

**OFFICE OF THE CITY CONTROLLER**



**HEALTH AND HUMAN SERVICES 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

February 21, 2005

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: Health and Human Services Department  
Purchasing Card Activity Audit (Report No. 05-01)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of Purchasing Card (P-Card) activity for the Health and Human Services 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 Health and Human Services 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  
Stephen Williams, M.Ed., MPA, Director, Health and Human Services Department  
Judy Gray Johnson, Director, Finance and Administration Department

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## CONTENTS

LETTER OF TRANSMITTAL.....	i
EXECUTIVE SUMMARY .....	1
SCOPE AND PURPOSE .....	2
CONCLUSION .....	3
INTRODUCTION.....	4
AUDIT FINDINGS AND RECOMMENDATIONS	
I. REVISION OF EXECUTIVE ORDER.....	4
A. COMPLIANCE WITH EXECUTIVE ORDER.....	4
B. REPORTING CONTRACT PURCHASES.....	5
C. P-CARD APPROVING MANAGER TRAINING.....	6
II. RESTRICTED PURCHASES .....	7
III. EXHIBIT FORMS .....	8
IV. UNANNOUNCED AUDITS.....	9
V. PURCHASING LIMITS.....	9
VI. TIMELY SUBMISSION OF RECONCILIATIONS.....	10

### VIEWS OF RESPONSIBLE OFFICIALS

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 being allowed with the P-Card.
  - Ø We recommend E.O. 1-42 be made less restrictive in the types of purchases that may be made with a P-Card.
  - Ø E.O. 1-42 should be revised to remove the language in Sections 5.2.2, 12, and 15 requiring P-Card Coordinators and P-Cardholders to report contract purchases and to reflect current practices.
  - 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.
- €# If P-Cardholders are instructed to purchase any item not allowable by E.O. 1-42, then the P-Cardholder should obtain appropriate written approval from the person requesting the questionable purchase.
- €# All changes in status of P-Cardholders should be documented with the Exhibit 5 form as indicated in E.O. 1-42, Section 19.0 and forwarded to the P-Card Program Administrator.
- €# The Department should perform unannounced audits of transactions of all P-Card accounts as required by E.O. 1-42.
- €# The Departmental Management and their P-Cardholders should be instructed that splitting purchases to circumvent their single purchase limit is unallowable according to E.O. 1-42, and that P-Cards be revoked for this type of activity in the future.
- €# The P-Card Coordinator should submit the signed and dated summary statement by the 10<sup>th</sup> of the month to the P-Card Administrator as required by E.O. 1-42.

## **SCOPE AND PURPOSE**

We have completed an audit of the Department of Health and Human Service'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 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 Department of Health and Human Services 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.



Monika De Los Santos  
Auditor-in-Charge



Ken Teer  
Audit Manager



Steve Schoonover  
City Auditor

## INTRODUCTION

The Department of Health and Human Services (Department) usage of Purchasing Cards (P-Card) began in January 2000. The Division Manager over Support Services in the 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 64 divisions with 104 P-Cardholders. These P-Cardholders had 2,612 transactions totaling \$586,084. 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:

≠# Two transactions paid annual professional dues totaling \$237.

≠# Six transactions paid for subscriptions, newsletters, etc. totaling \$1,624.

**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. REPORTING CONTRACT PURCHASES**

**BACKGROUND**

E.O. 1-42, Section 12.0, *Using the Card* states, "The Cardholder determines if the item is a contract purchase and reports the purchase to the Purchasing Card Administrator", by recording the BPO number and applicable amount in the spaces provided on monthly statement.

**FINDING**

Sample testing of 124 monthly statements revealed that 93 statements, which included purchases from contract vendors, did not include references to BPO numbers and amounts in the spaces provided.

The Controller's Office has previously issued five P-Card audits, and in two of these audits Reporting Contract Purchases was a finding. It is extremely difficult for Approving Authorities and the P-Card Coordinator to determine if purchases reflected on the monthly statements are contract related. Further, we discussed the issue with SPD and were told the process of having the



department report BPO numbers was not effective and efficient, so they implemented a new process to manage contracts purchases.

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

#### **RECOMMENDATION**

We recommend E.O. 1-42 should be revised to remove the language in Sections 5.2.2, 12, and 15 requiring P-Card Coordinators and P-Cardholders to report contract purchases and to reflect current practices mentioned above.

### **C. 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”.
- €# Section 8.0 of E.O. 1-42 identifies personal purchases, cash advances, sales tax, recreation and restocking inventory as prohibited purchases. By extension from the stated prohibited purchases, the F&A Strategic Purchasing Division prepared a list of restricted Merchant Category Codes. P-Card commodities or services are not to be purchased from those merchants.
- €# A.P. 2-5 (Revised on September 1, 2003) *Authorization and Reimbursement for Local and Out-of Town Travel and Travel Related Expenses* Section 6.5.1 prohibits the use of a P-Card for payment of approved travel-related expense without prior written approval from the Mayor.

### FINDING

Sample audit testing of monthly P-Card reconciliations and supporting receipts revealed the following prohibited transactions:

- €# Fifty-seven out of a total of 958 transactions (6%) purchased stock and/or inventory items totaling \$32,910.
- €# Seven out of 958 (1%) transactions paid seminar registration fees totaling \$1,273.
- €# Sixteen transactions out of 958 (2%) were for special event items totaling \$3,906. The purchases were made for decorations and other items used for monthly festivals.
- €# Fifty-two out of 958 (5%) transactions paid for recurring and anticipated monthly payments with P-Cards totaling \$19,123. 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. EXHIBIT FORMS**

#### **BACKGROUND**

E.O. 1-42 provides attachments that are to be used for recordkeeping purposes. Among those attachments are the Exhibit 1 and Exhibit 5, Exhibit 1 is the *Internal Cardholder Agreement Form*. This form is given to the P-Cardholder after attending their P-Card training, and includes such information as their name, employee ID number, department name, and the P-Cardholder's single purchase limit and monthly purchase limit. Exhibit 5, the *Purchasing Card Information Record Form*, is used whenever a change occurs with that P-Cardholder. It updates such things as name changes, status changes and spending limit changes. Section 19.0 states, "to request a new P-Card or make a change to an existing P-Card, use the Purchasing Card Information Record Form (Exhibit 5)."

SPD provided to the auditors, a database containing information on Health and Human Services Department's P-Cardholders. Included in the database were the P-Cardholders current spending limits.

#### **FINDING**

The auditors compared the Department's Exhibit 1 forms to the database information regarding P-Cardholders' spending limits. Twenty-six of the 54 P-Cardholders' Exhibit 1 forms (48%) did not match the spending limits recorded in SPD's database.

Additionally, the P-Card Coordinator was not effectively utilizing the Exhibit 5 form. Twenty-five of the 26 (96%) Exhibit 5's reviewed, did not contain dollar limit changes on the P-Card, even though there had been changes to the P-Cardholders' limits. One Exhibit 5 did have dollar changes on the form, but it still did not match the dollar limit specified in SPD's database.

**RECOMMENDATION**

We recommend that the Department coordinate with SPD to review P-Cardholders current spending limits and make the appropriate revisions. Also, we recommend all changes in status of P-Cardholders be documented with the Exhibit 5 form as indicated in E.O. 1-42, Section 19.0 and forwarded to the P-Card Program Administrator. A copy of the Exhibit 5 should be retained with all other P-Card records.

**IV. 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.

**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.

**V. PURCHASING LIMITS**

**BACKGROUND**

E.O. 1-42, Section 6.0 sets the maximum amount of a single transaction to \$2,000 and E.O. 1-42, Section 7.0 requires that a purchase with the P-Card will not exceed the limits established for the Cardholder.

**FINDING**

Two cardholders split a purchase that exceeded their single purchase limit of \$2,000. The total invoice amount was \$10,507. The charges were split between the two cardholders, and they made multiple charges of \$500, \$1,500, and \$2,000 in order to circumvent the \$2,000 single purchase limit.

A discussion with SPD's P-Card Administrator revealed that cardholders should utilize a Purchase Order for items greater than their P-Card purchase limit.

**RECOMMENDATION**

We recommend the Departmental Management and their P-Cardholders be instructed that splitting purchases in order to circumvent their single purchase limit is unallowable according to E.O. 1-42, and that the P-Cards may be revoked if this type of activity occurs in the future.

**VI. TIMELY SUBMISSION OF RECONCILIATIONS**

**BACKGROUND**

E.O. 1-42, Section 14.0 states “When the Reconciliation process is complete, the summary report will be certified, signed by the Departmental Purchasing Card Coordinator and returned before the 10<sup>th</sup> of the month to the Purchasing Card Program Administrator. Failure to meet timely submission requirements from cardholders to Purchasing Card Program Administrator may cause suspension or cancellation of P-Cards.”

**FINDING**

€# Thirty-seven of the 124 (30%) monthly statements tested were dated after the 10<sup>th</sup> of the month indicating the P-Card Administrator did not receive the monthly reconciliation by the 10<sup>th</sup> of the month as indicated in E.O. 1-42.

€# Additionally, four (3%) of the monthly statements tested, were not dated, therefore testing for timeliness could not be performed.

**RECOMMENDATION**

We recommend the P-Card Coordinator submit the signed and dated summary statement by the 10<sup>th</sup> of the month to the P-Card Administrator 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-Health and Human Services

In response to your audit on the Health and Human Services 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 PCard.
  - 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 be revised to remove the language in Sections 5.2.2, 12, and 15 requiring PCard Coordinators and PCardholders to report contract purchases and to reflect current practices.
    - Response: SPD continues to explore options to improve the quality of the information and reduce the costs for collecting the contract spending activity. We have adopted revised practices to record activity at the least cost and improve its accuracy. The Executive Order should be updated to reflect our current practice.
  - 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.

**Views of Responsible Officials**

## **EXHIBIT I**

- 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.

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: Stephen Williams  
Calvin D. Wells  
Rod Anderson

**Views of Responsible  
Officials**

## EXHIBIT II



**CITY OF HOUSTON**  
Health and Human Services  
Department

**Interoffice**

Correspondence

To: Annise Parker,  
City Controller

From:  Stephen L. Williams, M.Ed, MPA, Director  
Health and Human Services

Date: December 17, 2004

Subject: **Purchasing Card Activity Audit Draft  
Report**

Staff of the department have reviewed this report and would like to submit the following responses to the findings in the report. I would like to take this opportunity to thank your staff for their professional and courteous manner during the audit review. Also, there is no major dispute over the findings.

Response to Recommendation II - Since the time of the audit, it has been reemphasized to P-Cardholders and their managers the reoccurring charges should not be made with the P-Card. P-Cardholders are being retrained. Direct supervisors of cardholders will be scheduled for training early in calendar year 2005.

Response to Recommendation III - Most of the missing information on the forms in question has been corrected. At the beginning of FY'05, all P-Cardholders were required to complete a new Exhibit 5 form which was coordinated through Finance and Administration.

Response to Recommendation IV - The Department agrees with the recommendation and will take the necessary steps to implement the recommendation.

Response to Recommendation V - The Department agrees with the recommendation and will take the necessary steps to implement the recommendation.

Response to Recommendation VI - The Department acknowledges the recommendation and is working with individuals in our 27 sites to make sure that there is compliance with E.O. 1-42.

If additional information is needed, please feel free to contact me at 713-794-9313 or call Daphne Sands at 713-794-197. Thank you again for your staff's thorough job.

cc: Daphne Sands, Division Manager, Health and Human Services  
Steve Schnoover, City Auditor, City Controller's Office  
Kenneth Teer, Audit Manager, City Controller's Office

*Views of Responsible  
Officials*