

OFFICE OF THE CITY CONTROLLER



**PARKS AND RECREATION DEPARTMENT
PURCHASING CARD ACTIVITY FOLLOW-UP REVIEW**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

June 5, 2006

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Parks and Recreation Department
Purchasing Card Activity Follow-Up Review (Report 06-01)

Dear Mayor White:

The City Controller's Office Audit Division has completed a Follow-Up on the Parks and Recreation Department's (Department) Purchasing Card Activity Financial Related Audit Report (No. 03-06) that was issued in October 31, 2003. The findings and recommendations that were presented at the time of the report were distributed to the Mayor and City Council Members.

Our review was designed to determine the progress the Department has made towards implementation of the recommendations made in the original report. The review consisted primarily of conducting on-site interviews with Department personnel and reviewing relevant documentation related to recommendations implemented. The report, attached for your review, concluded that the Parks and Recreation Department has made significant progress toward implementing the recommendations in the original report.

We appreciate the cooperation extended to our auditors by Department personnel during the course of their work and commend the Department for taking actions to address the recommendations noted in the original report.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Joe Turner, Director, Parks and Recreation Department
Judy Gray Johnson, Director, Finance and Administration Department

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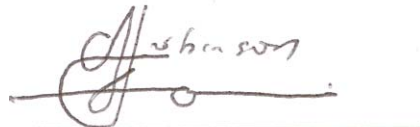
PURPOSE AND SCOPE

We have completed a follow-up review of the findings and recommendations that were presented in the Parks and Recreation Department's Purchasing Card Activity Financial Related Audit Report (No. 03-06) that was issued on October 31, 2003. Our review was designed to determine the progress the Department has made towards implementing the recommendations made in the original report.

The review consisted principally of conducting on-site interviews with department personnel; reviewing relevant documentation related to recommendations implemented; and creating a compliance matrix categorizing the status of action taken by management. The scope was limited to the recommendations from the report. The review included examining the Department's responses in detail to determine whether management considered the recommendations and strategies for implementation as presented in the report and whether progress was made since its issuance.

CONCLUSION

Based on the results of our review, we conclude that the Department has made significant progress in implementing the recommendations detailed in the report.



Ebenezer Robinson
Auditor-in-charge



Steve Schoonover
City Auditor

City of Houston
Office of the City Controller
Audit Division

EXHIBIT 1

**PARKS AND RECREATION DEPARTMENT
PURCHASING CARD ACTIVITY
AUDIT FOLLOW-UP REVIEW**

AUDIT FINDING	RECOMMENDATION	CURRENT STATUS PER PARD MANAGEMENT	WORK PERFORMED	DISPOSITION	
ASSIGNMENT OF TRANSACTION ACCOUNTING OBJECT CODES					
<p>Our analysis of statements submitted to the P&R Budget Division for a six month period (July – December 2002) revealed that an average of 29% of cardholders are reporting object code corrections each month. We also observed that the majority of cardholders who are reporting corrections are the same employees each month. It is our belief that most cardholders with purchase activity should be reporting object code corrections to the Budget Division. Based on past audits performed of other City departments, as well as this examination, it is also our belief that inaccurate object codes are being reported routinely on a citywide basis.</p> <p>Citywide p-card expenditures for the period January through November 2002 totaled \$8.6 million. It is the conclusion of the auditors that the impact of the increased use of p-cards combined with the inability of Wells Fargo to accurately report accounting object codes could have a significant negative impact on the ability to determine actual budget activity.</p>	I	<p>We recommend that the department P-card Coordinator initiate a combined effort with the Finance and Administration Strategic Purchasing Division to analyze the control weakness with respect to the reporting of accounting object codes, and determine effective control procedures to resolve the problem. Possible solutions could include:</p> <p>Implementing p-card program procedures that require all cardholders to submit their monthly reconciliations with corrected object codes, and to justify the use of the miscellaneous object codes that are not corrected.</p> <p>Developing a training program for cardholders, approving authorities and coordinators to educate them concerning the correct assignment of object codes. Since cardholders now have purchasing profiles and routinely purchase the same type commodities and/or services, it would appear that cardholders should be able to easily become familiar the object codes that apply to their individual profiles.</p>	<p>PARD cardholders submit a copy of their activity report to the budget department each month notating changes to the object codes. Once this information is received an Expenditure Correction (EX) is prepared and sent to the Controller's Office for processing. These codes are driven by the merchant category code that prevents there being a constant object code for each department; therefore these object code changes will continue to occur.</p>	<p>Examined object codes, monthly reconciliation and the p-card pilot program documentation.</p>	Implemented
REPORTING CONTRACT PURCHASES					
<p>Purchases from contract vendors are not necessarily contract transactions. Price lists are typically produced to identify the</p>	II	<p>We recommend that the Strategic Purchasing Division's P-card Administrator and department P-card Coordinators review the</p>	<p>All receipts are closely audited and reconciled by the p-card coordinator to identify contract purchases each month upon</p>	<p>Examined receipts, cardholders training program, agenda, report cover letters and monthly reconciliation checklist.</p>	Implemented

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<p>commodities and services that are applicable to contracts. However, due to the differences in descriptions of commodities and services listed on price lists and the descriptions provided on receipts, it is often very difficult to determine if a purchase should be charged to a particular contract. In many cases, even the contract vendor employee is unable to determine if commodities or services purchased are contract related transactions. This situation makes it extremely difficult for Approving Authorities and the P-card Coordinator to determine if purchases reflected on monthly statements are contract related. This is an internal control exception in accountability over spending the funds approved by City Council. Sample testing of 25 monthly statements revealed that 15 statements, which included purchases from contract vendors, did not include references to BPO numbers and amounts in the spaces provided.</p>	<p>process of reporting contract p-card purchases, including the method of identifying contract related transactions, and develop procedures to adequately control the process.</p>	<p>receipt of the activity report. The training that cardholders initially receive does address the importance of documenting contract purchases. The cover letter sent with the p-card reports to the managers each month also asks that these transactions be identified.</p>		
P-CARD JUSTIFICATION				
<p>There are no established criterion or minimum requirements to qualify for a P-Card. An Internal Cardholder Agreement Form (Exhibit 1 to E.O. 1-42) is submitted by an "authorized approver" (typically the employee's supervisor or someone in his/her reporting chain) to the P-Card Coordinator,</p>	<p>III We recommend that P&R's P-card Coordinator, along with the Finance and Administration Department's P-card Administrator, develop minimum requirements to qualify for a P-Card. Perhaps a committee minimally made up of the P-Card Administrator and all the P-Card</p>	<p>PARD relies on the guidelines set by SPD. Before any p-card is issued the p-card agreement form is completed and signed by the requesting employee and supervisor. On this form, the supervisor justifies the reason for the issuance of the card and also sets the spending authority.</p>	<p>Examined the P-card Agreement Form.</p>	<p>Implemented</p>

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who establishes the single purchase and total monthly purchase limits. However, the form does not include a field to justify the employee's need for a P-Card.	Coordinators from the departments participating in the program should form to assist in the development of the P-Card qualification minimum requirements.			
P-CARD APPROVING MANAGER TRAINING				
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 inappropriate P-Card purchases in violation of E. O. 1-42.	IV We recommend that Parks and Recreation management discuss with the P-Card Administrator the need for training Approving Managers to define their roles and responsibilities for monitoring P-Card activity.	After the initial audit, there were p-card training classes held for the department's p-card holders and their supervisors. Annual classes are held to update and refresh p-card holders and supervisors on the policy in place. The department had also scheduled SPD to do training for approving managers, but Hurricane Katrina and the bank change interrupted their schedule. The department still plans to have SPD come out to conduct the training in FY06.	Examined the E. B. Cape Center sign-in sheet, and employee-training list included approving managers.	Implemented
WORK ORDER REFERENCES RECORDED ON RECONCILIATIONS				
During fieldwork we were informed that the Fleet and Facilities Development & Maintenance Divisions use work order systems to manage projects. Our sample testing of ten p-card monthly reconciliations revealed that eight of the ten (80%) statements did not include references to work order numbers on receipts. The Department does not have a system in place that allows for the reconciliation of parts and materials	V We recommend that Parks and Recreation management implement procedures requiring cardholders to record work orders on applicable receipts as part of the monthly reconciliation process.	Since the audit, all divisions within the department have been notified that when a work order exists, it must be noted on the purchase receipt or on the monthly activity report. PARD cardholders have been very diligent in notating work order information on receipts and the activity report.	Examined the work orders information on applicable receipts, and the activity report.	Implemented

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purchased to work orders. The audit team was not able to trace parts and materials purchased with P-Cards to specific work orders. The inability to reconcile parts and materials purchased to work orders is a significant control weakness. Typically, work order related items are parts and materials that can be easily sold to salvage yards and parts vendors. Failure to control work order related purchases invites the theft of items that can be easily sold.					
RESTRICTED PURCHASES					
Sample audit testing of monthly p-card reconciliations and supporting receipts revealed the following prohibited transactions: A limousine was rented totaling \$130 to take an entertainer to IAH who appeared at the Olympic Torch Relay event at the George R Brown Convention Center. The purchase was made at the direction of a representative from the Mayor's Office, without obtaining written approval. Office supplies totaling \$112.79 were purchased to restock inventory. Floral centerpieces totaling \$400 were purchased from a florist for the Mayor's official holiday celebration. The purchase was made at the direction of a representative from the Mayor's Office, without obtaining written approval.	VI	We recommend that the P-card Coordinator reemphasize the importance of being aware of prohibited purchases. We also recommend that cardholders obtain written approval from the Mayor's Office when instructed to purchase prohibited commodities or services.	PARD cardholders have been made aware of the correct process to purchase outside of their profiles. They must send an email to the coordinator stating what they want to purchase, the justification for the item, cost and also merchant category code of the store. The email is forwarded downtown for approval. In all meetings and in the initial training session, cardholders are advised of this process.	Examined the Purchasing Card Policy, Procedures and the YIELD item list of the Parks and Recreation Department.	Implemented

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FRAUDULENT P-CARD PURCHASES					
<p>In April 2002, there were unauthorized transactions made with a p-card assigned to a P&R employee. The employee discovered the transactions when reviewing his monthly statement prepared by Wells Fargo. As part of the reconciliation process, he reported the misuse of his card. However, the F&A Strategic Purchasing Division failed to report fraudulent purchases totaling \$348.78. As a result, those charges were not reversed.</p> <p>The unauthorized use of the p-card was investigated by the Police Department, and the cardholder was found to be not at fault since he was in possession of the card when the purchases were made, and other evidence indicated that he was not the person who made the purchases.</p>	VII	<p>We recommend that the P-card Coordinator initiate discussion with F&A Strategic purchasing Division to address the timeline for cardholders reporting disputed transactions, and for ensuring that Wells Fargo Bank is subsequently informed in writing within the 60 day period required by the contract. We also recommend that future unauthorized or fraudulent use of p-cards be reported to the Office of the Inspector General, since those type investigations involve City employees.</p>	<p>PARD cardholders immediately inform the coordinator when they find a charge to their card that is not correct. A dispute form is completed and sent immediately to SPD via fax and followed by originals in the mail. SPD informs the bank and works to resolve the issue. Close attention is paid to these incidents. A yellow flag report is received weekly and a red flag report comes as needed, both from SPD.</p>	<p>Examined the City of Houston P-card dispute/resolution form, yellow flag report and p-card pilot program documentation.</p>	Implemented