

**OFFICE OF THE CITY CONTROLLER**



**BUILDING SERVICES DEPARTMENT  
PURCHASING CARD ACTIVITY AUDIT**

**Annise D. Parker, City Controller**

**Steve Schoonover, City Auditor**

**Report No. 04-15**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

August 13, 2004

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: Building Services Department  
Purchasing Card Activity Audit (Report No. 04-15)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of Purchasing Card (P-Card) activity for the Building Services Department (Department). The audit objective was to assist management with the assessment of the adequacy of internal controls related to P-Card activity within the Department. Additionally, the audit evaluated compliance with City administrative policies, procedures and executive orders.

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 Department officials. The views of the responsible Department officials as to actions taken or being taken are appended to the report as Exhibit I.

We commend the Department 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  
Issa Z. Dadoush, P.E., Director, Building 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 ..... 2

INTRODUCTION..... 3

AUDIT FINDINGS AND RECOMMENDATIONS

    I. PURCHASING LIMITS ..... 3

    II. UNANNOUNCED AUDITS ..... 4

VIEWS OF RESPONSIBLE OFFICIALS – EXHIBIT I

## **EXECUTIVE SUMMARY**

- P-Cardholders used two P-Cards in order to purchase materials totaling more than their \$2,000 single purchase limit.
- There are no periodic unannounced audits conducted of transactions made with P-Cards, which is stated as one of the responsibilities of a user department from Executive Order 1-42, Section 5.2.

## **SCOPE AND PURPOSE**

We have completed an audit of the Building Services 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 April 1, 2003 through March 31, 2004.

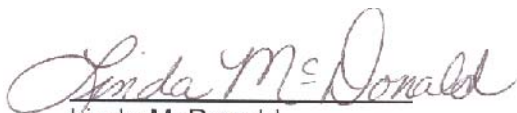
The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and the adequacy of internal controls related to P-Card financial related activities. This audit was executed 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 are adequate for Purchasing Card activities at the Building Services Department and 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. Insignificant issues were either discussed with management or provided to management in a written memorandum.

  
Linda McDonald  
Auditor-In-Charge

  
Kenneth Teer  
Audit Manager

  
Steve Schoonover  
City Auditor

## **INTRODUCTION**

The Building Services Department (Department) was created in July 1999 to serve as the City's in-house developer, providing a wide range of services, including project, property, energy, environmental and security management. From its onset, the Department used P-Cards as part of its purchasing activities. The P-Card audit included activity for the period April 1, 2003 through March 31, 2004. During that time, there were nine divisions with 63 P-Cardholders. These P-Cardholders had 2,512 transactions totaling \$389,274. Each Building Services Division has the authority to determine its need for P-Cards. Each Division has a P-Card Approving Manager responsible for the budget activity level to which the P-Cardholder is assigned. 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**

### **PURCHASING CARDS**

#### **BACKGROUND**

Executive Order (E. O.) 1-42, *Purchasing Card Policy and Procedures*, establishes "procedures for procuring goods and/or services using a Purchasing Card". Administrative Procedure (A.P.) 5-2, *Revised Procurement Procedures*, establishes "procedures for procuring goods and services that are consistent with E.O. 1-14, *Procurement and Payment Policies*, and procedures for changes in the procurement process that resulted from organizational and system changes".

- E.O. 1-42, Section 6.0 sets the maximum amount of a single transaction to \$2,000.
- E.O. 1-42, Section 7.0 requires that a purchase with the P-Card will not exceed the limits established for the Cardholder.
- E.O. 1-42, Section 5.2.2 requirements include the departmental P-Card Coordinator be responsible for designating an employee to conduct unannounced audits of transactions made with P-Cards and performing audits of all P-Card accounts and reconciliation of statements from the bank.

#### **I. PURCHASING LIMITS**

##### **FINDING**

Three transactions selected for testing, exceeded the P-Cardholders individual \$2,000 limit. On three separate occasions, a P-Cardholder purchased items totaling more than their \$2,000 limit, and in all instances

a second P-Cardholder charged the amount exceeding the \$2,000 limit to his P-Card. This type of activity is in violation of E.O. 1-42, as described in the above Background Section. It was explained to the audit team that the individuals had received permission from their Departmental P-Card Coordinator that the split purchase was an acceptable method of using the P-Card. The P-Card Coordinator granting the P-Cardholders this authorization has since resigned from the City, and the auditors were therefore unable to confirm this assertion. There was no written documentation provided to support the claim.

A conversation with Strategic Purchasing's P-Card Administrator revealed that the Building Services P-Card Coordinator had not consulted him regarding such a transaction, and if she had, he would have denied such usage of the P-Card.

**RECOMMENDATION**

We recommend the Departmental Management and their P-Cardholders be instructed that this type of split purchase is unallowable, and that the P-Cards may be revoked if this type of activity occurs in the future.

**II. UNANNOUNCED AUDITS**

**FINDING**

The P-Card Coordinator reviews P-Card transactions, however there are no periodic unannounced audits conducted of transactions made with P-Cards by a designated employee as stated in E.O. 1-42.

**RECOMMENDATION**

We recommend the department name a designated employee to perform unannounced audits of transactions of all P-Card accounts and reconciliation of statements from the bank as stated in E.O. 1-42. Subsequent to fieldwork, the Department has designated an employee to conduct the unannounced audits.

# EXHIBIT I



## CITY OF HOUSTON

Building Services Department

## Interoffice

Correspondence

To: Annise D. Parker, City Controller  
City Controller's Office

From: Issa Z. Dadoush, P. E.  
Director

A handwritten signature in black ink, appearing to read "Issa Z. Dadoush", with a stylized flourish at the end.

Date: July 23, 2004

subject: Purchasing Card Activity Audit

This memorandum responds to the audit findings and recommendations based on the unannounced audit of the purchasing card activities of the department.

### 1. PURCHASING LIMITS

- The department addressed the issue of purchasing materials totaling more than the \$2,000 single purchase limit at a meeting with the Strategic Purchasing Division of Finance and Administration on June 8, 2004. As a result, the City's policy guidelines as stated in Executive Order 1-42 were discussed with the division's P-Card coordinators and their managers to ensure an understanding that failure to comply will result in suspension of the P-cards and may result in disciplinary action.
- The department will conduct training within the next 60 days with all P-card holders on proper P-card usage and establish internal procedures to safeguard against further potential violations of the Executive Order.

### 2. UNANNOUNCED AUDITS

- The Division Manager, Ja'nice Sparks, responsible for our Financial Services Section has been assigned as the independent person to conduct unannounced audits of transactions of all P-Card accounts.

If you have any questions, please call me directly at (713) 247-2157.

Attachments

IZD:JS:js

cc: Steve Schoonover, City Auditor, City Controller's Office  
Kenneth Teer, Audit Manager, City Controller's Office  
Maria Guerrero, P-Card Coordinator, Building Services Department

CONTROLLER'S OFFICE  
INTERNAL AUDIT

JUL 26, 2004

**Views of Responsible  
Officials**