Ø E.O. 1-42 should include a requirement for Approving Managers to attend P-Card training to better understand their roles and responsibilities for monitoring P-Card activity.
- €# P-Cardholders should obtain appropriate written approval from the person requesting to purchase and item not allowable by E.O. 1-42.
- €# The Department should perform unannounced audits of transactions of all P-Card accounts as required by E.O. 1-42.

SCOPE AND PURPOSE

We have completed an audit of the Aviation 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, if applicable. Also, we evaluated the adequacy of internal controls related to the processing of P-Cards. The audit scope period was from January 1, 2004 through June 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 financial related 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 over the P-Card activities at the Aviation Department are adequate to 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.

Also, we recommend that Executive Order 1-42 be revised so that it accurately reflects currently allowed P-Card practices.



Dennis Frazier
Auditor-in-charge



Kenneth Teer
Audit Manager



Steve Schoonover
City Auditor

INTRODUCTION

The Aviation's Department (Department) usage of Purchasing Cards (P-Card) began in 2002. The Deputy Assistant Director for the Finance Division in the Aviation Department is the P-Card Coordinator and is responsible for overseeing the Department's P-Card activity. The P-Card audit scope was for the period January 1, 2004 through June 30, 2004. During that period, there were sixty-nine divisions with 65 P-Cardholders. These P-Cardholders had 1,365 transactions totaling \$227,900. Additionally, the Department's P-Card Coordinator is responsible for the administration and control of the Department's P-Card program, including ensuring the P-Card Administrator in the Strategic Purchasing Division 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).

AUDIT FINDINGS AND RECOMMENDATIONS

I. REVISION OF EXECUTIVE ORDER

A. COMPLIANCE WITH EXECUTIVE ORDER

BACKGROUND

Executive Order (E.O.) 1-42, *Purchasing Card Policy and Procedures*, established "procedures for procuring goods and/or services using a Purchasing Card". The E.O. was drafted in July of 1998, with a minor revision in April 2001, which increased spending limits to coincide with Texas State Law.

The P-Card Program was originally a pilot program to ascertain if P-Card usage would be beneficial to City Departments, while still safeguarding assets and maintaining effective internal controls over purchasing. The program began with approximately 120 P-Cardholders in 2000 and at present, has grown to roughly 1,000 Cardholders city-wide.

The P-Card Program has been proven to be an efficient and effective means of purchasing for the City of Houston, and the P-Cards are now used in virtually all City Departments. E.O., 1-42 was originally written to guide the pilot program, and as a consequence, was written in very narrow and limiting language as to the types of purchases allowable with a P-Card. It is the Strategic Purchasing Division (SPD) Management's opinion, and the auditors concur, that E.O. 1-42 should be revised.

FINDING

In no case did we find gross misconduct or negligence when purchases were made with the P-Cards. The auditors believe the P-Cards have proven themselves to be a safe, reliable, and efficient method for purchasing items under \$2,000. Furthermore,

it is a more economical way for the City to purchase lower dollar items. According to SPD, the cost of generating a purchase order has been estimated to be roughly \$100 to \$120, and the cost of purchasing through a p-card is roughly \$10 to \$15.

Several transactions the auditors examined during this audit were in violation of E.O. 1-42, yet a prudent manager would have allowed such purchases in order to be cost effective. The following are examples of purchases disallowed by E.O. 1-42 that we believe should be allowed to be purchased with a P-Card:

- €# Eleven transactions paid annual professional dues totaling \$3,393.
- €# Eight transactions paid registration fees totaling \$5,525.

RECOMMENDATION

We recommend SPD rewrite E.O. 1-42 so that it is less restrictive in the types of purchases that may be made with a P-Card.

B. P-CARD APPROVING MANAGER TRAINING

BACKGROUND

E.O. 1-42, Sections 5.2.3, requires approving managers to:

- €# Review and approve P-Card applications prior to submission to the Departmental Purchasing Card Coordinator (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,
- €# Notify the P-Card Coordinator when a cardholder is terminated so the card will be collected and purchasing privileges terminated.

FINDING

P-Card Approving Managers (supervisors who review and approve P-Card purchases and P-Card bank statement activity) do not receive training defining their roles and responsibilities related to monitoring P-Card activity, including reviewing and approving monthly bank statement reconciliations. Some Approving Managers had not even attended the basic P-Card training. Failure to train Approving Managers may result in them approving inappropriate P-Card purchases in violation of

E. O. 1-42. This issue has been raised in 3 of the 5 P-Card audits previously issued by the Controller's Office and remains an issue.

RECOMMENDATION

We recommend SPD revise E.O. 1-42 to include a requirement for Approving Managers to attend P-Card training to better understand their roles and responsibilities for monitoring P-Card activity.

II. RESTRICTED PURCHASES

BACKGROUND

≠ E.O. 1-42 Section 7 allows P-Cards to be "used to purchase any item and/or service for immediate use not prohibited by this procedure, another procedure or policy approved by the Mayor, or an ordinance of the City of Houston".

FINDING

The Aviation Department, with approval from Strategic Purchasing Department, paid recurring local phone bills on a monthly basis. A monthly recurring charge does not qualify as an immediate use purchase, and should not be paid with a P-Card.

RECOMMENDATION

We recommend the P-Card Coordinator reemphasize to P-Cardholders the importance of being aware of prohibited purchases, such as recurring monthly services, registration fees, and decorative items. We also recommend that if P-Cardholders are instructed to purchase any item not allowable by E.O. 1-42, that the P-Cardholder obtain appropriate written approval from the person requesting the questionable purchase. A copy of the approval should be attached to the P-Cardholder's monthly statement.

III. UNANNOUNCED AUDITS

BACKGROUND

E.O. 1-42, Section 5.2.2 states, that the Departmental Purchasing Card Coordinator for each Department is responsible for periodically designating an employee to conduct unannounced audits of transactions made with P-Cards held by Cardholders.

AVIATION DEPARTMENT
PURCHASING CARD ACTIVITY AUDIT

FINDING

There were no periodic unannounced audits conducted of transactions made with P-Cards as required by E.O. 1-42.

RECOMMENDATION

We recommend the Department name a designated employee to perform unannounced audits of transactions of all P-Card accounts as required by E.O. 1-42.

EXHIBIT I



CITY OF HOUSTON

Finance & Administration Department

Interoffice

Correspondence

To: Steve Schoonover
City Auditor

From: Judy Gray Johnson
Director of Finance & Administration

Date: February 1, 2005

Subject: PCard Audit Report-Aviation

In response to your audit on the Aviation Department PCard activity, I offer the following responses to the recommendations directed to the Finance and Administration Department.

- Executive Order 1-42 should be revised to more accurately reflect the current accepted uses being allowed with the P-Card.
 - We recommend E.O. 1-42 be made less restrictive in the types of purchases that may be made with a P-Card.
 - Response: Finance and Administration partially concurs with this recommendation. The PCard is a less costly procurement option, but those administrative savings must be balanced against the need for managerial control over certain purchases. SPD is exploring alternative language that expands on "immediate use" and still allows for efficient transactions on allowable purchases.
 - E.O. 1-42 should include a requirement for Approving Managers to attend PCard training to better understand their roles and responsibilities for monitoring PCard activity.
 - Response: Although Executive Order 1-42 does not require approving managers to attend PCard training, SPD highly recommends that managers and executives attend PCard training. Making PCard training for managers should become officially recognized as part of the Executive Order.

SPD has developed a special training program for managers and supervisors. This executive training session is an abbreviated session that focuses on key policies and internal controls. The training packet includes all the same materials as given to the PCardholders during their training. These materials allow for further reading and future reference.

**Views of Responsible
Officials**

EXHIBIT I

As an introduction to the PCard program, the executive staff and middle management of the Houston Airport system were trained. SPD offers this training program upon request. For several years, key departments such as Public Works and Engineering have mandated training for managers of employees of PCards. Like PCardholders, Public Works and Engineering managers are trained every two years as the PCards expire.

Should you have questions about these responses, please direct them to Calvin Wells, City Purchasing Agent.


Judy Gray Johnson

xc: Richard Vacar
Calvin D. Wells
Rod Anderson

***Views of Responsible
Officials***

EXHIBIT II

CITY OF HOUSTON

INTEROFFICE CORRESPONDENCE

05 FEB 17 PM 3:22

TO: Annise D. Parker
City Controller

FROM: Director of Aviation's
Houston Airport System

RECEIVED
FEB 17 2005
CONTROLLERS
OFFICE

DATE: February 11, 2005

SUBJECT: Purchasing Card Activity Audit
Draft Report

We have reviewed the draft report regarding the P-Card Audit of the Houston Airport System.

Following are Houston Airport System management responses to audit findings II and III as requested. Responses to audit findings I.A. and I.B. will be provided by the Finance and Administration Department per your instructions.

II. Restricted Purchases

Audit Finding: The Aviation Department, with approval from Strategic Purchasing Department, paid recurring local telephone bills on a monthly basis. A monthly recurring charge does not qualify as an immediate use purchase, and should not be paid with a P-Card.

Audit Recommendation: We recommend the P-card Coordinator reemphasize to P-Cardholders the importance of being aware of prohibited purchases, such as recurring monthly services, registration fees, and decorative items. We also recommend that if P-Cardholders are instructed to purchase any item not allowable by E.O. 1-42, that the P-Cardholder obtain appropriate written approval from the person requesting the questionable purchase. A copy of the approval should be attached to the P-Cardholder's monthly statement.

Management Response: As mentioned in the finding, we did obtain approval from the Strategic Purchasing Department prior to authorizing payment of recurring services, registration fees and decorative items (only purchased for Public Areas) with a P-Card. These payments were approved after careful deliberation with the requesting cardholder, the cardholder's P-Card statement approver, Houston Airport System Procurement Management, and the Strategic Purchasing Department. The purchases were authorized only after agreement of all parties that P-Card payment was the most efficient and cost effective method of payment under the circumstances. We agree with the recommendation to update E.O. 1-42 and are working with the F&A Department to expedite the re-write.

*Views of Responsible
Officials*

EXHIBIT II

Annise D. Parker
City Controller

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February 11, 2005

III. Unannounced Audits

Audit Finding: There were no periodic unannounced audits conducted of transactions made with P-Cards as required by E.O. 1-42.

Audit Recommendation: We recommend the department name a designated employee to perform unannounced audits of transactions of all P-Card accounts as required by E.O. 1-42.

Management Response: An employee has been designated to perform independent unannounced audits of transactions of all P-Card accounts as required by E.O. 1-42.



Richard M. Vacar, A.A.E.

RMV: dka

cc: Ms. Judy Gray Johnson
Ms. Myrna Warford
Mr. David Arthur
Mr. Cesar Dijamco
Central File

*Views of Responsible
Officials*