



City of Houston

Judy Gray Johnson
City Controller

**IT Contract
Compliance
Internal Audit**

Texas Procurement Center, LLC

REPORT NO. 03-16



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

JUDY GRAY JOHNSON, CPA

October 6, 2003

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

SUBJECT: City-wide: IT Contract Compliance Internal Audit
Texas Procurement Center (Report No. 03-16)

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 Procurement Center, L.L.C. (TPC) for the acquisition of microtechnology networking/communications products and information and communication technology services. The objectives of the engagement included determining whether the goods and services were acquired in compliance with City and State of Texas procurement laws; whether the contractor met the Agreement terms; and whether fees paid by the City to TPC for goods and services complied with the Agreement.

The report, attached for your review, noted several significant instances of non-compliance including \$383,543 of advance payments made for services provided (a matter my Office has referred to the Office of Inspector General) and items purchased outside the Agreement's scope. Additionally, TPC, the Strategic Purchasing Division and various City departments all experienced challenges in providing requested audit documentation. 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 C.

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
Sara Culbreth, Acting Chief Administrative Officer
Stephen Tinnermon, Chief of Staff, Mayor's Office
Barbara A. B. Gubbin, Director, Library Department
Philip Scheps, Director, Finance and Administration Department
Jon C. Vanden Bosch, Director, Public Works and Engineering Department
Calvin Wells, City Purchasing Agent

September 23, 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 networking/communications products and information and communication technology services between the City of Houston (the City) and the Texas Procurement Center, L.L.C. as outlined in our engagement letter dated November 15, 2002, under Contract No. 51783. This report documents the completion of 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 January 27, 2003 and have not been updated since that date with the exception of Observation 1 for the Public Works and Engineering Department, which was updated on June 30, 2003. 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 Municipal Courts Department, the Library Department, the Finance and Administration Department and the Public Works and Engineering Department (the Departments), and we appreciate the cooperation received during this engagement from the City Controller's Office, the Departments and the Texas Procurement Center, L.L.C.

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 Procurement Center, L.L.C., 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 Procurement Center, L.L.C. (TPC) was entered into during April 2000 for the acquisition of microtechnology networking/communications products and information and communication technology services. Wherein TPC facilitates the City's purchase of specified technology products and services through a Qualified Information Systems Vendor Supplier Network, including coordinating the delivery of products/service to the City.
- City expenditures totaling \$21.6 million to TPC were processed during the period from April 2000 through June 2002.
- This internal audit tested expenditures under the contract from four City departments: Municipal Courts, Library, Finance and Administration, and Public Works and Engineering (the Departments). The purchases made by these Departments under the Master Agreement represent 86% 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, Texas Procurement Center.



Executive Summary (Continued)

Overview of Results:

- All fees paid to TPC were within the terms of the Master Agreement, except for \$5,486, which did not reflect the negotiated fee percentage. This amount should be refunded to the City.
- Document Retention – TPC, SPD, and the Departments all experienced challenges in providing the requested audit documentation.
- MWBE Participation – Records reviewed during fieldwork indicate that TPC met its 15% MWBE participation goal for the period under audit and is making a good faith effort to meet its current 30% MWBE participation goal.



Executive Summary (Continued)

Areas for Improved Compliance and Controls:

- The City's Master Agreement provides for a maximum 5% average fee as the contractor's compensation – computed as a percentage of the service/product providers' invoice. Of the 31 purchase orders tested, this fee was only negotiated for less than the maximum average 5% one time.
- TPC invoiced the City \$383,543 in advance of services being provided, which the City also paid in advance.
- Certain items purchased under the Master Agreement were not within the scope of the contract.
- Current insurance coverage does not meet Master Agreement requirements.
- TPC was unable to locate supporting documentation for \$46,473 out of the approximate \$8,762,000 in Vendor Invoices Jefferson Wells requested for review, which are required to support their invoices to the City.



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 TPC personnel acquiring goods and services through the Master Agreement complied with the Master Agreement's terms. This will include, where appropriate TPC insurance requirements and MWBE participation goals.
- Determine, as appropriate, whether City and TPC personnel acquiring goods and services through the Master Agreement complied with the City and State of Texas procurement laws.
- Determine whether the City or TPC have the responsibility of obtaining, where appropriate, three catalog proposals under their Master Agreement.
- Determine whether fees paid by the City to TPC 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 Division personnel responsible for monitoring the Master Agreement and documented the process and monitoring techniques utilized.
- Observed and reviewed the contract set-up within the system for the TPC contract and the system controls related to authority levels, contract availability monitoring, etc.
- Analyzed spend data under the contracts 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



Procedures Performed (Continued)

- Obtained a detailed transaction level confirmation in electronic form from TPC to validate the spend level through the Master Agreement.
- Reconciled the electronic data file from TPC to the City's purchase data for the Master Agreement.
- Selected a representative sample of purchase transactions for goods and services through the Master Agreement.
- Conducted an on-site review of supporting transactions and fee computations at TPC's office to substantiate a sample of the charges for the purchased goods and services.
- While performing the on-site review at TPC's office, interviewed TPC personnel to document their control processes over compliance with the Master Agreement.
- 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 (SPD)

Ref. #	Observation	Recommendation
1)	<p><u>Fee Percentage Paid to TPC:</u></p> <p>(A) The Master Agreement states:</p> <ul style="list-style-type: none"> • The City shall pay TPC the cost of a specific purchase plus a fee associated with that purchase, which shall be negotiated by the Purchasing Agent and TPC. • The average of all individual fees shall not exceed 5%. • TPC shall be responsible for documenting the procedure by which the fee percentages are calculated, including documentation of how the average of all Fee Percentages do not exceed 5% in a “Fee Percentage Calculation Document.” <p>During the performance of the internal audit, we noted only one purchase in the amount of \$1.9 million where the fee was negotiated below the 5% maximum. The City paid the 5% fee on all other purchases reviewed. Per discussions with SPD, the 5% fee is reasonable based on the work performed by TPC.</p> <p>(B) No “Fee Percentage Calculation Documents” were available from TPC during the internal audit.</p>	<p>(A) The City has not exceeded the maximum 5% average fee. Although a literal interpretation of the Master Contract requires the Purchasing Agent and TPC to negotiate on each purchase, this active negotiation has not occurred. However, on large purchases, the City could realize additional cost savings by negotiating the fee percentage. We recommend the City consider raising the threshold whereby the Purchasing Agent would be required to negotiate the fee percentage for high-dollar purchases.</p> <p>(B) TPC is not currently providing the City with the “Fee Percentage Calculation Document”, thus far this has not been a compliance issue, since no fee over 5% has been paid. This document was designed to document the negotiated fee and keep a running total of the average maximum fee paid by the City. However, as the fee has only been negotiated below the 5% once, there is no question that the average fee has not exceeded the maximum 5% average. However, if the City begins negotiating the fee, then the City should instruct TPC to provide them with the Fee Percentage Calculation Document.</p>



Observations and Recommendations

Strategic Purchasing Division (Continued)

Ref. #	Observation	Recommendation
2)	<p><u>Insurance Coverage Noncompliance:</u> The current Certificate of Insurance, covering the period from 9/15/02 through 9/15/03, provided by TPC does not list Automobile Liability insurance and the Commercial Liability does not include Products Liability insurance. The Master Agreement requires these coverages. TPC indicated that they would provide evidence of Automobile Liability insurance and that they would inquire with their insurance agent as to why Products Liability was not continued when their prior coverage period ended.</p>	<p>Obtain Certificates of Insurance from TPC evidencing Automobile Liability and Products Liability insurance.</p> <p>Strengthen monitoring controls over required insurance coverage to ensure that TPC is in compliance with the Master Agreement insurance requirements. Consider setting up a “tickler” based on the expiration date(s) of the proof of required insurance documentation provided by TPC at the start of the contract. This tickler would serve as a reminder to obtain copies of the latest Certificates of Insurance.</p>
3)	<p><u>Incomplete Purchase Orders:</u> During our review of 22 purchase orders issued to TPC and supporting documentation, one purchase order was missing approval from the Technology Steering Committee, and one purchase order was missing SPD’s technology approval.</p>	<p>Strengthen purchasing procedure controls to ensure that all required approvals are documented and that the files are complete prior to issuing a purchase order.</p>
4)	<p><u>Unlocated Purchase Orders:</u> In an effort to resolve issues in our review of purchase order files obtained from other City departments, 31 purchase order files were requested from SPD, nine of which could not be located by the end of our fieldwork.</p>	<p>Strengthen controls over the filing/storage of purchase orders and supporting documentation to ensure that purchase orders can be retrieved in a timely manner.</p>



Observations and Recommendations *Strategic Purchasing Division (Continued)*

Ref. #	Observation	Recommendation
5)	<p><u>Potential Improper Purchases Under Agreement:</u> Two of the 31 purchase order files reviewed appear to include purchases of items that should not have been purchased under this Master Agreement. These purchases included laser and micro scanners with costs of \$25,746 and \$1,168, respectively. This Master Agreement covers the purchase of microtechnology networking/communications products and information and communication technology purchases.</p>	<p>As the end control point for processing technology purchases, SPD should verify that a purchase is acquired under the proper contract.</p>



Observations and Recommendations

Strategic Purchasing Division

Contractor Compliance – Texas Procurement Center, LLC (TPC)

Ref. #	Observation	Recommendation
6)	<p><u>Missing Vendor Invoice Support:</u> Under the Master Agreement, TPC "...shall accept an amount...equal to Contractor's cost for that product or service item plus a fee associated with that specific product or service that is calculated as a percentage of Contractor's cost for the product or service." To test TPC's costs related to a sample of 29 purchase orders totaling approximately \$8,762,000 that were paid by the City to TPC under the Master Agreement, we reviewed the invoices from the vendors that actually provided the product or service to the City for each respective sample purchase invoice. These vendor invoices are submitted directly to and paid by TPC and represent TPC's costs. As of the end of our on-site fieldwork at TPC, \$46,472.66 in vendor invoices had not been provided (See Exhibit A).</p>	<p>TPC should provide the City with the missing vendor invoices supporting the \$48,796 (\$46,472 * 1.05) of its invoices to the City or refund the City for any vendor invoices that they cannot provide. Additionally, TPC should strengthen its controls to ensure that its invoices to the City are proper and supporting documentation can be retrieved in a timely manner.</p>



Observations and Recommendations

Strategic Purchasing Division

Contractor Compliance – TPC (continued)

Ref. #	Observation	Recommendation
7)	<p><u>Invoicing in Advance of Service Being Provided:</u> Under the Master Agreement, TPC "...shall submit invoice to the City at the time it delivers such products and services to the City." For two out of the 29 purchase orders tested at TPC, the following was noted:</p> <ul style="list-style-type: none"> • Of the 14 Vendor Invoices reviewed that support TPC's invoice #10482 dated August 8, 2001 in the amount of \$325,000, 11 of the invoices, totaling \$209,007, were dated after the date of TPC's invoice. Represents an advance billing of \$218,168 (\$207,779 * 1.05). • All of the 7 Vendor Invoices reviewed that support TPC's invoice #10520 dated August 23, 2001 in the amount of \$165,375, were dated after the date of TPC's invoice. <p>See detail at Exhibit B.</p>	<p>TPC should be instructed to bill the City only as it delivers the products and services to the City, which should be supported by the vendor invoices. TPC needs to strengthen its controls over the invoicing to the City to ensure compliance with the Master Agreement. The City should consider requiring TPC to attach copies of Vendor Invoices to support its costs related to services provided. Additionally, the City should consider requiring TPC to pay the interest that the City would have earned on the advance payments.</p> <p><i>Note: Recommendations related to the City's procedures to mitigate the risk of making advance payments are made elsewhere in this report.</i></p>



Observations and Recommendations

Strategic Purchasing Division

Contractor Compliance – TPC (continued)

Ref. #	Observation	Recommendation
8)	<p><u>Missing Qualified Information Systems Vendor Proof:</u> For three of the 29 purchase orders tested at TPC, Qualified Information Systems Vendor (QISV) documentation was not in TPC’s files. The Master Agreement requires TPC to provide products and services through QISVs.</p>	<p>TPC should be instructed to strengthen its controls over documentation to ensure that their files support the QISV status of all TPC vendors submitting quotes to the City through TPC.</p>
9)	<p><u>Incorrect Fee Used Resulting in Overcharge to the City:</u> TPC used an incorrect fee percent of 5% on an invoice resulting in an overcharge of \$5,486 to the City, related to Purchase Order # 65004010, which had a negotiated fee of 3.5%.</p>	<p>The City should request a refund in the amount of \$5,486 from TPC.</p>
10)	<p><u>Missing Required Insurance Coverage:</u> The current Certificate of Insurance, covering the period from 9/15/02 through 9/15/03, provided by TPC does not list Automobile Liability insurance and the Commercial Liability does not include Products Liability insurance. The Master Agreement requires this coverage. TPC indicated that they would provide evidence of Automobile Liability insurance and that they would inquire with their insurance agent as to why Products Liability was not continued when their prior insurance coverage period ended.</p>	<p>TPC should be instructed to strengthen its monitoring controls over required insurance coverage to mitigate the risk of their insurance not meeting the Master Agreement requirements. The City should request TPC to provide them with Certificates of Insurance evidencing Automobile Liability and Products Liability insurance.</p>



Observations and Recommendations

Library Department

Ref. #	Observation	Recommendation
1)	<p><u>Payment of Invoices Not Indicated:</u> Invoices in the accounts payable file are not marked paid or defaced in any way to indicate payment was made as the Library Department relies on the 3-way match in the City's purchase order system to prevent duplicate payments.</p>	<p>The Department would strengthen its disbursement process by indicating in some manner on the invoice that it has been paid as an additional control to prevent duplicate payments.</p>
2)	<p><u>Department Procedures Not Consistently Followed:</u> Part of the Library Department's disbursement procedures is to document receipt of goods and services by indicating approval on the invoice. We could not locate this approval on two out of the six invoices reviewed for approval.</p>	<p>Recommunicate to those employees involved in the disbursement process, the requirements to follow procedures as designed. Consider spot reviews of disbursement documentation to ensure that the disbursement process is in place and operating as designed.</p>
3)	<p><u>Unlocated Supporting Documentation:</u> One out of the six invoices from TPC requested from the Library Department to support payments made to TPC could not be located.</p> <p><i>Note: This invoice was examined at TPC's office.</i></p>	<p>Identify the process weakness and then strengthen controls over document retention to ensure accurate filing and timely retrieval.</p>



Observations and Recommendations

Library Department (Continued)

Ref. #	Observation	Recommendation
4)	<p><u>Unlocated Fixed Assets:</u> Two out of 19 fixed assets selected for physical verification could not be located during our fieldwork. The Library Department will continue to research.</p>	<p>The Library Department should complete its research to determine the status of the two fixed assets that were not located during fieldwork and adjust records as needed. Identify the process weakness and make the appropriate change to strengthen control over the location of fixed assets.</p>
5)	<p><u>Capitalization of Fixed Assets:</u> For a purchase order (34000631) tested, the amount capitalized in the Government Fixed Asset System (GFAMS) does not appear to include the costs of all components of the IT hardware purchased that should be capitalized.</p>	<p>The Library Department should consult with the City's Fixed Asset Group for guidance on the capitalization of information technology. With the implementation of GASB 34, the importance of proper capitalization has escalated, as the City's basic financial statements are required to carry the value of its assets and related debt, if any, as well as reflect the costs associated with the use of the assets in the form of depreciation.</p>



Observations and Recommendations

Finance and Administration Department

Ref. #	Observation	Recommendation
1)	<p><u>Unlocated Receiving Documentation:</u> Out of 20 TPC invoices selected for testing, F&A was unable to provide receiving documentation during our fieldwork for a progress payment of \$479,999 on one invoice related to purchase order #65004010.</p> <p><i>Note: Vendor invoices indicating delivery of products/services were examined at TPC's office.</i></p>	<p>Strengthen procedures to ensure that the receipt of goods and services is properly documented prior to payment.</p>
2)	<p><u>Quantity Received and Invoiced Not In Agreement:</u> Out of 20 TPC invoices selected for testing, the quantity per invoice did not agree to the receiving documentation for purchase order #65002869.</p>	<p>Strengthen procedures to ensure that receiving documentation is obtained and correctly entered into the system for the 3-way match.</p>



Observations and Recommendations

Public Works Department and Engineering Department

Ref. #	Observation	Recommendation
1)	<p><u>Unlocated Supporting Documentation:</u> This observation was updated as of June 30, 2003, due to Public Works providing additional supporting documentation.</p> <p>A) Out of the 22 TPC invoices selected for testing related to Public Works purchase orders, Public Works could not provide us with proof of receipt related to three of TPC's invoices by the end of our extended fieldwork as follows:</p> <ul style="list-style-type: none"> For PO20015964 totaling \$48,422.85: We were provided with Order Packing Lists, which were marked as received. However, none of the Order Packing Lists contained the vendor part # WS-X6K-S2-MSFC2, which represented \$24,916.50 of the total PO. For PO20008573 totaling \$100,000: We were provided with three Vendor invoices that actually performed the services totaling \$83,703.75, which were marked as goods/services received. These invoices would support \$87,888.94 (\$83,703.75 * 1.05) of TPC's invoice for \$100,000, leaving \$12,111.06 of the payment to TPC unsupported. For PO20009039 totaling \$219,840.59: We were provided receiving support for all but \$18,482.63 of the PO. <p>B) Additionally, although Public Works provided support for the following four POs, we were unable to conclude as to whether or not they were in full compliance with the City's Purchasing and Receiving Policies: PO20013581 totaling \$92,400, PO20013154 totaling \$199,500, PO20015674 totaling \$400,000, and PO20009039 totaling \$220,000. To accomplish this, additional analysis and documentation from TPC would be required.</p>	<p>A) Public Works should determine whether or not the goods and/or services were actually provided as a refund might be in order. Additionally, Public Works should strengthen the controls over the documentation/filing of receiving documents to ensure accurate filing and timely retrieval.</p> <p>B) Appropriate City personnel should review these transactions to determine whether or not they are in full compliance with the City's Purchasing and Receiving Policies.</p>



Observations and Recommendations

Public Works Department and Engineering Department (Continued)

Ref. #	Observation	Recommendation
2)	<p><u>Payment of Invoices Not Indicated:</u> Part of the accounts payable department's disbursement process is to mark invoices "Entered" when the invoices are entered into the system for payment. One out of the five TPC invoices provided by Public Works was not marked "Entered."</p>	<p>Management should consider reviewing disbursement documentation on a sample basis to ensure that its disbursement process is being followed and that all invoices are marked "Entered" to help prevent a duplicate payment.</p>



Observations and Recommendations

Public Works Department and Engineering Department (Continued)

Ref. #	Observation	Recommendation
3)	<p><u>Advance Payments:</u></p> <p>During our review of the Vendor Invoices that support TPC's invoices to the City, we noted the following:</p> <ul style="list-style-type: none"> • Of the 14 Vendor Invoices reviewed that support TPC's invoice #10482 dated August 8, 2001 in the amount of \$325,000, eleven of the invoices, totaling \$209,007, were dated after the date of TPC's invoice. This represents an advance billing of \$218,168 (\$207,779 * 1.05) for Public Works purchase order # 20013424. • All of the seven Vendor Invoices reviewed that support TPC's invoice #10520 dated August 23, 2001 in the amount of \$165,375, were dated after the date of TPC's invoice for Public Works purchase order #20013851. <p>Both of the related purchase orders had Proof of Delivery Forms that were certified that the service had been provided, prior to the dates of the Vendor Invoices. This observation is also noted for TPC as Observation 8 (See detail at Exhibit B).</p>	<p>Appropriate City personnel should review this transaction to determine whether or not the service had been provided prior to payment.</p> <p>Public Works should identify the process weakness that allowed these advance payments and then strengthen the related control to ensure that services have been received and are deemed acceptable as indicated by management's approval prior to being paid.</p>



Potential Refund to the City

Exhibit A

Summary of Missing Vendor Invoices at TPC

Department	TPC Invoice #	Purchase Order #	Purchase Order Amount	TPC's Cost Plus Fee	(1) Due TPC Vendor Based On City PO Amount	Supporting Vendor Invoices at TPC	Difference Due To Missing Invoices	TPC Cost Plus Fee	Potential Refund to City
F&A	10798	65005673	\$ 498,750.00	1.05	\$ 475,000.00	\$ 473,801.25	\$ 1,198.75	1.05	\$ 1,258.69
	10101	65002869	64,837.54	1.05	61,750.04	61,000.00	750.04	1.05	787.54
	10656	65004994	630,000.00	1.05	600,000.00	598,552.50	1,447.50	1.05	1,519.88
	10672	65005342	630,000.00	1.05	600,000.00	596,886.25	3,113.75	1.05	3,269.44
Public Works	10115	20008573	100,000.00	1.05	95,238.10	90,181.61	5,056.49	1.05	5,309.31
	10296	20011769	115,914.75	1.05	110,395.00	95,498.87	14,896.13	1.05	15,640.94
	10520	20013851	165,375.00	1.05	157,500.00	137,490.00	<u>20,010.00</u>	1.05	<u>21,010.50</u>
Total							<u>46,472.66</u>		<u>48,796.30</u>

(1) Calculated as Purchase Order Amount divided by TPC's Cost Plus Fee, which should represent TPC's cost and is required to be supported by vendor invoices.

Note: Due to the lack of complete supporting documents, during this internal audit we were unable to conclusively determine whether advance payments were made on the above purchase orders.



Summary of Advance Payments

Exhibit B

Type of Service	Purchase Order #	Purchase Order Amount	City Payment Date	City Paid to TPC	TPC Invoice Date	TPC Invoice Amount	Vendor Invoice Dates	Vendor Invoice Amounts	(1) Potential Advanced Amount	(4) Potential Advanced Days
Digital Consulting	20013851	165,375.00	08/30/01	165,375.00	08/23/01	165,375.00	08/31/01	\$14,467.50	165,375.00	1
							09/14/01	24,945.00	150,184.13	15
							10/08/01	20,242.50	123,991.88	39
							11/08/01	18,180.00	102,737.25	70
							01/10/02	13,395.00	83,648.25	133
							02/08/02	27,255.00	69,583.50	162
							03/08/02	19,005.00	40,965.75	190
		<u>165,375.00</u>		<u>165,375.00</u>		<u>137,490.00</u> (2)				
Idea Integration	20013424	325,000.00	08/29/01	325,000.00	08/08/01	325,000.00	02/28/01	30,661.25	-	
							07/31/01	29,996.25	-	
							08/01/01	41,087.50	-	
							08/31/01	26,600.00		
							08/31/01	20,638.75		
							08/31/01	190.00	218,167.75	2
							09/30/01	44,697.50	168,367.56	32
							03/31/02	26,660.00	121,435.19	214
							04/30/02	24,440.00	93,442.19	244
							05/31/02	23,232.50	67,780.19	275
							06/30/02	21,232.50	43,386.06	305
07/31/02	8,120.00	21,091.94	336							
08/31/02	6,858.75	12,565.94	367							
09/30/02	6,337.50	5,364.25	397							
		<u>325,000.00</u>		<u>325,000.00</u>		<u>\$310,752.50</u> (3)				
Total										

- (1) Calculated as the difference between the amount the City paid to TPC and the Vendor Invoice amount times 5%, and adjusting by the amounts due TPC for services that had been provided.
- (2) This total would support TPC's invoice(s) to the City in the amount of \$144,365. However, TPC invoiced the City \$165,375, a difference of \$20,010. This is reported as Observation 6) for TPC, Missing Vendor Invoice Support.
- (3) The Vendor over-invoiced TPC by \$1,228.70.
- (4) This was calculated as the date on the Vendor's invoice minus the date that the City paid TPC.



Views of Responsible Officials

Exhibit C

- Strategic Purchasing Division C-1
- Library Department C-2
- Finance and Administration Department C-3
- Public Works and Engineering Department C-4



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 C-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 C-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 C-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 C-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.

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 C-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 C-1 (Strategic
Purchasing Division)**



CITY OF HOUSTON
Library Department

Lee P. Brown

Mayor

Barbara A. B. Gubbin
Director
Library Department
500 McKinney
Houston, Texas 77002-2534

T. 832.393.1300
F. 832.393.1324
www.ci.houston.tx.us

June 16, 2003

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

RE: Houston Public Library Responses to the TPC Audit

Dear Ms. Johnson:

The following is the Houston Public Library's response to the TPC Audit.

- 1) Payments of invoices are not indicated on the face of the invoice: We plan to re-design our disbursement process in the near future and will consider including a step to deface the invoice with a "paid" stamp upon payment.
- 2) Departmental procedures are not consistently followed. We will reinforce our disbursement procedures to those employees involved in the process. Additionally, we will consider performing spot reviews.
- 3) Unlocated Supporting Documentation: Subsequent to the auditor's fieldwork, we determined that the reason that we could not locate the invoice was that it was part of the documents that were destroyed during a flooding incident that occurred in June 2001. We have provided the auditors with the applicable documentation detailing the loss as a result of the flood.
- 4) Unlocated Fixed Assets: We have determined that the two fixed assets were sent out for repairs; and then subsequently sent to a branch. A memo has been sent to the branches reminding them that a transfer slip is required to be completed whenever the location of a fixed asset is changed.
- 5) Capitalization of Fixed Assets: We will seek further guidance from the City's Fixed Asset group related to capitalizing IT components.

Should you have any questions, please contact Helen McDonald, Division Manager for Financial Services, at (832) 393-1348.

Sincerely,

Barbara A. B. Gubbin
Director

cc: Ken Teer, Assistant City Auditor V
Candy Davis, Internal Audit Manager, Jefferson Wells International
Al Haines, Chief Administrative Officer
Stephen Tinnemon, Chief of Staff
Phil Scheps, Director of Finance & Administration
Sahira Abdool, Deputy Director for Library Administration
Helen McDonald, Division Manager for Financial Services

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

Exhibit C-2
(Library Department)



CITY OF HOUSTON
Finance and Administration
Department

Interoffice

Correspondence

To: Judy Gray Johnson
City Controller

From: Philip B. Scheps, Ph.D.
Director
Finance and Administration Department

Date: April 28, 2003

Subject: Jefferson Wells TPC Audit –
Audit Observations Responses

The Finance & Administration Department Business Office has reviewed the two observations noted by Jefferson Wells during the internal audit of the Texas Procurement Center (TPC) transactions. Our responses are outlined below.

OBSERVATION 1: Out of 20 TPC invoices selected for testing, F&A was unable to provide receiving documentation during our fieldwork for a progress payment of \$479,999 on one invoice related to purchase order #65004010.

RESPONSE: An authorization to pay has since been found for each of the progress payments made under the provisions of this purchase order. These records are available for review at the auditor's convenience. The Business Office has implemented new filing procedures to better organize purchasing records.

OBSERVATION 2: Out of 20 TPC invoices selected for testing, the quantity per invoice did not agree to the receiving documentation for purchase order #65002869.

RESPONSE: Although the purchase order and invoice both indicate a quantity of 4 for the item in question, the delivery ticket indicates only 2 were shipped. The personnel who handled this receiving/shipping in the Business Office, Information Technology Department and Cisco Systems (the vendor selected by TPC for this purchase), are no longer working in the organizations. Cisco could not verify whether 2 or 4 items were actually shipped. The Business Office has attempted to recover the "overpayment" (\$196.88) but has not received a response from TPC as of this moment.

The Business Office has reviewed with section employees the established procedures regarding the processing of receiving documents, which includes comparing the delivery ticket to the items actually received, and ensured procedures will be followed properly.

Please do not hesitate to contact either myself or Sophia Chang at 713-837-9628 if you have any questions or concerns regarding this matter.

Philip B. Scheps

PBS:SC:jfo
c. Sophia Chang

Exhibit C-3 (Finance and
Administration
Department)



CITY OF HOUSTON

Public Works and Engineering
Department

Interoffice

Correspondence

To: Judy Gray Johnson
Office of the City Controller

From: Jon C. Vanden Bosch, P.E., Director
Public Works & Engineering Department

Date: September 17, 2003

Subject: Management Response to Compliance Audit
of City's Contract with Texas Procurement
Center, L.L.C.

We have completed our response to your draft audit report of the Master Agreement for the acquisition of information and communication technology services between the City and the Texas Procurement Center L.L.C. We appreciate the following recommendations made by your auditors. In the interim, we will make a concerted effort to implement the necessary changes to improve the effectiveness of the internal control system.

1. Unallocated Supporting Documentation

Observation A: Public Works could not provide proof of receipt related to three of TPC's invoices.

Recommendation A: PWE should determine whether or not the vendor actually provided the goods and/or services as a refund might be in order. Additionally, PWE should strengthen controls over the documentation/filing of receiving documents to ensure accurate filing and timely retrieval.

Response: For PO20015964, we have located additional paperwork that indicates that the item in question was received, although it does not appear to have been received at the same time as the other items.

For PO20008573, additional paperwork discovered indicates that an Executive Secretary in the Public Works' GIMS section sent a "final" payment notice to TPC on or about October 25, 2000. A subsequent fax from TPC to the employee on the same day indicated that there might have been a balance of \$12,111.06 left on the P.O. There is no indication (i.e. additional invoices) that the remaining services were ever rendered. The department requested copies of TPC's invoices but TPC refused to provide any documentation. We will continue to pursue receipt of copies of their invoices and will request a refund if TPC refuses to provide additional evidence promptly to show that the services were provided.

For PO20009039, on May 22, 2001, the Executive Secretary indicated on what appears to be the last correspondence on this topic with TPC that an invoice for \$3,131.31 was a "final". A note on the faxed correspondence stated, "This invoice reflects the amount remaining on this P.O. to be spent". We will continue to seek additional information from TPC for the P.O amount of \$18,842.63, which the auditor found no supporting documentation. The Department will request a refund from TPC if it fails to provide additional evidence promptly to show that the services were provided.

Exhibit C-4 (Public Works
and Engineering
Department)

Following the discovery of the inconsistencies that existed in the procedures for payment on service contracts, the newly appointed management of the Section initiated a review of all purchase orders issued to TPC. During this management review, it was observed that the processes used in paying P.O. Nos. 20009039 and 20015964 were not in keeping with the procedures established by the Operations Support Branch or the Public Utilities Division. Three employees were responsible for all the purchase orders mentioned in the JWI audit report – an executive secretary, a division manager and a chief engineer. The Executive Secretary was responsible for receiving and entering the invoice information. Her supervisor, the Division Manager was responsible for PO preparation and for approval of all payments, while the Chief Engineer was the manager for the group. The Division Manager and the Executive Secretary no longer work for the City. As a direct result of these concerns, the Chief Engineer was reassigned to another group within the section.

The policy of Planning and Operations Support requires that someone other than the person(s) securing the P.O enter the "receivers" for any portion of a P.O. In the case of purchase orders for service (such as the two in question), the practice is to have one or more persons tracking the hours of work performed and a second person entering the receivers for each invoice verification. In addition, the invoice is to be signed by either the Assistant Director, or his designee prior to entering the "receiver". Since the management review, there have been consistent and repetitive communications to all staffing levels regarding the proper manner in which to process these types of service contracts.

The department makes every effort to ensure that all documents are properly filed. We have an internal tracking process to ensure that all documents removed from file folders are accounted for. However, due to the large volume of documents handled by PW&E, occasionally items do get misfiled.

Observation B: Audit could not determine whether or not PWE was in compliance with the City's Purchasing and Receiving Policies on four POs. To accomplish this, additional analysis and documentation from TPC would be required.

Recommendation B: Appropriate City personnel should review these transactions to determine whether or not they are in full compliance with City's Purchasing and Receiving Policies.

Response: As stated above, there is an ongoing review of all TPC service contracts. Due to the amount of paperwork involved, the fact that the involved employees no longer work for the City and the lack of cooperation from TPC, the review has not been completed. However, management is aware of the situation and will receive periodic updates to keep them informed of any progress.

2. Payment of Invoices Not Indicated

Observation: One out of the five TPC invoices provided by PWE was not marked "Entered".

Recommendation: Management should consider reviewing disbursement documentation on a sample basis to ensure that its disbursement process is being followed and that all invoices are marked "Entered" to help prevent a duplicate payment.

Response: We will emphasize to the data entry supervisor to ensure that all entered documents are marked "Entered" prior to distribution to the invoice processors. Please be aware that the AFMS system has controls in place to prevent the processing of duplicate invoices (i.e. same vendor number and same invoice number).

Exhibit C-4 (Public Works
and Engineering
Department)

3. Advance Payments

Observation: The audit report cited several purchase orders (20013424 and 20013851 and 20011769, in addition to those previously mentioned) that show payments to vendors prior to the receipt of invoices and/or prior to the work being performed.

Recommendation: Appropriate City personnel should review this transaction to determine whether or not the service had been provided prior to payment. Public Works should identify the process weakness that allowed these advance payments and then strengthen the related control to ensure that services have been received and are deemed acceptable as indicated by management's approval prior to being paid.

Response: There is an ongoing inquiry into the purchase orders where advance payment is a possibility. Due to the amount of paperwork involved, the fact that the involved employees no longer work for the City and the lack of cooperation from TPC, the review has not been completed. As stated in a previous response, this process is not in compliance with existing purchasing policies. Payment should be based on documented work performed and should only be tendered after receipt of proof of the work done and receipt of proper invoices. The responsible employees no longer work for the City and the section manager has been relieved of his responsibilities in this area. Also, at this point, the section has been reorganized and additional personnel hired to eliminate the need for outside programming. Therefore, there are no purchase orders of this type in effect, and no plans to issue any in the near future. Should the need arise, the purchase orders will be issued in accordance with all City policies and procedures.

If you have any further questions, please contact Waynette Chan at (713) 837-0249 or Godwin Okoro at (713) 837-0347.


Jon C. Vanden Bosch

JV:ra

cc: Steve Schoonover
Ken Teer
Bob Bowers
Susan Bandy
Jeff Taylor
Paul Nelson
George Bravenec
Gilbert Garcia
Waynette Chan
Godwin Okoro

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Exhibit C-4 (Public Works
and Engineering
Department)