



City of Houston

Annise D. Parker
City Controller

Steve Schoonover
City Auditor

Administration and Regulatory Affairs Department Strategic Purchasing Division

Performance Audit

Report No. 2010-03



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

October 22, 2009

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Administration and Regulatory Affairs Department – Strategic Purchasing Division
Performance Audit (Report No. 2010-03)

Dear Mayor White:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed a performance audit of the Administration and Regulatory Affairs Department's Strategic Purchasing Division (Department). The primary objective of the engagement included examining the organizational structure, operational practices, resources, and technology tools to determine their efficiency and effectiveness relative to the administration of the bidding and proposal process; requisition and purchase order procedures; and contract and purchasing card monitoring procedures. The JWI team also evaluated the adequacy of management controls and provided recommendations for improving the efficiency and effectiveness of procurement functions to improve the quality of processes and the overall cost efficiency and deployment of City resources.

The report, attached for your review, identified 48 recommendations to improve the efficiency and effectiveness of procurement functions. The report concluded that the internal controls are adequate and provide management with reasonable assurance that procurement activities are performed in accordance with applicable City Executive Orders and Administrative Policies and Procedures, except for the items presented in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The Views of Responsible Officials as to overall actions taken are appended to the report as Exhibit II.

We commend Department management for their timely efforts to take action to remedy the deficiencies identified. We also appreciate the cooperation extended to the JWI engagement team by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Alfred Moran, Jr., Director, Administration and Regulatory Affairs Department
Michelle Mitchell, Director, Finance Department
Calvin Wells, City Purchasing Agent, Strategic Purchasing Division

October 20, 2009

Controller Annise D. Parker
City Controller
City of Houston
901 Bagby, 8th Floor
Houston, Texas 77002

Dear Controller Parker:

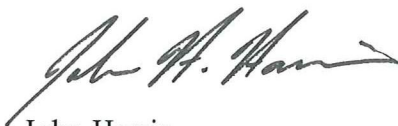
We have completed our review of the Administration and Regulatory Affairs Department's Strategic Purchasing Division as outlined in our engagement letter dated April 28, 2009, under Contract No. 56545.

Our observations and recommendations noted during the performance of the review are presented in this report. Our procedures, which accomplished the project objectives, were performed through June 25, 2009 and have not been updated since that date. Our observations included in this report are the only matters that came to our attention, based on the procedures performed.

All data used during this review was obtained from representatives of the Administration and Regulatory Affairs Department's Strategic Purchasing Division and the City of Houston Office of the City Controller. Our work does not constitute an audit conducted in accordance with generally accepted auditing standards, an examination of internal controls or other attestation or review services in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we do not express an opinion or any other form of assurance on the reporting or compliance of the City of Houston Strategic Purchasing Division.

Jefferson Wells is pleased to have assisted the City Controller, and we appreciate the cooperation received during this engagement from the City of Houston Strategic Purchasing Division, as well as your office.

This report is intended solely for the information and use of the City, the City of Houston Administration and Regulatory Affairs Department's Strategic Purchasing Division and the City Controller's Office, and is not intended to be used for any other purpose.



John Harris
Director – Risk Advisory Services

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EXHIBIT II: Views of Responsible Officials

Executive Summary

Objectives

Jefferson Wells was retained to perform a performance audit of the Administration and Regulatory Affairs Department's Strategic Purchasing Division (SPD). Our primary objectives included the following:

- Examining and assessing the organizational structure, operational practices, resources (qualifications, training, etc.), and technology tools to determine their efficiency and effectiveness relative to the administration of the bidding and proposal process; requisition and purchase order procedures; and contract and purchasing card monitoring procedures.
- Examining and evaluating the adequacy of management controls and providing recommendations for improving the efficiency and effectiveness of procurement functions to improve the quality of processes and the overall cost efficiency and deployment of City of Houston (the City) resources.

Background

Per the City's website (purchasing.houstontx.gov), "We (SPD) are the primary organization within the City authorized to issue invitations to bid and request for proposal, process and release purchase orders and administer term contracts through our 50+ staff members and an operating budget of \$3.0 million. The City Purchasing Agent can delegate authority to department staff to release purchase orders against contracts and issue non-contract purchases under \$50,000.

Our mission is to manage, facilitate and provide the highest quality, value-added procurement services that exceed the needs and expectations of our customers."

Furthermore, per the City's website (houstontx.gov/ara/purchasing.html), SPD responsibilities include: Administration; Strategic Purchasing Information Technology; Citywide Vendor Master; Citywide Material Master; Informal under \$50,000; Formal over \$50,000; High Tech; Service; Construction; Fleet/Rolling Stock; and Commodity Contracts.

Scope

Our audit included procedures focused on the material and vendor master; the requisition process; bid splitting; contract monitoring; purchase order procedures; procurement cards; and division metrics. Our audit included the examination of activities from July 1, 2008 through June 15, 2009. As noted in this report, certain procedures were performed for ending periods ranging from March 31st to June 25, 2009. See the body of the report for a detailed description of the specific procedures performed.

Summary of Results and Recommendations

Based on the procedures we performed with regard to the administration of the bidding and proposal process; requisition and purchase order procedures; and contract and purchasing card monitoring procedures, we conclude that the internal controls are adequate at SPD and provide management with reasonable assurance that procurement activities are performed in accordance with applicable City Executive Orders and Administrative Policies and Procedures, except for the items presented in the body of this report.

Furthermore, we have presented 48 recommendations in the body of this report to improve the efficiency and effectiveness of procurement functions. Some of the more significant recommendations to improve the quality of processes and the overall cost efficiency and deployment of City resources are as follows:

Requisition Process

- SPD should coordinate with the City's ERP team to investigate the programming of SAP to determine if the parameters establishing each respective departments spending authority are consistent with their approved spending authority as determined by the City Purchasing Agent and make any corrections as necessary. This should ensure that DPU's are not approving purchase orders in excess of their spending authority.
- If a user utilizes a material number on a requisition that is linked to an outline agreement, the system will provide a warning to let the user know that the material is on a contract. However, the user can ignore this warning. We recommend that the user must either use the outline agreement or provide a reason why they chose not to utilize the outline agreement.

Bid Splitting / Contract Monitoring

- We recommend that SPD generate a report of all City-wide purchases made on a routine basis to monitor whether potential bid-splitting is occurring or warn a department if they are approaching the possibility of exceeding the \$50,000 threshold of purchases from non-contract vendors within one fiscal year. This could identify potential situations in which the City should consider putting a formal contract in place with a vendor in an effort to increase the efficiency of future purchases and obtain more favorable pricing.
- SPD should also evaluate the cost/benefit of a system change in which the City's ERP/SAP team would create a program in SAP to flag the purchaser if the cumulative non-contract purchases orders entered into the system to any one particular vendor in any given fiscal year (July 1 – June 30) are greater than \$50,000. The user would then have to include a reason as to why the purchase(s) should be considered "separate, non-sequential, and non-component" as defined in Administrative

Executive Summary

Procedure 5-2. This mechanized notification should reduce the possibility of the City violating the City Charter and the state procurement laws.

- We recommend that SPD be allowed to "lock" the system by doing the following: In SAP, when contracts are loaded, the System should require the inclusion of a Target Value by Department. Therefore, a department could not enter requisitions over their target value without receiving approval from SPD and/or the other department(s) listed on the contract. This should help to encourage the consolidation of contracts and allow the City to better leverage its purchasing power.

Purchase Order Procedures

- SPD should coordinate with the City's ERP team to consider a programming change to SAP that would prohibit the inclusion of the electronic signatures of the Mayor, Purchasing Agent, and Controller until after a purchasing order has been approved.

Procurement Cards (P-Cards)

- We recommend the preparation of a list of approved overrides by Department be forwarded to each respective department (Assistant Directors and P-Card Coordinators) on a monthly basis. Departments may or may not be comfortable with the number and types of overrides issued each month. In some cases, an additional merchant category code (MCC) group category may be added for certain P-Cardholders resulting in less time (cost savings) spent on overrides by the Department and SPD P-Card Team.
- We make the following recommendations to improve both efficiency and effectiveness of the reconciliation of P-Card activity to the general ledger:

Monthly Checklist

Purchasing Card Coordinator's or others responsible for the input of P-Card receipts into SAP should always check the Active Contract Roster. DPU's should complete a monthly checklist (provided by SPD) that includes the following items that can be adjusted in the JP Morgan Pathway system: proper cost center, correct general ledger account, proper charging of current contracts, and proper coding of internal orders.

Monthly Update

Update the TRA test files before the end of the month process begins. Using current files should reduce the identified errors resulting from timing differences.

Ensure an audit trail is maintained for all adjustments

The SPD Administration Manager for P-Cards should maintain a monthly log of unreconciled items. As adjustments are posted to clear previously unreconciled

Executive Summary

items, these adjustments should be kept in the log to maintain a clear trail of the specific month the adjustment relates and the balance remaining to be reconciled.

This log should be compiled retroactively for FY09 for the Financial Reporting Division to be able to respond to external auditor requests. In addition, all cumulative unreconciled amounts need to be cleared in order to properly close out fiscal year 2009 activity and ensure that all expenses are charged to the proper department budget.

- SPD should consider requiring designated P-Card Coordinators to attend a refresher P-Card Training class once every 2-3 years. Classes are approximately one hour and are available once per month.

Division Metrics

- SPD should consider using an on-line survey tool that can be purchased for a nominal cost. These survey tools allow users to quickly create online surveys and provide user-friendly reporting mechanisms. Questions can be in multiple forms (multiple choice, rating scales, drop-down menus, etc.), and can control the question flow with custom skip logic based on responses to previous questions. This would allow SPD to tailor certain questions based on the type of procurement (i.e. Hi-Tech procurements may have different questions compared to Service Contracts). Results can be viewed as they are collected in real-time and can be viewed as live graphs and charts and well as summary collections of open-ended responses.

If SPD sets a performance metric goal, it should determine a method to track and determine if this goal has been met. Without a baseline measurement with which to compare, SPD does not currently have a method to determine if they have met their goal of increasing customer satisfaction by 10%.

Furthermore, SPD should consider asking the following additional questions in its survey:

- Do you believe the purchase was made at a competitive price?
 - Was the item/service delivered/provided within the required timeframe?
 - Did the quality of the item/service purchased meet your expectation?
- We recommend that a more formal process be adopted to calculate the time to award metric. SPD should consider creating an excel spreadsheet to track each individual bid/contract awarded during a month. Copies of the council agenda in which the contracts were awarded should be maintained as well as the Project Status Reports which are used to determine the beginning date used to determine time to award. For bids/contracts in which project status reports are not available, SPD should maintain documentation of the methodology used to determine the beginning date used to calculate time to award. SPD should adopt formal procedures defining the beginning

Executive Summary

date used to determine time to award a bid/contract. The monthly calculations should be reviewed and approved by SPD management.

- In an effort to provide more comprehensive information to its users, the City should consider including all active contracts in place throughout the City rather than just the contracts issued directly by SPD. This could provide the City overall cost savings by enhancing the visibility of existing contracts and facilitating the use of already existing contracts.
- We recommend that both the calculation of cost savings and targets set by SPD be segregated into the following categories: multiple bids, purchases made utilizing co-op agreements, spot purchases, and RFP/special purchases. For each of these, we recommend that SPD develop clear guidelines and definitions for the methods used to calculate cost savings.

Use of standardized methodologies would help to provide consistent calculations for each category. Documentation should be retained by the buyers to support all cost savings calculations and the final calculation for each item should be approved by their supervisor.

Approach

Approach

In accomplishing the objectives of this audit, we performed the following activities:

Material and Vendor Master

- Obtained a list of registered vendors, selected a sample, and reviewed respective W-9 or W-8 on file to validate vendor information.
- Tested the number of commodity codes for which vendors can register.
- Reviewed a report of vendors solicited in the e-bidding system from July 1, 2008 through June 17, 2009 noting the number of solicitations, number of commodity codes included in the request for solicitation, and related number of bids received.
- Obtained a list of non-vendor payees included in the vendor master file, selected a sample, and reviewed documentation received from City departments to verify non-vendor payees had been properly approved.

Requisition Process

- Obtained a listing of all Citywide Purchase Orders from July 1, 2008 through March 31, 2009, noting the report identified purchases by Purchasing Organization and Type. We selected a sample of non-contract POs with net values between the respective department's maximum spending authority and \$50,000 (the threshold requiring City Council approval) and reviewed the purchase order package to determine if support documentation was obtained demonstrating that bids were properly solicited and evaluated, the respective Departmental Purchasing Unit (DPU) provided proper approval (if applicable), and whether proper approval was obtained from SPD for requisitions greater than the respective department's spending authority.
 - 1) Performed a system test to verify whether a sample DPU can release a purchase order greater than their spending authority.
 - 2) Worked with SPD in an attempt to generate an SAP report of purchases from July 1, 2008 to March 31, 2009 by commodity code to compare to Outline Agreements set up within SAP to determine if purchases were being made that were not linked to the Outline agreements. Due to a significant amount of purchases of commodities not having the SAP Material records input in the system by the purchasers, we were unable to match actual purchases of commodities not linked to outline agreements to Outline Agreements for which specific commodity codes have been set-up. Alternatively, we provided recommendations to improve this process.

Bid Splitting / Contract Monitoring

- Worked with SPD to generate a report of purchases made between July 1, 2008 and March 31, 2009. Attempted to determine whether SPD has documented justification

Approach

for potential bid-splitting situations in which individual purchases, in aggregate, resulted in purchases with one vendor exceeding \$50,000 within one year. Based on discussion with both SPD and the representatives from the Office of the City Controller, and review of previous work procedures performed by both the Office of the City Controller and auditors within the Public Works and Engineering Department, it was determined that due to the volume, it was not cost / beneficial to further examine this item. Alternatively, we provided recommendations to improve this process.

- Obtained the roster of contracts set to expire within 9 months as of May 7, 2009 and on a sample basis, reviewed SPD's documentation of the renewal status (i.e. is an RFP in process or has the user department(s) actively chosen not to renew) of selected contracts.
- Obtained a the report of the 25% of the original contract amount remaining submitted to the City Purchasing Agent as of April 30, 2009 and on a sample basis, reviewed the status of selected contracts for appropriate action.
- Attempted to process a requisition from a department not initially on a contract to validate whether departments can purchase off a contract in excess of their initial authorized spending authority (whether \$0 or higher) without having to receive permission from SPD.
- Obtained a list of price adjustments requested from July 1, 2008 to March 31, 2009, selected a sample, and determined whether SPD had support documentation for the price adjustment, ensured the price adjustments were in accordance with contracts, and determined whether the City Purchasing Agent had approved any price increases.

Purchase Order Procedures

- Reviewed the Consolidated Emergency Purchase Order (EPO) log for July 2008 through May 1, 2009, selected a sample, and validated whether formal purchase orders were issued for these purchases and whether the documentation supported the justification for issuing the EPO.
- Obtained a report of purchases made during March 2009 and selected a sample of one informal purchase (less than the \$50,000 threshold requiring a formal bid) per City DPU. For DPU's that had informal purchases during March 2009, both for PO's in which SPD functions as the DPU and for PO's less than the \$50,000 threshold requiring a formal bid, we reviewed whether these purchases were supported with appropriate bid documentation
- Performed a system test to determine whether an unapproved purchase order can be printed.
- Obtained a list from SPD of all formal Requests for Council Action (RCA) processed as sole source procurements greater than \$50,000 from July 1, 2008 to March 31,

Approach

2009, selected a sample, and requested support documentation as to why these were justified as sole-source procurements. We noted that sole-source procurements less than \$50,000 cannot be identified in SAP. Procurements greater than \$50,000 require an RCA and were therefore able to be identified.

- Obtained a list of contracts issued requiring formal solicitation's from July 1, 2008 through March 31, 2009, selected a sample and performed the following: Reviewed support to determine if proper bid solicitation approval of specifications was obtained prior to issuance; reviewed support related to date-stamping of bids and public reading of bids or alternative documentation supporting proper receipt by the City Secretary; reviewed support to determine whether the evaluation of bids was proper; and verified City Council approval of each respective award.

Procurement Cards

- We obtained a listing of active P-Cardholders as of May 11, 2009 from the JP Morgan Pathway system which contained cardholder profile data, selected a sample of active P-Cards, obtained screen prints of the individual cardholder profile data and COH Agreement Forms, and verified in the JP Morgan Pathway system that both the Merchant Category Codes (MCC) and dollar limits for the selected employees agreed to their Agreement Form. We also verified whether their cardholder profile data agreed to the respective signed/approved Internal Cardholder (Employee) Agreement.
- We tested a P-Card for MCC purchases outside of approved MCC codes and/or dollar limits. We selected an active P-Cardholder and attempted to make an on-line purchase for an airline ticket, which is an MCC code for which the cardholder was not approved. We also attempted to make an on-line purchase for office supplies, an MCC code for which the cardholder was approved, first for an amount less than the \$3,000 single purchase limit the cardholder was authorized, and then for an amount in excess of the single purchase limit dollar amount for which the cardholder was authorized. In addition, we also attempted to make four on-line purchases for office supplies, an MCC code for which the cardholder was approved, that cumulatively exceeded the card limit of \$10,000 for which the cardholder was authorized.
- Obtained SPD's log of one-time overrides from July 1, 2008 through April 30, 2009, selected a sample, and reviewed support to determine whether proper authorization for the override was obtained from the respective P-Card Coordinator and the SPD P-Card team.
- For March 2009, we reviewed the reconciliation of both the I099 Contract Purchases and I100 Non-contract purchase files. We obtained the list of errors that supported the difference between the electronic fund transfers (EFT's) from JP Morgan and the P-Card charges posted to the general ledger. We reviewed the support for all adjustments to the I099 and I100 files to correct errors noted by the SAP system. Based on these procedures, we made recommendations to improve the reconciliation process.

Approach

- Obtained a list of open P-Cards issued or renewed from July 1, 2008 to April 30, 2009 and employee training logs during this period, selected a sample, and determined whether cardholders had attended the required training during this period.
- Requested a list of new P-Card coordinators added since July 1, 2008 to determine if they had attended required training. Per SPD representatives, there have been no changes among the coordinators since June 2008. As such, there were no items to test from the current year. We further noted that SPD does not keep documentation on file of when the designated department P-Card Coordinators most recently attended training.
- Attempted to trace disputed P-Card items on a monthly statement to the respective Dispute/Resolution Form. Attempt to trace a sample of forms received to disputed items on the monthly statement. Attempted to trace disputed items on a monthly statement to the respective Forgery or Unauthorized Use Form. Attempted to trace a sample of forms received to disputed items on monthly statement.

We obtained the JP Morgan Chase statements from July 2008 to April 2009 and noted that a disputed total amount was listed but no details were included. Therefore, we were not able to trace disputed items to supporting documentation in SPD's files for November 2008, December 2008, and April 2008. Only one disputed item is listed on the September 2008, October 2008, January to March 2009 statements for the same amount and was tested to review support for this disputed charge. Supporting documentation was not in SPD's files. Documentation provided by the Fire Department indicates this amount was resolved in November 2008. After an SPD representative contacted the bank during our audit, the bank indicated they would remove amount from disputed charges

- Obtained from SPD a list of cancelled P-Cards from July 1, 2008 through April 30, 2009 per the JP Morgan system, selected a sample, and determined whether the lost or stolen cards were properly reported and approved using the appropriate Lost/Stolen Card Form. If cancelled, we also determined whether these instances were properly reflected using the Purchasing Card Information form.
- Inquired of the Audit Division of the City of Houston Controller's Office for reports issued during FY 2009 noting instances of P-Card transactions exceeding \$50,000 within one department, noting one report was issued June 25, 2009. Based on our review of this report and other procedures performed, we recommended methodologies for SPD to become aware of the potential to exceed the competitive bidding limit before it is exceeded so they can work with the department(s) to take measures to remain in compliance.
- Reviewed the September 30, 2008, December 31, 2008 and March 31, 2009 quarterly reports of non-contract purchases by department by vendor (in excel) that SPD distributed to all department Designees and attempted to review the distribution of these reports. We combined the data from each of these three quarters into one file to note any unusual transactions and inquired for reasonableness.

Approach

Division Metrics

- Gained an understanding of SPD's methodology to conduct surveys of their customers each time an RCA is approved. Obtained the results of all 25 SPD customer satisfaction surveys received year to date as of June 15, 2009. Results are included in the body of this report. Due to the survey process not beginning until March 2009, there is not a baseline or other metric to determine if SPD has increased customer satisfaction by their stated target of 10%. Additionally, we have provided recommendations to improve the efficiency and effectiveness of a future continuous survey process.
- Obtained SPD's calculations of 1) total bid/contract awards year to date, 2) average days to award/all items year to date, and 3) average time to award by month. For March 2009, we re-performed SPD's calculations used to derive their metrics and attempted to agree the numbers used in the calculation to underlying support documentation. We also reviewed a chart summarizing year to date results through May 2009. Additionally, we provided recommendations to improve the efficiency and effectiveness of the process used to assess SPD's progress toward their stated target to Decrease Average Time Taken to Award Contracts to 120 days or less.
- Obtained background information on the initiative to establish an e-Link between SPD's e-Bidding Applications and SAP. Obtained timelines/project status reports used by SPD to track progress and assessed SPD's progress toward their stated target to establish e-link by June 30, 2009.
- Obtained information regarding SPD's progress toward their stated target of conducting 360 degree Feedback for 100% of Managers and Team Leaders and reported SPD's progress toward attaining this target.
- Obtained information regarding SPD's progress toward their stated target of Employee Meeting Learning Goals of 800 hours, agreed to underlying support, and reported their progress toward attaining this target.
- Obtained information regarding SPD's number of contracts as of May 7, 2009 and attempted to compare to the number of contracts at July 1, 2008 to assess SPD's progress toward their stated target of Increased Use of Consolidated Contracts by 10%. Additionally, we have provided recommendations to improve the efficiency and effectiveness of this process.
- Obtained SPD's calculation of FY 2009 cost savings through June 4, 2009. Reviewed the calculation, gained an understanding of how SPD calculates cost savings, attempted to validate savings on a sample basis, and assessed SPD's progress toward their stated target to Generate Cost Savings of \$30 million. Additionally, we have provided recommendations to improve the efficiency and effectiveness of this process.

Results and Recommendations

SPD Responsibilities

Per the City's website (purchasing.houstontx.gov), "We (SPD) are the primary organization within the City authorized to issue invitations to bid and request for proposal, process and release purchase orders and administer term contracts through our 50+ staff members and an operating budget of \$3.0 million. The City Purchasing Agent can delegate authority to department staff to release purchase orders against contracts and to issue non-contract purchases under \$50,000. Our mission is to manage, facilitate and provide the highest quality, value-added procurement services that exceed the needs and expectations of our customers."

Furthermore, per the City's website (houstontx.gov/ara/purchasing.html), SPD responsibilities include the following:

Administration

Provides many services for the organization including procedure development, budgeting, P-Card administration, Citywide Xerox management, supplier assistance and bid advertisements.

Strategic Purchasing Information Technology

Provides technical support, system design, development, maintenance and data base administration for the Strategic Purchasing Division. Develops, maintains and updates the department's web and Intranet. Responsible for activity reporting, data base online bidding and registration, SAP support and all IT related issues including user training and support.

Citywide Vendor Master

Creates, maintains, changes, blocks, unblocks, deletes and partners vendor information in SAP.

Citywide Material Master

Creates and maintains NIGP commodity codes in SAP.

Informal under \$50,000

Solicitations valued at \$50,000 or less for goods and nonprofessional services procured by the City of Houston. Strategic Purchasing makes informal solicitations for requirements exceeding department authority by online bidding, email, telephone or facsimile. After bids are received, they are analyzed, evaluated and purchase orders are issued by Strategic Purchasing.

Informal bids are classified as regulated contracts to attract MWDBE participation. When there is a capable MWDBE firm certified by the City's Affirmative Action Division, the user department is required to solicit bids from that company. Also, the user department is required to solicit participation from no less than three (3) certified MWDBEs if there are three or more capable firms.

SPD Responsibilities

Formal over \$50,000

These include written solicitations of non-contract items exceeding \$50,000 for goods and nonprofessional services procured by the City of Houston. These bids are taken in accordance with State law. Bids are advertised in the local paper and on the Strategic Purchasing website. Once bids are received by the City Secretary's Office on the advertised bid due date, they are opened in public and read in the City Council Chamber (unless place of opening has been transferred in accordance with Section 15-3 B(5) of the City of Houston Code of Ordinances.) The City Purchasing Agent recommends awards for formal bids to City Council.

Prior to issuing a bid invitation estimated to be in excess of \$100,000, Strategic Purchasing reviews and researches the subcontracting possibilities to determine the MWDBE participation goal assignment to give certified MWDBE suppliers additional opportunity to participate in City business.

High Tech

Request for Proposals (RFPs) are used to solicit equipment, goods and services of a highly technical nature. RFPs are taken in accordance with State law provision under V.A.C.s. § 252. As an example, the City will solicit requests for proposals for information processing equipment software and hardware used in conjunction with information processing equipment, telecommunications, radio and microwave systems, electronic distributed control systems and technical services related to this equipment. RFPs are also reviewed for MWDBE opportunities.

Service

Issues sealed competitive bids for renewal contracts providing repetitive nonprofessional services in excess of \$50,000 annually as required by departments to conduct City business.

Construction

Issues sealed competitive bids for projects involving improvement to City facilities amounting to \$500,000 or less. Bid Bonds are required on all Construction Projects. Projects exceeding \$50,000 require bidders to submit a 10% bid bond and if awarded the contract, the contractor must provide a performance, payment and maintenance bond in the amount of 100% of the total contract award amount. The City Purchasing Agent recommends award of contracts to City Council. Certified MWDBEs are encouraged to bid as prime contractors.

Fleet/Rolling Stock

Issues sealed competitive bids for purchases of all heavy equipment and rolling stock in excess of \$50,000 submitted in the capital budget and approved by City Council.

Commodity Contracts

Issues sealed competitive bids for repetitive purchase of commodities in excess of \$50,000 annually as required by departments to conduct City business.”

Identification of Active Registered Vendors in the E-bid System

Background

Vendors register on-line on the SPD website in order to view bid opportunities. In addition, they must provide a valid W-9 or W-8 to SPD in order to become a registered vendor.

The e-bid system receives whatever information a potential vendor/supplier, employee, etc. inputs. This information is then interfaced into SAP. In order to become an active registered vendor, the e-bid system prompts the outside user to submit a W-9 or W-8 to SPD via fax or to houstonpurchasing.net. Once received, SPD manually inputs the W-9 or W-8 information into SAP. If the vendor names and other related information match, the vendor is unblocked in the system and a 6 digit SAP generated supplier number is assigned. This 6 digit number is then communicated back to the e-bid system.

Procedures Performed / Results

We initially received a list of vendors registered via the vendor master on the SPD website as of May 7, 2009 and noted 11,313 vendor ids listed. Of these, 7,052 had vendor account ids assigned to them. Per discussion with SPD representatives, it was determined that this list contained vendors who would continue to be “blocked” in SAP until they submitted a W-8 or W-9.

Based on this, we obtained from SPD, a list from SAP of “unblocked” registered vendors. The list contained 839 “unblocked” vendors.

We selected a sample of 20 registered “unblocked” vendors and noted that all 20 of the registered vendors had a valid W-9 or W-8 on file that agreed to the vendor information on the list of registered vendors.

While the controls over this process appear to be adequate, we recommend the following to improve the efficiency of the process.

Recommendation

The e-bid system does not currently have a way to identify active registered vendors (with a W-9 or W-8 on file) compared to non-registered vendors or other city personnel.

We recommend that SAP be programmed to communicate when a vendor has been “unblocked” back to the e-bid system at the same time the 6 digit supplier number is communicated to the e-bid system. This should expedite the bid process and enhance the efficiency of the SPD buyers by allowing them to know which vendors have registered via the E-bid system are truly vendors eligible to do business with the City.

Commodity Codes

Background

When the City issues a bid request or RFP, vendors who have registered for commodity codes that match the commodity codes identified in the bid request or RFP receive notification that bids are being requested. City buyers issuing the bid requests can use a higher-level National Institute of Governmental Purchasing (NIGP) commodity code (i.e. 3 digits) to cast the broadest possible search for potential bidders.

The following table depicts the NIGP system:

NIGP Commodity Code Information (11 digit number)

Digits	Description	Example	Example
One to Three	Class Family	Computer	Computer
Four to Five	Item	Hardware	Hardware
Six to Seven	Group	Laptop	Desktop
Eight to Eleven	Detail	HP N2540	HP de5800

Per representatives of SPD, prior to June 2009, potential vendors were limited to registering a maximum of 15 commodity codes (digits 1 to 5) in the City’s e-bid system. A small number of vendors submitting bids could result in the City not obtaining the most favorable pricing available in a competitive market environment.

During June 2009, the e-bid system was enhanced to allow vendors to register an unlimited number of commodity codes.

Procedures Performed / Results

During June 2009, we were informed by the SPD Information Risk Management (IRM) manager that the e-Bid System had been upgraded to allow a vendor to register for an unlimited number of commodity codes. Under our observation, the IRM Manager accessed the website and demonstrated that a vendor could list in excess of 100 5 digit commodity codes for “computer.”

Material and Vendor Master

We also obtained a report of vendors solicited via the e-Bid System from July 1, 2008 through June 17, 2009. The following summarizes the number of commodity codes listed for the 188 bid numbers listed:

Number of Codes in Request	Number of Solicitations	Two or Less Bids Received	Three or More Bids Received
One	139	51	88
Two	27	11	16
Three	10	5	5
Four	6	3	3
Five	3	1	2
Six	2	0	2
Nine	1	1	0
Total	188	72	116

As noted above, 72 of the 188 (38%) solicitations made during this period received two bids or less.

Buyers for most bid number solicitations are only selecting one 5 digit commodity code to solicit vendors to submit bids. Furthermore, 139 of the 188 (74%) of the bids solicited during this period contained only one commodity code in the request.

Recommendations

- We recommend that SPD create business rules for the minimum number of commodity codes to be included in the solicitation of potential bidders. Management approval should be required for exceptions to this rule.
- Furthermore, if less than three bids are received for a solicitation; buyers should review the solicitation with a supervisor and consider soliciting bids from vendors using a higher level NIGP code (i.e. only 3 digits as opposed to 5 digits) for the commodity code. Applying these recommendations should result in a larger number of vendors submitting bids and allow the City to obtain more favorable pricing due to the increased competition.

Risk of Unapproved City Employees or Other Payees Included on Vendor Master

Background

A Vendor Master Form must be signed by a departmental supervisor in order for SPD to set up a payee on the Vendor Master (i.e. needed for employee reimbursements, travel advances, etc.).

Procedures Performed / Results

We received a list of non-vendor payees included on the vendor master file (ZEMP-Employee Vendor Records) downloaded from SAP as of May 8, 2009 and noted 4,617 names listed.

On a random basis, we selected a sample of 20 non-vendor payees. For each of the 20 non-vendor payees selected, we obtained the Vendor Master Form and noted the following:

- An approved Vendor Master Form from the respective City department was on file at SPD
- The form was signed and/or submitted either the same day or prior to the date the non-vendor payee was created in the Vendor Master File.

Based on the above procedures performed, non-vendor payees included on the Vendor Master appear to have been properly approved.

Requisition Process

Review and Approval of Requisitions

Background

Individual Departmental Purchasing Units (DPU's) are authorized to approve requisitions less than or equal to their respective department's maximum spending authority without having to obtain additional approval from SPD. See below for each respective DPU's maximum spending authority per the SPD website and/or information provided by SPD:

ORG	Name		DPU Non-Contract Spending Authority Ceiling
1000	Houston Police Department		\$ 25,000
1200	Houston Fire Department		\$ 25,000
1600	Municipal Courts – Adm		\$ 25,000
1700	Municipal Courts – Jud		\$ 25,000
2000	Public Works & Engineering		\$ 25,000
2100	Solid Waste		\$ 25,000
2800	Houston Airport System		\$ 25,000
3200	Housing & Community Dev		\$ 10,000
3400	Houston Public Library		\$ 25,000
3600	Parks & Recreation		\$ 20,000
3800	Health & Human Services		\$ 25,000
4200	Convention & Entertainment		\$ 25,000
5100	Affirmative Action		\$ 3,000
6000	Controllers		\$ 3,000
7000	Planning & Development		\$ 20,000
7500	City Secretary		\$ 3,000
8000	Human Resources		\$ 3,000
9000	Legal Department		\$ 3,000
COH	Adm. & Regulatory Affairs	SPD is DPU	\$ 20,000
COH	General Services	SPD is DPU	\$ 20,000
COH	Information Technology	SPD is DPU	\$ 20,000
COH	Houston Emergency Center	SPD is DPU	\$ 10,000
COH	Mayor	SPD is DPU	\$ 3,000
COH	City Council	SPD is DPU	\$ 3,000

For requisition's that exceed the DPU's spending authority, the requisition should be reviewed and approved by SPD. SAP should not process a requisition unless it is approved in the system.

Procedures Performed / Results

We obtained a listing of all City-wide Purchase Orders from July 1, 2008 through March 31, 2009, noting that the report identified purchases by Purchasing Org and Type. The report contained 26,522 line items and identified total purchases of \$70,388,128. On a random basis, we selected a sample of 10 non-contract purchase orders with net values between the respective department's maximum spending authority (DPU Non-Contract Spending Authority Ceiling in the preceding table), and the \$50,000 threshold which requires City Council approval. For each item selected, we reviewed the purchase order package to determine if:

- 1) Support documentation was obtained demonstrating that bids were properly solicited and evaluated;
- 2) The respective DPU provided proper approval (if applicable); and
- 3) Proper approval was obtained from SPD for requisitions greater than the respective department's maximum spending authority.

Our results were as follows:

- 6 of the 10 non-contract purchase orders selected had proper support documentation demonstrating that they were properly solicited and evaluated by SPD in accordance with City of Houston Administrative Procedure 5-2 Procurement Procedures.
- 4 of the 10 non-contract purchase orders selected did not have proper support documentation demonstrating that they were properly solicited and evaluated by SPD in accordance with City of Houston Administrative Procedure 5-2 Procurement Procedures.
 - All 4 of the non-contract purchase orders selected were approved by the respective DPU.
 - 3 of the 4 had proper supporting bid documentation.
 - 1 of the 4 did not have bid documentation.

These purchase orders were included in our selection because they exceeded the DPU's non-contract spending authority noted on SPD's website. Based on comparing DPU's non-contract spending authority per SPD's website to letters from the City Purchasing Agent establishing each department's spending authority, we noted the following:

- One non-contract purchase order for \$21,500 did not require SPD approval because the authorized non-contract spending authority for the Parks and Recreation Department was increased to \$25,000 effective April 1, 2005. This is different from the \$20,000 shown on the SPD's website during June 2009.

Requisition Process

This is not an exception to a DPU exceeding their spending authority, but instead an example of the DPU spending authority posted on the SPD website being incorrect.

However, this non-contract purchase did not have three competitive bids. The purchase order was issued for a temporary golf barrier net across the driving range at Memorial Park. Emails attached to the purchase order indicated the netting was destroyed by the Hurricane Ike during September 2009.

- One non-contract purchase order for \$7,500 did require SPD approval because the amount exceeded the Legal Department's non-contract spending authority of \$3,000 per authorization letter and SPD's website.
- Two non-contract purchase orders did require SPD approval because the amounts exceeded the Department's (Housing and Planning & Development) non-contract spending authority per SPD's website. The Housing DPU approved a purchase order for \$19,799 exceeding the limit of \$10,000 per the SPD website. The Planning & Development DPU approved a purchase order for \$24,900 exceeding the limit of \$20,000 per the SPD website. Authorization letters for these Departments could not be provided by SPD.
- The SPD Purchasing Manager indicated that she has not reviewed any requisitions from Departments (with non-contract spending authority ceiling less than \$25,000) for less than \$25,000.
- SPD did not have on file letters establishing departmental spending authority for 3 of the 24 City departments.

Based on the above we recommend the following:

Recommendations

- SPD should update its website to reflect the proper DPU Non-Contract Spending Authority Ceiling amounts currently authorized. The website should be updated any time a change is made to a non-contract spending authority amount.
- SPD should issue new letters establishing departmental spending authority for the three departments in which letters are not currently on file and verify that all spending authority limits included on the SPD website and in SAP reflect the authorized amounts. This should improve both the control mechanism and the efficiency of the process as both DPU's and departmental employees may currently be unaware of the accurate spending authority limits and may unnecessarily forward requisitions to SPD for approval. Proper review and approval of requisitions should ensure that requisitions are not improperly considered emergency repairs and therefore go through the proper bid process.

Programming of Departmental Spending Authority in SAP

Background

One of the SAP system control mechanisms is that DPUs are not able to release a purchase order in SAP if the purchase order amount exceeds their maximum allowable spending authority.

Procedures Performed / Results

We obtained a letter dated April 16, 2001 from the City Purchasing Agent to the Controller's office stating that "On March 19, 2001 Mayor Lee P. Brown approved the revised City of Houston's Administrative Procedure 5-2, Procurement Procedures, and Executive Order 1-14, Procurement and Payment Policies. Therefore, in accordance with these revisions, effective May 1, 2001 your department's purchasing authority is hereby increased to \$3,000.00."

Based on this letter and review of the SPD website, we noted that the spending authority for the Office of the City Controller, was \$3,000 during June 2009. Using the DPU for the Office of the City Controller, we attempted to release a "dummy" PO in excess of the \$3,000 spending authority and noted the following:

On June 12, 2009, using a buyer in the Controller's office, we input a "dummy" requisition to a non-contract vendor with an extended cost of \$4,020. The DPU for the Controller's Office was able to "release" the purchase order without receiving further approval from SPD.

Based on the above procedure performed, the SAP system control that is supposed to provide an additional layer of control for purchases orders in excess of a department's established spending authority by blocking a DPU from releasing a purchase order in excess of their spending authority is ineffective.

Recommendation

SPD should coordinate with the City's ERP team to investigate the programming of SAP to determine if the parameters establishing each respective departments spending authority are consistent with their approved spending authority as determined by the City Purchasing Agent and make any corrections as necessary. This should ensure that DPU's are not approving purchase orders in excess of their spending authority.

Use of Outline Agreements

Background

In order to take full advantage of previously negotiated arrangements or to increase the City's leverage created by an increased volume of commodity purchases, it is preferable to utilize existing outline (contract) agreements to purchase items or services whenever possible.

Each purchase of a commodity requires the input into SAP of a material (commodity) group. A purchase order cannot be issued without this. Only items purchased with a material number have the full 8 digit commodity code. In SAP, if a user issues a purchase order against a material record, SAP will provide a reminder that there a contract is in place for that material record. However, the user can ignore the reminder.

Per discussion with representatives of SPD, we noted that if a purchase of a service is made using an outline agreement, only the 5 digit Material Group is required to be populated. If the purchase is an outline agreement referencing a supply/line item contract, the 8 digit material record is supposed to be input into SAP. This is considered a "blueprint business process." Prior to going live, the ERP project team created a business process, with consensus from business owners, that any service related buys should utilize a material group number and line item or supply item purchases should use an 8 digit material record.

For each purchase of a commodity, there are two to three potential control points in which use of an existing outline agreement can be noted. The first control is the buyer, the second control would be the buyer's respective DPU approval, and the third potential control is the SPD review if the purchase amount exceeds department spending authority.

However, a formal monitoring system is not currently in place to efficiently monitor situations in which outline agreements should have been used in place of one-time procurements.

Planned Procedures / Results

We obtained an SAP report of purchases from July 1, 2008 to March 31, 2009 by commodity code and noted that while the 5 digit Material Group is populated on all purchases, the 8 digit SAP Material record (equivalent to a commodity code) is inconsistently populated.

Due to a significant amount of purchases of commodities not having the SAP Material records input in the system by the purchasers, we were unable to match actual purchases of commodities not linked to outline agreements to Outline Agreements for which specific commodity codes have been set-up.

Based on the above, we have provided recommendations to improve this process.

Recommendations

- SPD should formally require all purchasers to input the 8 digit SAP material record when they set-up a purchase order. SPD should also consider the cost benefits of a system change that would not allow a purchaser to process a purchase order without the required 8 digit material record.
- If a user utilizes a material number on a requisition that is linked to an outline agreement, the system will provide a warning to let the user know that the material is on a contract. However, the user can ignore this warning. We recommend that the user must either use the outline agreement or provide a reason why they chose not to utilize the outline agreement. (i.e. the agreement does not have funding available).

If the above was in place, SPD could then generate an SAP report once per month of purchases made by commodity code and compare to Outline Agreements set up within SAP to determine if purchases are being made that are not linked to the Outline Agreements.

In situations in which outline agreements could have been used, or there is a large volume of similar purchases that do not utilize a contract, the City is not taking advantage of the potential leverage it may have to negotiate a better price for these items.

Identification of Potential Bid Splitting Situations

Background

Bid-splitting contracts to avoid formal bidding of purchases from non-contract vendors exceeding \$50,000 over a period of a year would not be in compliance with State of Texas Statutes.

Per Administrative Procedure. No. 5-2, Bid-Splitting is defined as follows:

“Intentional splitting of a single purchase into smaller purchases to avoid formal bidding as required by the Texas Local Government Code. Using several purchase orders during a 12-month period to procure goods/services equal to or greater than the State bid law requirement, for items that should be included in a single purchase. The code defines three bid-splitting practices:

- (1) Component Purchases – Purchases in parts that normally would be purchases as a whole. A component purchase would be the purchase of parts to be used for assembling or constructing a finished product. An example of a purchase component would be equipment and materials (each costing less than the State bid law requirement), which would be assembled into an air conditioning unit that normally would be purchased complete at a cost equal or greater than the State bid law requirement.
- (2) Separate Purchases – Purchases made separately that normally would be made in one purchase. A separate purchase would be where a number of similar goods are purchased in groups having individual totals of less than the State bid law requirement. An example of separate purchases would be a desk, chair, and credenza for use by the same office that would normally be acquired with one purchase and at or above the State bid law requirement.
- (3) Sequential Purchases – A number of purchases made within a period of time that normally would be made in one purchase. A sequential purchase would be where the same specific commodity is ordered repeatedly and where the aggregate expenditure would be equal to or greater than the State bid law requirement during a 12-month period. For example, each purchase of an item could cost less than the State bid law requirement, but the aggregate orders during a 12-month period would exceed the State bid law requirement.

In addition to the above, City Charter requires City Council approval on procurement equal to, or greater than the State Bid Law.”

Control Procedures

The current ERP/SAP system does not presently have the capability to block non-contract purchases to vendors at the \$50,000 threshold, which would prevent any violation of City Charter, procedures, and state bid laws.

Furthermore, SPD does not have an automated monitoring system in place to routinely review purchasing activities and practices of the various City departments to determine whether component, separate, or sequential purchases are made to circumvent the Texas procurement laws and the City's Administrative Procedures regarding procurements.

On an ad hoc basis, SPD can generate an SAP report which details the spend amounts to vendors for a given time period. The report can be converted to an Excel spreadsheet and sorted by vendor used to determine if the spend amount to a particular vendor has exceeded or may exceed the \$50,000 threshold requiring City Council approval in the current fiscal year (12 month period). This report can be used to determine if departments are making component, separate, or sequential purchases as well as to determine the whether a city-wide contract should be put in place to take advantage of economy of scale purchases.

Procedures Performed / Results

We obtained from SPD a report of all City-wide purchases made from July 1, 2008 to March 31, 2009, noting 81,580 individual line items of purchases. Of these, 1,676 line items were "PO non-contract purchases" and were included among 644 actual purchase orders. The others were a combination of emergency purchase orders, P-Card, inter-local agreements, contract releases, service release orders, and stock transport releases. We noted that only these 644 purchase orders would be subject to potential bid-splitting. A portion of the 644 purchase orders were individually less than \$50,000, however, when combined with other purchase orders with the same vendor/supplier, the combined total was greater than the State procurement law requirement of \$50,000. Furthermore, we noted that a portion of these purchases were for professional services, which are not subject to bid-splitting.

Based on discussion with both SPD and the representatives from the Office of the City Controller, and review of previous work procedures performed by both the Office of the City Controller and auditors within the Public Works and Engineering Department, it was determined that due to the volume, it was not cost / beneficial to further examine this item. Alternatively, we provided recommendations to improve this process.

Recommendations

- We recommend that SPD generate a report of all City-wide purchases made on a routine basis to monitor whether potential bid-splitting is occurring or warn a department if they are approaching the possibility of exceeding the \$50,000 threshold of purchases from non-contract vendors within one fiscal year. This could identify

Bid Splitting / Contract Monitoring

potential situations in which the City should consider putting a formal contract in place with a vendor in an effort to increase the efficiency of future purchases and obtain more favorable pricing.

- SPD should also consider the cost benefits of a system change in which the City's ERP/SAP team would create a program in SAP to flag the purchaser if the cumulative non-contract purchases orders entered into the system to any one particular vendor in any given fiscal year (July 1 – June 30) are greater than \$50,000. The user would then have to include a reason as to why the purchase(s) should be considered "separate, non-sequential, and non-component" as defined in Administrative Procedure 5-2. This mechanized notification should reduce the possibility of the City violating the City Charter and the state procurement laws.

Furthermore, until this mechanized system is implemented, SPD should consistently utilize the existing SAP reporting system to track and generate periodic reports to determine any potential violation of City Charter and State procurement laws. Additionally, this report should be utilized to determine if a long term contract should be established with a vendor to take advantage of economy of scale purchases.

Contract Monitoring

Background

One of SPD's responsibilities is to monitor contracts to ensure that applicable contracts are renewed or replaced in a timely manner to ensure continuity of goods and services.

SPD has set up an automated report that is generated monthly to flag when 25% or less of the original dollar amount of an outline contract remains. This report also includes the contract expiration dates.

When a contract appears on this report, the assigned SPD buyer analyzes the contract spend and investigates to determine:

- 1) Does SPD and/or the respective City Department need to go to City Council to add additional spending authority to the contract or
- 2) Does the contract need to be renewed?

The Buyer will also contact the respective department(s) and participate in a workshop to review specifications and initiate proposal efforts or a contract extension if necessary.

On a monthly basis, the SPD buyers will update the comment section of the report to address the contract status. This update of contract status is then provided to the City Purchasing Agent. SPD's goal is to begin the contract renewal process within 8 months of contract expiration.

Procedures Performed / Results

We obtained the SPD Active Contract Roster (ACR) as of May 7, 2009 which included the following information: buyer, outline agreement (OA) #, description, OA start date, OA end date, vendor no., vendor name, OA Target Value, OA Net Value, and OA Remaining Value. We sorted the ACR by OA expiration date and noted 166 contracts set to expire by February 7, 2010 (within 9 months).

We also obtained the report of 25% of the original contract amount remaining submitted to the City Purchasing Agent as of April 30, 2009 which contained all of the same information in the ACR as well as a column for Buyer's Comments which describes the status of efforts to renew, extend, or not proceed with a contract.

We selected a sample of 5 contracts from the ACR with expiration dates prior to February 7, 2010 and 5 contracts from the 25% remaining report, and reviewed SPD's documentation of the renewal efforts noting the following:

- 4 of the 5 contracts selected with expiration dates prior to February 7, 2010 had proper documentation related to renewal efforts or references to available option years remaining on the contract.
- The one remaining contract selected with an expiration date prior to February 7, 2010 improperly referenced option years remaining on the contract, when instead, the contract should have been deleted in 2006. The company had been acquired by another company and a replacement outline agreement had been set up by the City. However, the buyer failed to close-out the previous outline agreement.
- All 5 of the contracts selected from the 25% remaining report had documentation of efforts to solicit bids, extend, and/or proof of notification to the respective department that the contract had less than 25% of the original value remaining and that a decision on whether to let the contract expire, extend, or solicit bids for a replacement contract needed to begin.

We also noted that prior month's contracts whose determination had already been settled were not carried forward on the report provided to the City Purchasing Agent. Beginning in February 2009, these "deleted" contracts were captured on a separate spreadsheet.

Recommendation

We commend SPD for beginning to keep a documented trail of the disposition of the contracts to minimize the risk for a contract to "slip through the cracks." We recommend that SPD ensure that all contracts that have not yet expired or are on the report of 25% of the original contract amount remaining be included on either the report provided to the City Purchasing Agent or on the "deleted" contracts list so that all contracts are accounted for properly. This should help to ensure that all applicable contracts are properly accounted for to ensure the continuity of goods and services.

Consolidation of Contracts

Background

SPD representatives expressed that City departments are resistant to the consolidation of contracts with other departments which diminishes the City's leverage in obtaining favorable pricing for high volume recurring purchases

In SAP, all departments have an add clause which allows them to purchase off a contract over their initial authorized spending authority (whether \$0 or higher) without having to get permission from SPD. In turn, this creates a potential situation in which not enough money is left in the contract for the department(s) who initially requested the contract. As a result, these departments end up having to request an increase in their spending authority when they were not the ones who initially spent more than their requested allocation. Because of this, departments are resistant to the consolidation of contracts.

Procedures Performed / Results

We attempted to enter a requisition from a department not initially on a contract to validate that departments not initially included on a contract can purchase off of a contract without receiving approval from SPD or other departments listed on the contract.

We obtained Outline Agreement 4600009384 dated January 5, 2009 for a total award amount of \$7.9 million to a vendor. Departments and target values included within the outline agreement are as follows:

Police Department	\$ 284,238
Fire Department	367,456
Public Works and Engineering	3,157,909
Solid Waste Management	392,163
General Services	636,092
Houston Airport System	1,165,051
Library	75,643
Parks and Recreation	1,119,501
Health and Human Services	467,612
Mayors Office	68,499
Admin. & Regulatory Affairs	72,038
Information Technology	61,095
Planning and Development	22,833
Human Resources	91,332
	<hr/>
Total Award Amount	<u><u>\$ 7,981,462</u></u>

We noted that that the Office of the City Controller was not one of the departments specifically identified on the outline agreement, therefore, their target value for this contract is zero. Using the DPU for the Office of the City Controller, we attempted to run a requisition through for Controllers on this contract and noted the following:

Bid Splitting / Contract Monitoring

On June 12, 2009, using a buyer in the Controller's office, we were able to successfully input a "dummy" requisition and purchase order to the vendor. The DPU for Controller's was able to "release" the purchase order without receiving further approval from SPD.

As this was a "dummy" purchase, the buyer subsequently cancelled the purchase order for this item.

Recommendation

We recommend that SPD be allowed to "lock" the system by doing the following: In SAP, when contracts are loaded, the System should require the inclusion of a Target Value by Department. Therefore, a department could not enter requisitions over their target value without receiving approval from SPD and/or the other department(s) listed on the contract. This should help to encourage the consolidation of contracts and allow the City to better leverage its purchasing power.

Contract Price Adjustments

Background

All contract price adjustments to contracts must be approved by the City Purchasing Agent. SPD's controls to ensure that accuracy of price adjustments include the following:

- For Price list adjustments (prices contractually tied to a manufacturers price list), buyers review the published price list to verify accuracy.
- For line item increases, buyers sample the documentation provided to support the increase, assess reasonableness, and compare to original contract to determine whether the increase is within the maximum price increase allowed by the contract.
- For price decreases (generally these are prices tied to a market index), SPD relies on the user departments to alert them to a potential price decrease.

Procedures Performed / Results

We requested a list of all price adjustments requested from July 1, 2008 to March 31, 2009, selected a sample, and reviewed documentation to support the price adjustment (ensured it was in accordance with contracts) and determined whether the City Purchasing Agent had approved the price adjustment.

Based on our inquiry, SPD only maintains hardcopy files of all price adjustments rather than maintaining a comprehensive log of price adjustments. SPD provided the hardcopy cover letters for all approved price adjustments from July 1, 2008 to March 31, 2009. Following is a summary of the types of price adjustments.

Bid Splitting / Contract Monitoring

	Type of Price Adjustment			Total
	Line Item	Price List	Decrease	
July 2008	8	4	-	12
August 2008	3	2	-	5
September 2008	4	4	-	8
October 2008	8	2	-	10
November 2008	4	2	-	6
December 2008	4	6	-	10
January 2009	1	5	1	7
February 2009	5	5	-	10
March 2009	2	3	1	6
	39	33	2	74

Based on the price adjustments identified, we selected a sample of 4 line item price adjustments, 4 price list adjustments, and 2 price decreases, obtained the SPD documentation on file to support the respective price adjustment and noted the following:

- All 4 line item price adjustments selected had appropriate documentation to support the price adjustment and were in accordance with the executed contract.
- All 4 of the price list adjustments selected had appropriate documentation to support the price adjustment and were in accordance with the executed contract.
- Both of the price list decreases selected had appropriate documentation to support the price adjustment and were in accordance with the executed contract.

Based on the above, price adjustments appear to be properly approved by SPD and supported by appropriate documentation.

Recommendations

- While no issues were specifically noted, SPD should consider putting a mechanism in place with departments that have contracts with prices tied to a market index to ensure indices are being monitored for situations in which price decreases should occur.
- In order to improve the information available and provide a broad overview of price adjustments, we recommend that SPD maintain a log of approved price adjustments throughout the year. The log should include date approved, vendor name, contract reference information, and type of price adjustment (line item, price list, decrease).

Use of Emergency Purchase Orders

Background

Current controls regarding the use of emergency purchase orders (EPOs) include the following:

- Justification for the EPO must be provided and signed-off by either the respective Department Assistant Director or designee.
- The SPD representative (usually the SPD Deputy Assistant Director) must review and provided a signed approval memo for each approved EPO.
- SPD then enters summary EPO information into a Consolidated EPO log.
- A formal purchase order must still be issued for the EPO.
- Approvals from both SPD and City Council must be obtained within 30 days after receipt of the goods and/or services.

Procedures Performed / Results

We obtained the Consolidated Emergency Purchase Order Log for July 2008 through May 1, 2009 noting 53 manual EPO entries during this period. The log included the following information for each EPO: date, department, contact info, details, supplier/contractor, amount, manual EPO#, SAP PO# and SAP PO amount.

On a random basis, we selected 10 EPOs and obtained documentation supporting the justification for issuing the EPO, and where applicable, validated that formal PO's were issued for these purchases.

- We noted that 1 of our initial 10 requested EPOs had been cancelled and selected an additional EPO to test. We did review email documentation confirmation of the cancelled EPO but observed that the original EPO log we received did not reflect the cancellation.
- Of the 10 EPOs that were not later cancelled, the documentation provided supported the justification for issuing the EPO. In addition, we noted that formal purchase orders had been issued for 5 of the EPOs reviewed. Work was still in progress for 4 of the remaining 5 EPOs reviewed. The 1 remaining EPO is in excess of \$50,000 and has an in progress. Support was provided that documented this request.

Recommendation

On the EPO log, we noted several manual EPO numbers do not have corresponding SAP PO numbers and amounts. In addition, we noted one instance of an EPO that had been cancelled that was not reflected on the log. We recommend that on a monthly basis, SPD review the open EPO log and update for any formal PO's issued and/or cancellations. If a PO is still in progress, that should also be noted on the log. This should help to ensure a complete trail for all EPOs.

Informal Purchases

Background

As previously discussed, individual DPU's are authorized to approve requisitions less than or equal to their respective department's maximum spending authority without having to obtain additional approval from SPD. For requisitions that exceed the DPU's spending authority, the requisition should be reviewed and approved by SPD. SAP should not process a requisition unless it is approved in the system. If a requisition is for an amount in excess of a department's maximum spending authority but below the formal bid threshold of \$50,000, either the DPU or SPD must obtain the proper number of bids.

SPD also functions as the DPU for several departments including Administration & Regulatory Affairs, General Services (non-capital projects), Information Technology (non-capital projects), Houston Emergency Center, the Mayor's Office, and for City Council. For departments in which SPD functions as the DPU, SPD must obtain the proper number of bids. Bid requirements are as follows:

- Purchases less than \$3,000 require only 1 bid
- Purchases between \$3,000 and \$50,000 require 3 bids
- Purchases \$50,000 or greater require a formal RFP

Procedures Performed / Results

We obtained a report from SPD of purchases made during March 2009. This report included separate line items for different material groups included within a purchase order. We sorted the report by Purchasing Org (City Department) and by total price. For each department, we selected one purchase to review for items not purchased with either an associated outline agreement or inter-local agreement and falling between the respective DPU's maximum spending authority and the \$50,000 threshold requiring a formal bid.

Purchase Order Procedures

The following departments did not have informal purchases purchased without use of an Outline or Inter-local Agreement that fell between their respective spending authority and the \$50,000 threshold requiring a formal bid:

Org	Name	DPU Non-Contract Spending Authority Ceiling
1200	Houston Fire Department	\$25,000
1700	Municipal Courts - Jud	\$25,000
2100	Solid Waste	\$25,000
3400	Houston Public Library	\$25,000
4200	Convention & Entertainment	\$25,000
5100	Affirmative Action	\$ 3,000
6000	Controllers	\$ 3,000
7500	City Secretary	\$ 3,000
8000	Human Resources	\$ 3,000
9000	Legal Department	\$ 3,000
COH	Houston Emergency Center	\$10,000

For each of the following Purchasing Orgs (City Departments), we noted purchases made during March 2009 for items not purchased with either an associated outline agreement or inter-local agreement and falling between the respective DPU's maximum spending authority and the \$50,000 threshold requiring a formal bid.

The Purchasing Org and DPU spending authority for each department selected is as follows:

Org	Name	DPU Non-Contract Spending Authority Ceiling
1000	Houston Police Department	\$25,000
1600	Municipal Courts – Adm	\$25,000
2000	Public Works & Engineering	\$25,000
2800	Houston Airport System	\$25,000
3200	Housing & Community Dev	\$10,000
3600	Parks & Recreations	\$20,000
3800	Health & Human Services	\$25,000
7000	Planning & Development	\$20,000
COH	Adm. & Reg. Affairs (SPD is DPU)	\$20,000
COH	Finance (SPD is DPU)	\$20,000
COH	General Services (SPD is DPU)	\$20,000
COH	Information Tech (SPD is DPU)	\$20,000
COH	Mayor (SPD is DPU)	\$ 3,000

For each department above, we selected one purchase and noted the following:

- 2 of the 13 individual purchases selected were part of a group of purchases on a single purchase order that exceeded the \$50,000 threshold for non-contract purchases to be

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approved by City Council. In both these instances, we noted that City Council had approved the motion for the purchase.

- 2 of the 13 individual purchases selected were considered sole source procurements. The required sole source justification letter and certification was on file.
- 6 of the 13 individual purchases selected contained proper bid support documenting the receipt of 3 or more bids in which the low bid was accepted.
- 3 of the 13 individual purchases selected contained proper bid support but for only 1 bid. We noted that all of these instances were for professional services. Per Texas Government Code, Chapter 2254, Subchapter A: Professional and Consulting Services, "This Act states that contracts for the procurement of defined professional services may not be awarded on the basis of bids. Instead, they must be awarded on the basis of demonstrated competence and qualifications ..." Therefore, professional services do not require more than one bid. Not considered an exception.

Based on the above procedures performed, proper bid documentation is being obtained prior to issuance of the purchase order.

Printing of Unapproved Purchase Orders

Background

One of SPD's control mechanisms is that SAP should not allow users to print a purchase order that has not been approved by the appropriate authority designated by the respective Department Director (purchase order release).

Procedures Performed / Results

Using the DPU for the Office of the City Controller, we attempted to print a purchase order that had not yet been approved and noted the following:

On June 12, 2009, using a buyer in the Controller's office, we input a "dummy" requisition to a vendor and unsuccessfully attempted to print the unapproved purchase order.

While we were unable to print the official purchase order, we were able to generate a print preview and related screen print of the purchase order. This copy printed on two separate pages and did include language referring to the print preview. Also, the screen print cut-off the item description of the purchase. However, we noted that the second page did include the electronic signatures of the Mayor, Purchasing Agent, and Controller.

A screen print of an unapproved purchase order that contains the necessary signatures of the Mayor, Purchasing Agent, and Controller could appear to be valid if faxed to a vendor and lead to items being purchased by the City without the proper approval.

Recommendation

SPD should coordinate with the City's ERP team to consider a programming change to SAP that would prohibit the inclusion of the electronic signatures of the Mayor, Purchasing Agent, and Controller until after a purchasing order has been approved.

Designation of Sole Source Procurement

Background

Per the City's Administrative Procedure 5-2, "the procurement of goods and/or services from a single/sole source must be as follows:

- 1) The DPU must first determine whether those goods and/or services are exclusively available from only one source by contacting the manufacturer/supplier.
- 2) If the DPU confirms that the item/service is a single source purchase, a letter must be requested from the manufacturer/supplier which states that the item/service is exclusively available from only one source as confirmed in writing by the manufacturer/supplier. The letter must not be over 30 days old.
- 3) The DPU shall obtain approval from the single point of contact for purchases within the department's spending authority and may issue the PO.
- 4) The DPU shall forward the requisition and manufacturer/supplier's letter to SPD for approval by the City Purchasing Agent and issuance of a PO for purchases in excess of the department's spending authority, up to but less than the State bid law requirement. Single source purchases within the State bid law requirement must be formally bid, in accordance with this administrative procedure and Chapter 242 of the Texas Local Government Code.
- 5) If the DPU confirms that the item(s)/service(s) is/are a sole source purchase, a letter must be requested from the manufacturer/supplier which states that they are the sole provider/supplier of the item(s)/service(s) requested. The letter must not be over 30 days old.
- 6) The DPU shall obtain approval from the single point of contact for purchases within the department's spending authority and may issue the PO.
- 7) The DPU shall forward the requisition, manufacturer/supplier's letter and sole source justification questionnaire to SPD for approval by the City Purchasing Agent and issuance of a PO for purchases in excess of the department's spending authority. Sole source purchases within the State bid law requirement must be approved by City Council."

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Procedures Performed / Results

We noted that sole source procurements less than \$50,000 cannot be identified in SAP. Procurements greater than \$50,000 require a RCA and were therefore able to be identified.

We obtained a list from SPD of all RCAs processed as sole source procurements from July 1, 2008 to March 31, 2009 and noted a total of 12 RCAs. On a random basis, we selected 5 of these sole source procurements and obtained support documentation as to why these were justified as sole-source procurements, noting the following:

- For all 5 items selected, we noted that in accordance with AP 5-2, SPD had the Sole Source Justification letter on file.
- However, for 4 of the 5 sole source procurements selected, the RCA origination date was more than 30 days later than the date of the sole source "justification" letter received from the manufacturer/supplier. Representatives of SPD pointed out that this date could be interpreted as 30 days from the date the respective department DPU identified the need for the item/service, rather than the date of the RCA. In addition, numerous procurements, especially those requiring a well developed scope of work, take considerably longer than 30 days. However, to avoid unnecessary use of resources, a prudent DPU or buyer will want to identify early in the process whether a specific procurement needs to be obtained from a sole source provider or can be bid out.

The Administrative Procedure is not sufficiently clear as to when this 30 day period should be calculated.

The City could be improperly awarding sole source contracts to vendors/manufacturers that provided out of date sole source justification letters and therefore procurements were not competitively bid.

- During our review, we also noted that 2 of the 5 sole source procurements selected for testwork included a Sole Source Certification form signed by the buyer in addition to the letter provided by the manufacturer/supplier to justify why they were sole source.

Recommendations

- Currently, SAP does not provide a way to identify sole-source procurements. We recommend that SPD work with SAP to include a field in which buyer's would be required to indicate which procurements were sole-source, regardless of their dollar amount. This would allow the City to better monitor these purchases and ensure that only appropriate procurements are being made via sole source.
- Further, we recommend that SPD request a change in this administrative procedure to define the time period as the time between the date of the potential manufacturer /

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supplier sole source justification letter and the date that the DPU requests SPD to proceed with either an individual purchase or contract. In addition, we recommend that the number of days be extended to 120 days to accommodate the development of a well-defined scope of work. If this timeframe is exceeded, the DPU would be required to obtain an updated sole source justification letter from the manufacturer/supplier.

- We also recommend that SPD require all manufacturer/supplier's to include this signed Sole Source Certification form along with other justification support provided.

Request for Proposal Procedures

Background

Per the City's Administrative Procedure 5-2 related to Formal Bid Procurement, "formal sealed bids are solicited for purchases with an estimated cost equal to or greater than the State requirement and are processed as follows:

- 1) The Requisitioner or DPU creates and posts a computer requisition, obtains required approvals for the specific purchase or prepares a contract request, and submits to SPD.
- 2) Strategic Purchasing Division conducts a specification workshop (if necessary), assembles the bid package, and requests the City Secretary to advertise the bid in the newspaper.
- 3) Strategic Purchasing Division (as requested), e-mails the formal bid package notice to selected suppliers/contractors.
- 4) Strategic Purchasing Division holds a pre-bid conference and issues bid clarification letters (if necessary)
- 5) City Secretary receives and date-stamps bid response for public reading at a specified time. Delivers the bids to SPD after the public reading and retains a copy of each bid and bid deposit (when applicable), for public viewing.
- 6) Strategic Purchasing Division tabulates the bids and e-mails a copy of responsive bids and the bid tabulation to the DPU for review and award recommendation.
- 7) If all bids are non-responsive, SPD rejects the bids without Council approval in accordance with Section 15-46 of the Code of Ordinance which list three reasons for rejection.
- 8) Departmental Purchasing Unit reviews the bid documents, obtains a decision from the appropriate department personnel, and submits the department's recommendation to SPD.

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9) Strategic Purchasing Division reviews the department's recommendation, and if the recommendation is in order, SPD shall proceed to process the formal bid as follows:

a) Non-Contract Purchases within the Council Approval Authority

- Strategic Purchasing Division shall obtain City Council approval of the award and the Council Motion number approving the award from City Secretary.
- Strategic Purchasing Division issues a purchase order to the successful bidder(s).

b) Supply Agreements

- Strategic Purchasing Division shall obtain City Council approval of the award and the Council Motion number approving the award from City Secretary.
- Strategic Purchasing Division issues a purchase order to the successful bidder(s).
- Strategic Purchasing Division creates an outline agreement in the system.

c) Non-Professional Service Contracts

- Legal Department approves all contract documents.
- Strategic Purchasing Division obtains the supplier/contractor's signature on the contract documents and prepares the ordinance and Request for Council Action for an award.
- Legal Department approves the award ordinance that is submitted to the City Controller for certification of funds.
- City Controller certifies availability of funds and forwards the award ordinance to the City Secretary.
- After City Council approves the award, the City Secretary obtains the required signatures on the contract before forwarding it to the City Controller.
- City Controller encumbers the funds, countersigns the contract, and forwards it to SPD.
- Strategic Purchasing Division issues an award notice to the supplier/contractor's along with a copy of the fully executed contract.
- Strategic Purchasing Division mails a copy of the contract to the DPU and files a copy for audit purposes."

Procedures Performed / Results

We obtained a list of all awarded bids/solicitations for the period from July 1, 2008 through March 31, 2009, noting 121 contracts with a total contract value in excess of \$388 million spread among 24 buyers. These included service, supply, and high-tech contracts. Based on this list, we selected a sample of 20 contracts and performed the following:

- Reviewed to determine if proper bid solicitation approval of specifications was obtained prior to issuance.
- Reviewed the date-stamping of the bids and the public reading to determine whether they were properly received by the City Secretary.
- As applicable, reviewed for approved bid tabulations (both scoring matrix of all bids and summary, best and final offers, department recommendations, appropriate memo to the Legal Department to develop a contract and final request for council action to determine if proper sign-offs in place.
- Verified City Council approval of the award.

One of the items selected did not contain the date-stamping by the City Secretary.

With the exception of the above item which was verbally communicated to management, based on the above procedures performed, SPD appears to have obtained proper bid solicitation approval of specifications prior to issuance of an award, the City Secretary maintains evidence of the proper receipt of bids, the evaluation of bids is proper, and City Council is properly approving awards.

Authorized Use of Procurement Cards

Background

Per the Finance and Administration Department (now Administration & Regulatory Affairs), SPD Standard Operating Procedures No. 07, Purchasing Card Policy and Procedures, revised September 1, 2005, the following definitions apply to P-Cards:

“Purchasing Card: The P-Card is a credit card for small dollar purchases of contract and non-contract goods and/or services required for official City business.

P-Card Program Administrator: The City’s Purchasing Agent or designee within the Finance and Administration Department/Strategic Purchasing Division will serve as the single point of contact between the City of Houston and the P-Card contractor (Bank) for general oversight of the program. (JP Morgan Chase serves as the P-Card Contractor).

P-Card Coordinator: The individual is approved by a department director and shall be responsible for the administration and control of the department’s P-Card program.

Purchasing Cardholders: The individual designated by the department P-Card Coordinator will be issued a P-Card in their name to procure goods and services in accordance with the applicable procedure.

Approving Authority: The individual is responsible for the budget activity level that the cardholder is assigned. This person will be a manager/supervisor in the reporting chain for the individual cardholder.

Executive Order 1-42: Policy and Procedures statement that defines appropriate purchases and outlines expectations and responsibilities for handling overrides.”

Controls used to mitigate the risk of procurement use by unauthorized employees or for unauthorized purchases included the following during the period of our audit:

- The Department requesting a P-Card for an employee completes an Internal Cardholder (Employee) Agreement Form (Internal Agreement Form) which includes the spending limit and spending profile. The SPD P-Card Administrator processes applications for the issuance of P-Cards.
- Merchant restrictions are established through P-Cardholder spending profiles by use of a merchant category code (MCC). The MCC spending profiles are listed on the Internal Agreement Form approved by the Authorized Approver and Department Coordinator.
- Guidelines are established for cumulative dollar limits on P-Cards. The dollar limits are listed on the Internal Agreement Form approved by Authorized Approver and Department Coordinator. The maximum amount of single transaction will not exceed

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\$3,000 and the monthly maximum will not exceed \$10,000 (per Internal Agreement Form).

Procedures Performed for Cardholder Profile Data / Results

We obtained the RPT508 Cardholder Profile data file from the JP Morgan Pathway system which provided a listing of active P-Cardholders as of May 11, 2009. The listing included cardholder name, City department, MCC Group, card limit, single purchase limit, account status, and card expiration date for each of the 1,264 cardholders listed.

On a random basis, we selected a sample of 20 active P-Cards, obtained screen prints of the individual cardholder profile data and Internal Agreement Forms.

For each of the 20 items cardholders selected, we noted the following:

- The individual cardholder profile data matched the RPT508 Cardholder Profile data.
- 18 of the 20 employees selected for testwork had MCC codes that agreed to the Internal Agreement Forms without exception.

The remaining 2 employees selected for testwork had MCC codes included in the approved Internal Cardholder (Employee) Agreements that were not included in the RPT508 form.

- 17 of the 20 employees selected for testwork had overall card limit and single purchase limit dollar amounts that agreed to the Internal Cardholder (Employee) Agreements Forms without exception.

Of the remaining 3 employees selected for testwork, 2 had MCC codes included in the RPT508 form (which represents the MCCs for which they are able to make purchases) that were not included on the approved Internal Cardholder (Employee) Agreements. The other employee had a single purchase limit included in the RPT508 form (which represents the amount a merchant can charge against their card for a single purchase) that did not agree to the approved single purchase limit included on the approved Internal Cardholder (Employee) Agreements.

Causes of Cardholder Profile Data Not Matching the Internal Cardholder Agreements

Per discussion with the SPD Contract Administrator, cardholders with IT included in their spending profile automatically are considered to have the TELE 100 profile which allows them to purchase telecommunications equipment at any telecommunications vendor up to \$100. Beginning in 2005, SPD began adding the TELE 100 MCC profile to all individual cardholders with IT in their spending profile. The intent was to limit cardholder's ability to purchase cell phones from any telecommunications vendor rather than utilizing the City's contract for these types of purchases. However, no communication of this change in policy exists to formally make this policy change.

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Causes for other MCC codes, single purchase limits, or overall card limits not matching the JP Morgan Pathway system are due to SPD not ensuring that the approved Internal Cardholder (Employee) Agreements forms match the system.

As a result, certain P-Cardholders may be able to purchase items they are either unauthorized to purchase or are in excess of the authorized dollar limits. Conversely, they may have been authorized to make certain purchases and then have their cards declined at the time of the transaction which reduces the efficiency of the P-Card process.

Procedures Performed for MCC Purchases outside of approved MCC codes and/or dollar limits / Results

- We selected one P-Card from the Controller's Office noting the following:

CH Last Name*	CH First Name*	CH MCC Group	Card Limit	Single Purch Limit	Acct Status	Expiration Date
XXXXX	XXXXX	ITCOH, OFFICECOH, SPEVENT, TELE100, FIELDOP	\$10,000	\$3,000	Open	200910

* name redacted

- On June 12, 2009 we attempted to make an on-line purchase for an airline ticket, which is an MCC code for which the cardholder was not approved. When we attempted to pay for the item, we received an error message from the provider that they were "unable to verify and/or charge your Credit Card. Please modify your Payment Information or use a different credit card."

Based on the above, the system properly did not allow us to complete the transaction.

- On June 12, 2009, we also attempted to make an on-line purchase for office supplies, an MCC code for which the cardholder was approved, first for \$339.50, an amount less than the \$3,000 single purchase limit the cardholder was authorized, and then for \$3,395, an amount in excess of the single purchase limit dollar amount for which the cardholder was authorized.
- The system properly allowed us to complete the transaction for \$339.50 but did not allow us to complete the transaction for \$3,395.
- On June 12, 2009, we also attempted to make four on-line purchases for office supplies, an MCC code for which the cardholder was approved, that cumulatively exceeded the card limit of \$10,000 for which the cardholder was authorized.

The system properly allowed us to complete the first three transactions, for \$2,987.60, \$2,953.65, \$2,919.70 but did not allow us to complete the fourth transactions for \$2,885.75, which would have been a cumulative purchase amount of \$11,746.70, which exceeds their card limit of \$10,000.

Recommendations

- Per discussion with the SPD Contract Administrator, cardholders with IT included in their spending profile automatically are considered to have the TELE 100 profile which allows them to purchase telecommunications equipment at any telecommunications vendor up to \$100. Beginning in 2005, SPD began adding the TELE 100 MCC profile to all individual cardholders with IT in their spending profile. The intent was to limit cardholder's ability to purchase cell phones from any telecommunications vendor rather than utilizing the City's contract for these types of purchases. However, no communication of this change in policy exists to formally make this policy change. We recommend that the City Purchasing Agent formally adopt and communicate this change in policy.
- To ensure that proper control is maintained over P-Cards and that unauthorized purchases are not taking place, we recommend that SPD implement a quality control process to ensure that all information regarding card limits and cardholder spending profiles is supported by approved Internal Cardholder (Employee) Agreements on file.

One Time Overrides

Background

Per the City's Administrative Procedure 5-2, "Emergency Purchase Orders (EPOs) in excess of a department's spending authority shall be issued by SPD. Requests for EPOs will be approved only if sufficient justification exists in accordance with the criteria contained in the Texas Local Government Code and Executive Order 1-14.

If informal bids can be obtained in time to address the emergency, proper informal bidding procedures must be followed when issuing EPOs. The following procedures shall apply in processing emergency requests:

- 1) The DPU reviews the justification and verifies that an emergency exists.
- 2) The DPU creates and posts a computer requisition, obtains required approvals, and solicits bids. If the nature of the emergency does not permit the solicitation of bids, the written approval of the single point of contact is required.
- 3) The DPU submits the requisition and justification form to SPD.
- 4) Strategic Purchasing Division documents to determine if an emergency is warranted.
- 5) Strategic Purchasing Division issues and posts an EPO.

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- 6) Strategic Purchasing Division issues the EPO to the successful supplier/contractor, forwards a copy to the DPU, and files a copy of the EPO documents for audit purposes.
- 7) The DPU forwards a copy of the purchase order to the end user(s) and retains its copy.
- 8) Strategic Purchasing Division obtains City Council approval for EPOs equal to or greater than the State bid law requirement, within thirty days after receipt of goods and/or services or receipt of a valid invoice, whichever is later.
- 9) Strategic Purchasing Division obtains City Council approval before issuing EPO if the nature of the emergency permits obtaining such approval.”

SPD has established merchant restrictions through P-Cardholder spending profiles (merchant category code). If a P-Cardholder wishes to make a purchase outside of their established profile, the P-Cardholder must first obtain an approval from their departmental P-Card Coordinator (PCC). The PCC forwards this to the SPD P-Card team to obtain a temporary override. This override is actively turned on and then must be actively turned off in the JP Morgan Pathway system by the SPD P-Card team. The SPD P-Card team records the requests for temporary overrides in a log.

Procedures Performed / Results

We obtained the log of one-time overrides from July 1, 2008 through April 30, 2009 from SPD, noting 378 overrides were recorded during this time period. We randomly selected ten overrides and noted the following:

- Nine overrides were traced to emails noting approval by the SPD P-Card Team
 - Four of the nine overrides were traced to e-mails (requesting/approving overrides) forwarded by the PCCs to the SPD P-Card team.
 - The remaining five overrides were traced to e-mails (requesting/approving overrides) forwarded by department employees (not the P-Cardholder) to the SPD team.

For the nine overrides noted above:

- For six of the nine overrides noted above, we verified that the current profile in the JP Morgan Chase pathway system does not reflect the MCC code override as an allowable MCC code and/or dollar limit.
- For the remaining three overrides we noted that the current profile in the JP Morgan Chase pathway system does reflect the MCC code override as an allowable MCC code within the MCC group category. We then agreed these allowable MCC codes to approved P-Card Agreement Forms. Therefore, it

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appears that the P-Cardholders did not need to obtain override approval for these transactions.

- Based on our review of e-mails to/from the P-Cardholder and the SPD P-Card team, the remaining override listed was not an override but instead a correction of a profile blocked in error. This was not considered an exception.
- Per discussion with SPD representatives, we noted that SPD does not provide reports of override activity to Departments.
- The SPD P-Card team can make changes to MCC codes included in MCC group categories by sending an email or calling JP Morgan Chase. MCC codes may be included in MCC group categories that have not been authorized by SPD Management resulting in expenditures that should not be made by P-Cardholders.

Recommendations

- P-Cardholders requesting override approval for transactions that they are already authorized in the JP Morgan Chase system create additional emails within the departments and with SPD which results in lost productivity and inefficiency. If requests for overrides are received by the SPD P-Card team for items that P-Cardholders are already authorized to purchase, the P-Card team should notify the cardholder they are already authorized to purchase the item. Since this is not an override, the override request does not need to be recorded in the override log. If override requests continue from certain departments, notification should be sent to the cardholders in the department reminding them that override requests be sent only when required.
- We recommend the preparation of a list of approved overrides by Department be forwarded to each respective department (Assistant Directors and P-Card Coordinators) on a monthly basis. Departments may or may not be comfortable with the number and types of overrides issued each month. In some cases, an additional MCC group category may be added for certain P-Cardholders resulting in less time (cost savings) spent on overrides by the Department and SPD P-Card Team.
- In order to adequately control MCC codes included in MCC group categories, the following procedures should be implemented:
 - JP Morgan Chase should be instructed only to make changes to MCC codes in MCC group categories based on written authorization by designated members of SPD management.
 - JP Morgan Chase should be requested to provide a detail listing of MCC codes in MCC group categories in the JP Morgan Chase system on a periodic basis. SPD should reconcile JP Morgan Chase's detail listing to SPD's detail listing to ensure completeness of JP Morgan Chase's database.

Reconciliation of Procurement Cards

Background

Reconciliation of P-Cards to the General Ledger included the following procedures during the period of our audit:

- On a monthly basis, SPD sends each respective DPU their individual Monthly P-Cardholder statements and a Transaction Summary Report detailing monthly P-Card activity. Each DPU goes into the JP Morgan Chase pathway.net program (Pathway) and reviews monthly activity for accurate coding (including proper cost center, correct general ledger account, charging current contracts and internal work order coding where appropriate) of P-Card transactions. They normally have approximately 5 days as a "courtesy period" to make any necessary changes, which helps to reduce errors when the files are loaded into production. No formal notification of this review is sent to SPD.
- After this courtesy period, SPD downloads P-Card transactions into I099 Contract Purchases and I100 Non-contract purchases text files. SPD then loads P-Card transactions into test files (TRA) to identify potential coding errors of P-Card transactions. The errors identified by SAP are investigated and corrections are made by SPD to the P-Card transactions file. SPD will correct what they are able to identify but request the respective department's assistance for many of the corrections.
- SPD loads P-Card transactions into the production files (PRA) at month end to identify coding errors of P-Card transactions. P-Card transactions with no errors are recorded in SAP. P-Card transactions with errors are not recorded in SAP and are identified in an e-mail to SPD. The errors identified by SAP are investigated (with assistance from DPU's) and corrections are made by SPD to the P-Card transactions file. After corrections are made the P-Card transactions (errors noted) are loaded into SAP. The process continues until all errors are resolved.

Procedures Performed / Results

We obtained the reconciliation of both IO99 Contract Purchases and I100 Non-contract purchases files for March 2009 and noted the following:

- The text file I099_PCARD_PO_20090427_133004_March 2009-A.txt contained 51 pages of individual transaction detail.
- SAP report EO92067 5/11/2009 I099_PCARD-PO-20090427_133004_March2009-A.txt noted the following:

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Purchase Order Transactions:

Transactions in File	50	758,178.29
Transactions converted	49	758,045.29
Transactions posted	49	758,045.29
Transactions conversion errors	1	133.00
Transactions posting errors	0	0.00

Invoice Transactions:

Transactions in File	41	765,253.82
Transactions processed	41	765,253.82
Transactions posting errors	0	0.00

The report contained a detailed success log including respective contract no., SAP PO No., Invoice No., Year, and Amount.

Furthermore, the report noted 1 Validation Error for the 133.00 noted above. The error message was “Contract 4600009564 does not have item 1 to get Material group”

Based on his review and investigation, the SPD P-Card Administration Manager converted the item from an IO99 Contract to an I100 Non-Contract and reloaded the transaction. No further exceptions were noted.

- SAP report EO92067 5/11/2009 I100_PCARD-JE-20090427_133004_March2009.txt noted the following:

Account Summary:

No of Transactions in the File	329	1,187,231.75
Transactions converted	328	1,186,425.32
Transactions processed	328	1,186,425.32
Transactions conversion errors	1	806.43
Transactions posting errors	0	0.00

The report contained a detailed success log including respective transaction #, Type, SAP Document #, and Amount.

Furthermore, the report noted 2 Validation Errors for the 806.43 noted above. We noted that the error was for 2 different items #'s on the same transaction. The error message was “Business Area (000) not valid in SAP.

Based on his review and investigation, the SPD P-Card Administration Manager corrected the data format and reloaded the transaction. No further exceptions were noted.

- We also obtained a screen print from SAP dated 5/15/09 which included the two transactions noted above, totaling 939.43 on the Validation Report success log.

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- We also reviewed an email from the Controller’s Office Financial Reporting Division that noted the following:

“. . . From reports I100 and I099, there was only 1 P-Card error from each report for a total conversion error of \$939.39. (I099 in the amount of \$133 and I100 in the amount of \$806.43) However there is a slight difference of \$49.62 (compared to the Bank Statement) . . .”

- Based on his review and investigation, the SPD P-Card Administrator Manager identified two purchases totaling the \$42.62 that initially referenced a contract that either had run out of funding or expired. He converted the items from an IO99 Contract to an I100 Non-Contract and reloaded the transaction. No further exceptions were noted. We reviewed an email from the Controller’s Office Financial Reporting Division that noted that the \$42.62 posted on June 5, 2009.
- Based on the above, we noted that the March 2009 P-Card activity was reconciled to the general ledger.

Remaining Year to Date Reconciliation Issue

While P-Card activity for March 2009 was reconciled to the general ledger, differences between the bank EFT and the expense charged to the general ledger at month-end have not been completely resolved since July 2008. As of June 11, 2009, the total cumulative unresolved net differences dating back to July 1, 2008 were \$47,413.69.

This is based on total YTD EFT’s:	\$22,055,110.58
Total amount booked to P-Card:	<u>\$22,007,696.89</u>
Amount needed to reconcile	\$47,413.69

These cumulative unreconciled amounts need to be cleared in order to properly close out fiscal year 2009 activity and ensure that all P-Card expenses are charged to the proper departmental budget.

Per discussion with SPD representatives, we noted that the previous P-Card Administrator left the City in July 2008 with very little transition/training time provided to other individuals with SPD. The individuals who took over this process had to learn “on the fly” and have been in “catch-up” mode throughout fiscal year 2009. There are dozens of individual file loads that they have to comb through to identify potential errors that contributed to the remaining unresolved differences.

Recommendations

Based on our procedures performed, we make the following recommendations to improve both efficiency and effectiveness of the reconciliation of P-Card activity to the general ledger:

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Monthly Checklist

Purchasing Card Coordinator's or others responsible for the input of P-Card receipts into SAP should always check the Active Contract Roster. DPU's should complete a monthly checklist (provided by SPD) that includes the following items that can be adjusted in the JP Morgan Pathway system:

- proper cost center,
- correct general ledger account,
- proper charging of current contracts, and
- internal orders properly coded.

Monthly Update

Update the TRA test files before the end of the month process begins. Using current files should reduce the identified errors resulting from timing differences.

Ensure an audit trail is maintained for all adjustments

The SPD Administration Manager for P-Cards should maintain a monthly log of unreconciled items. As adjustments are posted to clear previously unreconciled items, these adjustments should be kept in the log to maintain a clear trail of the specific month the adjustment relates and the balance remaining to be reconciled.

This log should be compiled retroactively for FY09 for the Financial Reporting Division to be able to respond to external auditor requests. In addition, all cumulative unreconciled amounts need to be cleared in order to properly close out fiscal year 2009 activity and ensure that all expenses are charged to the proper department budget.

Employee Training

Background

P-Cardholders are required to attend training when they are initially issued a card. In addition, when are renewed every two years, they are required to attend additional training in order to receive their replacement card

When a department P-Card Coordinator is first named, they are required to attend training with SPD.

Procedures Performed / Results

We obtained a list of active P-Cards downloaded from the JP Morgan Chase system which included the expiration dates of each respective card. We noted 222 P-Cards with expiration dates of April 2011 (issued in April 2009) that were issued during the period

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from July 1, 2008 to April 30, 2009. We noted that most P-Cards were issued with an expiration date of October 2009 or April 2011.

We selected five employees (one each from five departments) who had obtained a P-Card during this period and agree their names to the P-Card refresher course training class logs during this period without exception.

Work Planned

We also requested a list of new P-Card Coordinator's added since July 1, 2008 and planned to verify that they had attended training. However, per SPD representatives, there were no changes among the P-Card Coordinator's during our audit period. As such, there were no items to test from the current year. We further noted that SPD does not keep documentation on file of when the designated department Coordinator's most recently attended training.

Recommendation

- SPD should retain records of when all designated departmental P-Card Coordinators most recently attended training.
- In addition, SPD should consider requiring designated P-Card Coordinators to attend a refresher P-Card Training class once every 2-3 years. Classes are approximately one hour and are available once per month.

Fraudulent or Disputed Procurement Card Transactions

Background

Executive Order 1-42 states the following with regard to unauthorized use of the purchasing card:

“Any purchases that the Department Management or the Purchasing Card Administrator deems inappropriate as outlined in this procedure will be referred back to the P-Cardholder for justification and/or explanation. If any unauthorized changes appear in the P-Cardholder's Monthly Statement, the P-Cardholder will be subject to the following:

- The Purchasing Card Administrator will investigate all circumstances surrounding alleged misuse of the P-Card and in such cases where there is evidence substantiating a procedure or policy violation, refer that information to the appropriate authority for investigations and/or disciplinary action.
- In those cases where there is evidence of negligence in the use of the P-Card but no fraudulent acts have been committed, the P-Cardholder will be required to surrender the P-Card and all further privileges revoked for the period of time established by the City Purchasing agent.”

Procurement Cards

Executive Order 1-42 states the following with regard to disputed items:

“Disputes, whenever possible, should be resolved promptly between the P-Cardholder and the supplier.

P-Cardholders should dispute an item immediately. Failure to dispute an item will result in an authorized purchase and the department will be responsible for the payment even if it is an incorrect charge.”

SPD utilizes the following for any disputed alleged unauthorized use transactions using P-Cards:

- P-Cardholder completes a Dispute/Resolution Form for disputed transactions. The form is signed by Approving Manager and Department P-Card coordinator. The completed form is then forwarded to SPD.
- P-Cardholder completes a Declaration of Forgery or Unauthorized Use Form. The form is signed by the Approving Manager and Department Coordinator. The completed form is then forwarded to SPD.
- P-Card Administrator will investigate all circumstances surrounding alleged misuse of the P-Card and where appropriate, refer that information to the appropriate authority for investigation and/or disciplinary action.

Procedures Performed / Results

Per review of information provided and discussions with the SPD P-Card Team, SPD does not monitor or receive all P-Card Dispute/Resolution Forms. The departments are responsible for disputing charges and working with the bank to resolve any disputes. If SPD receives Dispute/Resolution forms from the departments, SPD will forward to JP Morgan Chase.

Monthly Statements

We obtained JP Morgan Chase statements for the period from July 2008 to March 2009 and noted that while a disputed amount total was included, no individual transaction details were listed. As a result, we were unable to trace disputed items to supporting documentation in SPD’s files for the months of November and December 2008, and April 2009.

However, we noted only one disputed item was included statements for the months of September and October 2008 in the amount of \$1,131.27, and the again for the months of January, February, and March 2009 for the same amount of \$1,131.27. Supporting documentation for this disputed item was not in SPD’s files. However, documentation provided by the Fire Department indicated that this item was resolved in November 2008.

Procurement Cards

When a member of the SPD P-Card team contacted the bank during our audit procedures in June 2009, the bank indicated they would remove the amount from the listing of disputed charges.

Individual Disputed Items

We obtained from SPD a list of 25 disputed amounts for which SPD received Dispute/Resolution Forms from the City departments. We selected five of these disputed amounts and noted that all five of the forms properly contained the signatures of the respective department approving manager and Departmental Purchasing Coordinator.

Recommendation

While the outstanding disputed items noted during our procedures were resolved, a back log of disputed P-Card amounts could result in difficulties in clearing old outstanding amounts if not addressed in a timely manner. We recommend that SPD maintain a detailed list of disputed items included on the monthly JP Morgan bank statement and monitor resolution of disputed amounts listed on the statement that are in excess of 30 days old.

Lost, Stolen, or Cancelled Procurement Cards

Background

Executive Order 1-42 states the following with regard to a lost or stolen purchasing card:

“When it is determined that a P-Card has been lost or stolen, the P-Cardholder must contact the Bank at the Bank’s toll-free number to report the status.

The P-Cardholder will complete a Purchasing Card Lost/Stolen Card Form and forward the form to the P-Cardholder’s Approving Manager for signature for subsequent submission to the P-Card Administrator through the Department P-Card Coordinator.

It is imperative to cancel the card immediately because the City’s liability on lost or stolen cards is not capped. The City is liable for all charges until the card is reported lost or stolen. Thus, the P-Cardholder to whom the P-Card is issued will be responsible for all charges made against the P-Card from the time it is lost or stolen and until the Bank is notified.” When a Purchasing Card Lost/Stolen Card Form has been completed, it is forwarded to the SPD P-Card Team.

Procedures Performed / Results

We obtained from SPD a list of cancelled cards from July 1, 2008 through April 30, 2009 and noted 180 cancelled cards were recorded on the list during this time period. We selected ten cancelled cards; requested documentation related to these cards, and noted the following:

Procurement Cards

- One card was identified as lost and SPD provided the related properly approved Internal Lost/Stolen Card Form.
- Seven cards were cancelled due to various reasons and SPD provided an approved Purchasing Card Information Form that detailed the profile change.
- Two cards were cancelled by JP Morgan Chase due to card data that was compromised and SPD provided both the Purchasing Card Information Form that detailed the profile change and the supporting e-mail from JP Morgan Chase.

We also obtained a report performed by the Audit Division of the City of Houston Controller's Office dated June 25, 2009 relating to a Public Works and Engineering Department Purchasing Card Activity Compliance Audit and noted the following with regard to lost or stolen purchasing cards:

“EO 1-42: Purchasing Card Policy and Procedures (P-Card), Sections: (18.0) states, “When it is determined that a P-Card has been lost or stolen, it is imperative to cancel the card with the Bank 1-800 number and then notify the Department Purchasing Card Coordinator on “Lost/Stolen Form” to be forwarded to the P-Card Program Administrator. (Exhibit 2) The Cardholder will complete a Purchasing Card Lost/Stolen Card Form and then forward the form to the Cardholder's Approving Manager. It is imperative to cancel the card immediately because City's liability on lost or stolen cards is not capped. The City is liable for all charges until the card is reported lost or stolen. Thus, the Cardholder to whom the P-Card is issued will be responsible for all charges made against the P-Card from the time it is lost or stolen until the Bank is notified”

We reviewed three instances of lost/stolen P-Cards for three P-Cardholders and we noted the following:

- a) Two of the three lost/stolen cards were not reported on Internal Lost/Stolen Card Forms as required by EO 1-42.
- b) Purchasing Card Information Record Forms were not completed to cancel one of the three lost/stolen cards.
- c) An Internal Cardholder (Employee) Agreement Form was not completed to replace one of the three lost/stolen cards.”

Recommendation

Department management needs to ensure that all lost/stolen P-Card incidents are reported timely and documented adequately.”

We concur with the recommendation made above by the City Controller's Office Audit Division.

Procurement Card Transactions Exceeding \$50,000 within One Department

Background

As noted earlier in this report, non-contract purchases from a vendor using a combination of P-Cards and/or other informal procurement purchases exceeding \$50,000 would not be in compliance with the State of Texas Statutes related to competitive bidding.

Per discussion with SPD representative, SPD looked into this in 2007 and developed an action plan to establish contracts for frequent use vendors and encouraged DPU's to encourage P-Cardholders to utilize existing contracts.

Furthermore, the Assistant City Purchasing Agent provides a quarterly report of non-contract purchases by department by vendor (in excel) that is distributed to all department designees via e-mail who can then analyze.

Procedures Performed / Results

Review of Work Performed by the Audit Division of the Office of the City Controller

Inquiry of representatives from the Controller's office revealed one report resulting from work performed by the Controller's office during FY09 relating to instances of P-Card transactions exceeding \$50,000 within one department. We obtained a report performed by the Audit Division of the City of Houston Controller's Office dated June 25, 2009 relating to a Public Works and Engineering Department Purchasing Card Activity Compliance Audit and noted the following:

“During our review of the PWE P-Card transactions for the audit scope period (July 6, 2007 through July 5, 2008), we noted P-Card purchases of \$73,642 and \$55,642 respectively from two non-contract vendors. We also noted this to be a repeat finding for the third consecutive year since the two vendors mentioned above were listed as two of the merchants that exceeded the \$50,000 limit in the PWE's Internal Review Section's annual review for the years ending July 5, 2006, July 5, 2007 and on this most current report. The audit team recognizes the progress made by the Department in reducing the number of vendors exceeding the \$50,000 threshold over the previous three years.

Department management needs to improve controls so that when P-Card expenditures approach the \$50,000 limit, further purchases from these vendors are not allowed.”

Recommendation

We concur with the sentiment of the finding and recommendation noted by the Audit Division of the Office of the City Controller above. We refer to our earlier recommendation related to the identification of potential bid-splitting situations as implementation of this recommendation would also address P-Card expenditures that exceed the annual \$50,000 limit.

Procurement Cards

Quarterly Report of Non-Contract Purchases by Department by Vendor

We attempted to review the distribution and the quarterly reports of non-contract purchases by department by vendor (in excel) that is distributed to all department designees via e-mail. However, per discussion with the Assistant City Purchasing Agent, SPD does not retain records of their distribution of this report.

We did obtain the quarterly report of non-contract purchases by department by vendor for each of the first three quarters of fiscal year 2009 and performed the following:

- Noted that each individual quarterly report contained columns for Business Area (department), Merchant Name, Transaction Amount, Number of Transactions, and MCC Description.
- Combined the data from each of the three quarters into one excel file noting 25,466 individual line items during this period.
- Created a pivot table based on merchant name that included both the count of the Merchant Name, and cumulative dollar amount of all transactions across the City related to the respective merchant. Based on the pivot table, we noted the following merchants whose year to date dollar amount of all transactions across the City exceeded \$35,000 through March 31, 2009:

#	Merchant Name	Count of Merchant Name	Sum of Transaction Amount
1	5 STAR EVENT SERVICES	12	\$ 455,703.70
2	MELANGE CATERING	9	\$ 282,088.25
3	HILTON HOTEL AMERICAS	27	\$ 170,470.97
4	HOTEL ZA ZA	5	\$ 162,934.23
5	BENNIE FERRELL CATERIN	2	\$ 146,590.00
6	HOUSTON PLAZA HOTEL	3	\$ 124,805.00
7	UNITED SITE SVCS TX	2	\$ 76,430.00
8	A QUICK MAINTENANCE	76	\$ 74,032.11
9	HOUSTON SAW AND KNIFE	135	\$ 73,995.17
10	SYSCO FOOD SERVICES OF	9	\$ 62,077.38
11	PURVIS INDUSTRIES	133	\$ 58,602.34
12	THE HOME DEPOT 6509	644	\$ 57,797.03
13	DSHS EMS 2	692	\$ 51,536.00
14	GLAZIER FOODS COMPANY	1	\$ 43,072.56
15	JOHNSTONE SUPPLY HOUST	266	\$ 41,022.88
16	SAMSClub #6465	14	\$ 40,774.08
17	WM SUPERCENTER	76	\$ 38,988.39
18	FRY'S ELECTRONICS#23	163	\$ 38,649.54
19	COMCAST OF HOUSTON	56	\$ 35,517.99

It should be noted that many different legitimate business reasons may support the use of P-Cards for the above purchases.

Recommendations

- We recommend that SPD review the above purchases which were made using P-Cards to determine if potential future purchases should be made using a contract.
- Furthermore, we recommend that SPD perform this analysis on a quarterly basis to identify potential situations in which the City should consider putting a formal contract in place with a vendor in an effort to increase the efficiency of future purchases and obtain more favorable pricing.
- In conjunction with the review for clusters of purchase orders with a specific company for informal contracts that resulted in purchases with one vendor aggregating over \$50,000 in one year, SPD should also consider the effect of P-Card purchases with the respective vendor.
- We also recommend that SPD retain records of their distribution of the quarterly report of non-contract purchases by department by vendor that is distributed to all department Designees. In addition, SPD should include YTD columns in addition to only the activity for the most recent quarter in these reports.

Division Metrics

During the summer of 2008, at the request of the Administration & Regulatory Affairs Division, SPD identified their mission and vision as follows:

SPD's stated mission is "to manage, facilitate, and provide the highest quality, value-added procurement services that exceed the needs and expectations of our customers." Its vision is "to become the premier lead in governmental purchasing, by providing best value, quality, timely and customer focused service"

In order to execute this vision, SPD outlined several goals with related measures and targets for it to achieve. A summary of these is posted throughout SPD's physical location in the basement of City Hall. See Exhibit I for a copy of the posted metrics. We considered each of these metrics as follows.

Customer Satisfaction Survey Process

SPD Goal

We create a professional environment that provides team based customer service, a customer-friendly culture, accurate and no excuse customer service.

Measures / Targets

- Develop Baseline Customer Satisfaction Survey by December 2008
- Increase Customer Satisfaction by 10%

SPD's Process

SPD began distributing customer satisfaction surveys to its customers beginning in March 2009. Distribution of a survey is triggered when a new contract is placed on the City Council agenda for approval. The respective SPD buyer will email the survey to the vendor/supplier who was recommended to be awarded the bid and to all City individuals who attended the specification workshops during the bid preparation phase. Therefore, multiple survey responses can potentially be received for the same contract. Survey respondents have the option to send the completed survey back via e-mail, fax, or inter-office mail to the respective buyer's manager/supervisor within SPD. The SPD manager/supervisor will review all surveys received with the respective buyer and place in their file to be used during the annual employee evaluation process.

Procedures Performed / Results

Results of Surveys Received

We requested the results of all SPD customer satisfaction surveys received year to date and received 25 completed surveys as of June 15, 2009. Each survey requested that the respondent identify the SPD Buyer, the Project Name/Number and the Buyer Manager.

Division Metrics

We noted that 13 of the respondents completed only page one of the two page survey and 12 of the respondents completed both pages. The second page contained questions related to Service and Environment and requested comment on “all ratings that are below average.”

Introductory language on the survey stated that “When completed, please submit survey to Buyer’s Manager (listed below) by e-mail or inter-office mail. All completed surveys shall remain confidential.”

See results as follows:

Product Quality	Number of responses *
1 For which procurement section of the Strategic Purchasing Division (SPD) are you providing feedback?	
Formal/One-Time/Fleet	9
Service Contracts	8
Hi-Tech	3
Construction	3
Supply Contracts	0
Other/Not Sure	2
2 How would you rate the quality of your initial contact with SPD?	
Consistent high quality	24
Generally good	1
Quality varies daily	0
Poor quality	0
3 Please identify your affiliation with the City of Houston (COH).	
City Staff/Non-management	3
City Staff/Management	8
Department Head/DPU	3
Vendor/Supplier	11
Potential Vendor/Supplier	0
Other	0
4 Please rate the overall quality of your experience with the SPD buyer's management of your recent project, contract or other service deliverable.	
Superior throughout	21
More than satisfactory	3
Satisfactory	1
Less than satisfactory	0
Poor	0

Division Metrics

- 5 How informative and effective was the SPD staff member who assisted you?

Superior throughout	22
More than satisfactory	1
Satisfactory	2
Less than satisfactory	0
Poor	0

- 6 Did the buyer demonstrate leadership?

Yes, from the beginning of the procurement	24
Yes, reluctantly	0
No, at no time during the procurement	0
No, for unknown reason	0
No opinion	1

- 7 Do you feel that SPD staff members have the right combination of written and/or oral skills to adequately perform their jobs?

Always	19
Usually	6
Sometimes	0
Never	0

- 8 Do you feel that SPD is committed to long-term relationships with vendors/suppliers, demonstrating a commitment to quality, cooperation and less confrontational methods of problem solving?

Always	22
Usually	3
Sometimes	0
Never	0

Service and Environment

- 9 How quickly did the SPD staff member respond to your initial inquiry?

Immediately/same day	11
Next day	1
Within two days	0
Within one week	0
More than one week	0
No response at all	0

Division Metrics

- 10 Was there any part of the procurement that was particularly difficult due to inaction/incorrect procedure by the buyer/staff?

Specifications	1
Workshop/meeting issues	0
RFCA issues	0
Purchase Orders/Contract problems	0
Other	2

- 11 Were potential issues with your procurement/request identified and were you offered assistance with its resolution?

Yes, in the initial stages	11
Yes, when pointed out to the buyer	0
Never during the procurement	1
Don't recall	0

- 12 How responsive is SPD in accessibility via e-mail, telephone, fax, etc.?

Excellent	9
Above Average	2
Average	1
Below Average	0
Unsatisfactory	0

- 13 Which rating would you give to SPD for its overall performance?

Excellent	11
Above Average	1
Average	0
Below Average	0
Unsatisfactory	0

- 14 Would you like a purchasing supervisor/manager to contact you?

Yes	1
No	10

Additional Comments

XXXX** has been a pleasure to work with. We can thank him and XXXX for helping get swimming pools open this summer.

Working with XXXX** has been a very good experience. She is detail oriented, quick to respond to questions, and very fair in dealing with problems while keeping the City's best interest at heart.

* Some questions were skipped by respondents.

** Name was redacted.

SPD's Progress toward Attaining their Stated Target

Due to the survey process not beginning until March 2009, there is not a baseline or other metric to determine if SPD has increased customer satisfaction by 10%.

Recommendations

- SPD should review the results of the surveys received to date and take action to address any items receiving less than satisfactory responses. SPD should ensure that it contacts any respondents who checked yes to the question "Would you like a purchasing supervisor/manager to contact you?"
- SPD should consider asking the following additional questions in its survey:
 - Do you believe the purchase was made at a competitive price?
 - Was the item/service delivered/provided within the required timeframe?
 - Did the quality of the item/service purchased meet your expectation?
- SPD should consider using an on-line survey tool that can be purchased for a nominal cost. These survey tools allow users to quickly create online surveys and provide user-friendly reporting mechanisms. Questions can be in multiple forms (multiple choice, rating scales, drop-down menus, etc.), and can control the question flow with custom skip logic based on responses to previous questions. This would allow SPD to tailor certain questions based on the type of procurement (i.e. Hi-Tech procurements may have different questions compared to Service Contracts). Results can be viewed as they are collected in real-time and can be viewed as live graphs and charts and well as summary collections of open-ended responses.

Using an on-line survey tool would free up SPD resources currently needed to compile the results of the surveys and provide for an efficient way to view survey results at any point in time. SPD could then quickly analyze survey trends over time and provide an easy way to compare against its stated metric of increasing customer satisfaction by 10%. In addition, use of an on-line survey tool would assist in ensuring that all survey results are captured in a consistent manner.

- If SPD sets a performance metric goal, it should determine a method to track and determine if this goal has been met. Without a baseline measurement with which to compare, SPD does not currently have a method to determine if they have met their goal of increasing customer satisfaction by 10%.

Division Metrics

Time Taken to Award Contracts

SPD Goal

We use the most effective procurement methodologies to improve the process and yield the best value.

Measures / Targets

Decrease average time taken to award contracts to 120 days or less.

SPD's Process

During the period of our audit, SPD's process was to obtain the council agendas for each month to determine the contracts awarded during the month. One of two SPD individuals, either a staff analyst or Administrative Assistant reviewed the posted City Council agenda and prepared a summary of items relating to contracts that were on the agenda to be awarded.

For each awarded contract, they reviewed the on-line project status reports to obtain the number of days it had taken to award each respective contract. For contract amendments, they often had a verbal conversation with the respective buyer to determine the length of time to award. No other documentation was obtained. The number of days to award was handwritten on the summary agendas. At the end of each month, they manually tabulated both the number of bids/awards approved during the month and the total number of days to award for the respective month. Manual calculations were performed to determine the following:

- Total bid/contract awards to date
- Average days to award/all items to date
- Average time to award for MONTH 200X

This information was then e-mailed to a representative in the Finance department.

Division Metrics

Procedures Performed / Results

We reviewed a chart prepared by SPD summarizing the year to date results through May 2009. Per this chart we noted the following:

	Total Bid/Contract Awards To-Date*	Total Days to Award for All Awarded Items**	Average Time to Award for Subject Period***	Average Time to Award for All Items To-Date****
Period 1 - July 2008	16	1,917	119.81	N/A
Period 2 - August 2008	14	2,597	185.50	150.47
Period 3 - September 2008	6	563	93.83	141.03
Period 4 - October 2008	29	4,525	156.03	147.72
Period 5 - November 2008	16	2,685	167.81	151.69
Period 6 - December 2008	29	4,478	154.41	152.41
Period 7 - January 2009	16	3,747	234.19	162.79
Period 8 - February 2009	25	2,257	90.28	150.79
Period 9 - March 2009	22	2,296	104.36	144.88
Period 10 - April 2009	27	3,109	115.15	140.87
Period 11 - May 2009	17	1,934	113.76	138.75
YTD Totals	217	30,108	138.75	

* Based on weekly agenda results

** Based on data from Project Status Log

*** Total Days to Award for All Awarded Items divided by Total Bid/Contract Awards to Date

**** Aggregate of Total Days to Award for All Awarded Items divided by the aggregate of Total Bid/Contract Awards to Date

We selected March 2009 and performed the following:

Per SPD's records, we noted 22 bid/contract awards during the month. We obtained the summary council agendas used by SPD and requested copies of the on-line project status reports for each awarded bid/contract. We attempted to re-perform the calculations of the individual time to award for each of the 22 contracts awarded during the month noting the following:

- The project status reports for each respective bid/contract awarded were not retained by SPD. Instead, SPD attempted to re-print the project status reports. For 10 of the 22 awarded bids/contracts, data had been uploaded/revised since the original information had been submitted, which rendered the current project status reports unusable.
- For 11 of the 22 awarded bids/contracts, an attempt to calculate the number of days elapsed between the bid/contract award date and either the date of the first entry on the timeline log or earliest date referred to in the timeline log did

Division Metrics

not match the handwritten dates for number of days to included on the summary agendas and used in SPD's calculation of time to award.

- For the remaining 1 awarded bids/contract, there was no beginning date or entry in the timeline log.
- We noted that SPD used the number of days calculated by the Project Status report for only 11 of the 22 bid/contract awards noted. For 7 of the 22 bid/contract awards, the number of days used by SPD was different that what was noted on the Project Status report. For the remaining 4 of the 22 bid/contract awards, they were not included in the project status log.
- We further noted that for 6 of the 22 awarded bids/contracts, SPD had noted on the summary agendas that the days to award was an estimate based on conversations with the buyer and/or their supervisor.

SPD's Progress toward Attaining their Stated Target

SPD's calculation of the metric for determining the average time taken to award contracts computes to 138.75 days which is in excess of their stated target of 120 days or less.

However, the current process used by SPD to calculate 1) total bid/contract awards YTD, 2) average days to award/all items to date, and 3) average time to award by month is a manual process that does not provide an audit trail that can be re-performed or verified. In addition, many of the determinations of time to award are based on conversation without supporting source documentation. Also, the calculations themselves are a manual process.

Recommendation

We recommend that a more formal process be adopted to calculate the time to award metric. SPD should consider creating an excel spreadsheet to track each individual bid/contract awarded during a month. Copies of the council agenda in which the contracts were awarded should be maintained as well as the Project Status Reports which are used to determine the beginning date used to determine time to award. For bids/contracts in which project status reports are not available, SPD should maintain documentation of the methodology used to determine the beginning date used to calculate time to award. SPD should adopt formal procedures defining the beginning date used to determine time to award a bid/contract. The monthly calculations should be reviewed and approved by SPD management.

The above would provide a documented audit trail for this calculation and reduce the potential for human error.

Establishment of an E-Link

SPD Goal

We create an environment where we leverage technology to increase operational efficiencies.

Measures / Targets

Establish an E-link by June 30, 2008

Procedures Performed / Results

We obtained the May 7, 2008 “An Overview of the Strategic Purchasing Division’s (SPD) Initiative to establish an E-Link between SPD’s E-Bidding Application and SAP” and noted the following:

“Purpose: The purpose of this document is to graphically substantiate the rationale for establishing an E-Link between SPD’s E-Bidding Application and SAP.

Problem: The current business process is creating operational inefficiencies because in some cases, SPD’s personnel have to duplicate their work in SAP and in SPD’s eBidding Application.

Solution: Aggressively pursue the establishment of an E-Link that will negate SPD’s personnel performing duplicitous work by effectively utilizing the following systems: NIGP Tracking System, SAP, and E-Bidding System.

Benefits: Implementing the above E-Link solution will significantly reduce the amount of transactional tasks SPD’s personnel are currently performing, and it will allow them to perform critical strategic procurement-related functions. Moreover, an E-Link solution will enhance SPD’s reporting capabilities (e.g. average time to award, MWDBE’s and tracking the status of commodity codes).”

Three proposed E-Link processes were noted in the overview as follows:

1) Solicitation Process (RFQ Module)

Advantage: Creates a seamless solution between SAP and SPD’s E-Bidding system by allowing the following:

- E-Link seamlessly inputs vendor records into SAP
- E-Link seamlessly inputs material records in to SAP
- SPD’s E-Bidding system to obtain a Bid No.
- Convert MWDBE registered vendors from NAICS to the 5-digit NIGP Code
- Bid Tabulations generated automatically by eBidding system

Division Metrics

2) Process for Creating NIGP Codes (Material Master Record NIGP Tracking Application)

- Need a new NIGP Code. Departments search SAP and the NIGP website to obtain a commodity code.
- If a code exists in SAP, the code is used and the process ends here.
- If a code does not exist in SAP, Department creates the record in SAP for their warehouse and submits a request electronically via the NIGP Tracking System.
- Periscope Holdings creates the NIGP code and submits the record electronically to SAP and the requesting department.
- SAP will be configured to check for duplications and automatically populate the fields for stock, non-stock, Unit of Measure, valuation class, material group, plant, 11-digit code, long description, etc.
- NIGP application automatically feeds into SAP and the default settings will be turned on to populate all the relevant fields in SAP. This way manual entry will be reduced tremendously and eliminated in many instances.
- Requestor electronically receives the SAP code.

3) Process for Creating Vendor Records (Vendor Master Interface)

- Vendors search the E-Bidding site for their vendor registration.
- Do they have a record in the E-Bidding system?
- If yes, vendors update their own record(s)
- If no, vendors create a web account and submit the vendor registration form
- The registered vendor faxes W-9 form to complete the registration process.
- Convert MWDBE registered vendors from NAICS to the 5-digit NIGP Code
- A system interface between E-Bidding and SAP searches for existing records. A new registration is automatically uploaded and a new record is created in SAP and extended to other Purchasing Organizations.
- Vendor receives a Vendor Number and the process ends here.

SPD's Progress toward Attaining their Stated Target

We assessed SPD's progress toward their stated target to Establish E-link by June 30, 2009 as follows:

Based on review of the SPD website, discussion with representatives from SPD, review of timelines for the RFQ Module of e-Link, and Vendor Master Interface, and e-mails discussing the go-live of the NIGP Tracking Application, we noted the following:

Division Metrics

- The Vendor Master Interface went live on February 23, 2009. SPD met their goal of establishing this e-link by June 30, 2009.
- The NIGP Tracking Application went live on April 30, 2009. SPD met their goal of establishing this e-link by June 30, 2009.
- The RFQ Module of e-link is in process as of June 2009. While several defined steps have been completed, the project is still in the testing phase. The current planned go live date is August 24, 2009.

Based on above, SPD has met the established June 30, 2009 target for two of the three defined E-link processes.

Recommendation

SPD should continue to move forward in accordance with the established timeline for implementation of the RFQ module of E-link.

Conducting of 360 degree Feedback for Managers and Team Leaders

SPD Goal

We create an environment where managers and team leaders have the necessary skill sets to lead.

Measures / Targets

Conduct 360 degree Feedback for Managers and Team Leaders with a target of 100%.

Procedures Performed / Results

Based on discussion with the Assistant City Purchasing Agent during June 2009, the 360 degree feedback program has only been rolled out to Department heads. However, SPD was unable to provide examples or results of this feedback.

SPD's Progress toward Attaining their Stated Target

SPD has not formally acted on this metric.

Recommendation

SPD should formally develop a plan to obtain 360 degree Feedback for Managers and Team Leaders and determine a time period in which to complete the process.

Division Metrics

Employee Training

SPD Goal

We create an environment that enables employees through coaching, counseling, and professional development training so that their performance is raised to “best in class.”

Measures / Targets

Employee Meeting Learning Goals of 800 hours.

Procedures Performed / Results

We obtained the SPD training log for July 1, 2008 through June 30, 2009 and noted the following:

- The log contained columns for Individual Attendee, Course Description, Start Date, End Date, and Total Hours (per course). In addition, the log noted the total number of individual courses and individual had taken.
- Per the log, 44 employees had attended or registered for 92 training courses totaling 1,282 hours during fiscal year 2009.
- We noted that this log included classes that had been scheduled but had not yet occurred. This included 13 training courses totaling 253 of the above 1,282 hours. Removing these hours from the total leaves a total of 1,029 hours that had been completed between July 1, 2008 and June 9, 2009.
- We selected 5 individual training courses from this log and agreed the employee name and course information to the receipt and/or registration form for the course.

In addition, we obtained the respective City of Houston Form 206 Leave Authorization Request and noted that the respective employee had received approved leave to attend training for these days.

- We also selected 3 individual training courses that had been scheduled but had not yet occurred and agreed the employee name and course information to the receipt and/or registration form for the course.

SPD's Progress toward Attaining their Stated Target

Based on the above, SPD appears to have exceeded their stated target of Employee Meeting Learning Goals of 800 hours during fiscal year 2009.

Recommendation

When determining a Division Metric that SPD striving to maintain, we recommend that SPD include a time period in which to attain the specific metric.

Division Metrics

Use of Consolidated Contracts

SPD Goal

We create an environment that leverages the expenditures of public funds while reducing administrative cost.

Measures / Targets

Increase Use of Consolidated Contracts by 10%.

Procedures Performed / Results

We obtained the SPD Active Contract Roster (ACR) as of May 7, 2009 and noted 604 active contracts. On June 15, 2009, we printed the Active Contract Roster from the SPD website noting 492 contracts.

Per the SPD website, “The Active Contract Roster is a comprehensive listing of all current contracts issued by the Strategic Purchasing Division of the City of Houston, Texas. This listing is in Excel format sorted in alphabetical order which is updated monthly. To obtain the appropriate contact person, please refer to the SPD Purchasing Groups.”

The difference between the number of contracts between the two reports is due to contracts that are issued by departments other than SPD.

Per discussion with the Assistant City Purchasing Agent, SPD does not formally retain copies of its ACR and was unable to provide the ACR as of July 1, 2008.

SPD’s Progress toward Attaining their Stated Target

As a result of SPD not formally retaining copies of its ACR at specified intervals, we are unable to determine SPD’s progress toward their stated target of increasing their use of consolidated contracts by 10%.

Recommendations

- SPD should generate and retain copies of its ACR at the end of each month so that it can determine its progress toward reaching their stated target of increasing their use of consolidated contracts by 10%. Furthermore, when determining a Division Metric that SPD is attempting to maintain, we recommend that a time period be included in which to attain the specific metric.
- Additionally, in an effort to provide more comprehensive information to its users, the City should consider including all active contracts in place throughout the City rather than just the contracts issued directly by SPD. This could provide the City overall cost savings by enhancing the visibility of existing contracts and facilitating the use of already existing contracts.

Division Metrics

Generation of Cost Savings

SPD Goal

We create an environment that leverages the expenditures of public funds while reducing administrative cost.

Measures / Targets

Generate Cost Savings of \$30 million.

Procedures Performed / Results

We obtained the SPD Cost Savings Report July – June 4th, 2009 and noted the following:

- The report contained columns for Buyer, Bid Number, Description, Awarded Date, Awarded Supplier, Dollars Awarded, CO-OP Type, Bids Received, Average Bid, Dollars Saved, and % Saved.
- The report contained bids awarded between July 1, 2009 and May 27, 2009 and calculated a total cost savings of \$49,436,803.81.
- The cost savings can be segregated into the following categories:

Type of Award	#	Dollars Awarded	Dollars Saved
Non Co-Op (bids received)	63	\$ 148,499,097.04	\$ 24,615,408.50
Misc. Spot Purchases		\$ 0.00	\$ 380,376.49
TXMAS	9	\$ 1,391,526.40	\$ 2,097,866.70
RFP	4	\$ 151,245,000.00	\$ 20,879,000.00
HGAC	24	\$ 22,815,349.73	\$ 828,098.88
GSA	1	\$ 1.00	\$ 11,395.43
Buy Board	10	\$ 2,862,187.37	\$ 290,776.02
2 or less bids	1	\$ 9,985,076.00	\$ 333,881.81
Total Cost Savings		\$ 336,798,237.54	\$ 49,436,803.83

Based on our review of the SPD Cost Savings report and discussion with SPD representatives, we noted several different methodologies used to calculate the cost savings as follows:

- Multiple bids and a buy – The dollars saved are calculated by taking the average of all bids received and comparing to the dollars awarded to the winning bid (in most cases low bid).
- Spot purchases – The dollars saved are calculated by taking the initial requisition amount compared to the final purchase order amount. These are considered miscellaneous non-contract purchases less than \$50,000.

Division Metrics

- Co-op (TXMAS, HGAC, Buy Board, GSA) purchases – The dollars saved are calculated by comparing the price paid to either the list price or “price off the street” as provided by the source vendor.
- RFP purchases – The dollars saved are calculated by comparing the price per specified unit of service for the high bid compared to the low bid multiplied by the length of the contract. These are unique to each contract.
- Special purchases – This category is for unique purchases that do not directly fit within one of the other methodologies. The dollars saved are calculated by comparing an initial cost estimate to the final dollars awarded. These were included in the SPD Cost Savings Report as RFP purchases.

We selected a sample of individual bids awarded during this time period segregated into the following categories as follows:

Type of Award	#	Dollars Awarded	Dollars Saved
Multiple Bids	6	\$ 71,871,124.00	\$ 17,602,508.79
Spot Purchase	3	\$ 0.00	\$ 317,000.00
RFP	2	\$141,300,000.00	\$ 20,857,000.00
TXMAS	1	\$ 1.00	\$ 605,062.03
HGAC	1	\$ 5,629,606.92	\$ 168,888.21
Buy Board	1	\$ 580,925.00	\$ 87,138.75
Total Cost Savings Selected	14	\$ 219,381,656.92	\$ 39,637,597.78

For each item selected, we requested support for the calculation of the dollars saved, including calculations and bids received for bid purchases and calculations and supporting documents for Co-Op purchases (TXMAS, HGAC, Buy Board) and noted the following:

Multiple bids and a buy

For each of the six items selected, we agreed the dollars saved to the calculation of the average of all bids received compared to the dollars awarded to the winning bid. We did note that the bid calculations were not always formally documented. In one instance related to a roof repair contract, the pricing of the non-winning bids was based on a combined coefficient factor of a multiplier from a cost data book. As the volume of each task component is unknown, the cost savings is an estimate of a derived number.

In addition, the percent saved was calculated based on a comparison of the dollars saved divided by the dollars awarded rather than a comparison of the dollars saved divided by the average bid.

Spot Purchases

For two of the three items selected, we agreed the dollars saved to the calculation of the initial requisition amount compared to the final purchase order amount.

Division Metrics

For the remaining item selected, we noted a change to the original purchase order for telephone service which reduced the amount saved from \$204,000 to \$2,727.96. However, the cost savings report continued to include a distorted savings of \$201,262.04.

Co-op Purchases

For the items selected, the calculation of dollars saved was not formally documented or performed in a consistent manner.

For two of the three items selected, the calculation of dollars saved could not be properly supported by the documentation provided. The discounts quoted by vendors did not agree to the percentages used in the calculation. The remaining item selected was a summary of numerous purchases made through the TXMAS agreement. Two items were selected and for both, the discounts quoted by vendors did not agree to the percentages used in the calculation.

RFP/Special Purchases

For one of the two items selected, the dollars saved were calculated by comparing the price per specified unit of service for the high bid compared to the low bid multiplied by the length of the contract. The support provided properly validated the calculation of \$3.1 million in cost savings.

The other item selected related to a major purchase of the public safety radio system. Per discussion with SPD representatives, this was a unique purchase for which there is not comparable market or industry standard. Furthermore, a team contracted by the Mayor was instrumental in negotiating this contract. The \$17.7 million dollars saved was calculated by comparing the final contract amount of \$132.3 million compared to \$150 million. The \$150 million was an approximation of a \$157.9 million cost estimate provided to the City by a consultant in November 2003 for a strategic wireless system. SPD representatives indicated that numerous changes to the actual system purchased were made between the final contract and the system described in the 2003 report.

SPD's Progress toward Attaining their Stated Target

Due to the inconsistencies in documentation of the calculations used to determine cost savings, we were unable to validate the reported cost savings amount of \$49.4 million.

However, based on our procedures performed, the documentation provided to support the calculation of \$24.6 million related to multiple bids appears to validate this amount and support was provided that appeared to properly validate the calculation of \$3.1 million in cost savings related to one specific RFP. Furthermore, we noted that the Cost Savings report we reviewed was through June 4, 2009. Based on this, it appears that SPD is on pace to attain its stated target of \$30 million.

Recommendations

- We recommend that both the calculation of cost savings and targets set by SPD be segregated into the following categories:
 - Multiple bids

Continue to calculate dollars saved by taking the average of all bids received and comparing to the dollars awarded to the winning bid. Ensure that documentation of all bids received is maintained.
 - Purchases made utilizing co-op agreements

It should be noted that the individual co-ops, not SPD, have incurred the cost of obtaining bids and selecting the qualified low bidder. However, use of a co-op agreement does save the City cost (in terms of time and resources otherwise needed to obtain and evaluate bids). We recommend that rather than setting a target of direct cost savings (over which SPD has no direct control), SPD consider a metric of percentage of buys using co-ops and/or dollars awarded using co-ops.
 - Spot purchases

Continue to calculate dollars saved by comparing the final purchase order amount to the initial requisition amount. However, we recommend that SPD review the final purchase order to adjust for changes in the quantities and/or specific items purchased that do not reflect true cost savings but are instead changes to the requisition.
 - RFP/Special purchases

This category should be used for unique purchases that do not directly fit within one of the other methodologies. By definition, these are non-routine purchases that if not segregated, distort the cost savings achieved in the other categories.

- We also recommend that SPD develop clear guidelines and definitions for the methods used to calculate cost savings. Use of standardized methodologies would help to provide consistent calculations for each category. Documentation should be retained by the buyers to support all cost savings calculations and the final calculation for each item should be approved by their supervisor.

- When determining a Division Metric that SPD is striving to achieve, we recommend that SPD include a time period in which to attain the specific metric.

Exhibit I: Strategic Purchasing Division Metrics

STRATEGIC PURCHASING


<p>City of Houston</p>  <p>Administration & Regulatory Affairs</p>	MISSION			
	Our mission is to manage, facilitate, and provide the highest quality, value-added procurement services that exceed the needs and expectations of our customers			
	VISION			
Our vision is to become the premier leader in governmental purchasing, by providing best value, quality, timely and customer focused services.				
<p>CUSTOMER No excuse service Customer-centric culture Commitment to Quality, Urgency & Speed</p>	<ul style="list-style-type: none"> ▪ We create a professional environment that provides team based customer service, a customer-friendly culture, accurate and no excuse customer service. 	MEASURE	TARGET	ACTUAL
		Develop Baseline Customer Satisfaction Survey	12/2008	
		Increase Customer Satisfaction	10%	
<p>PROCESS Smarter work processes Performance-driven management tools Challenge people's imaginations</p>	<ul style="list-style-type: none"> ▪ We use the most effective procurement methodologies to improve the process and yield the best value. • We create an environment where we leverage technology to increase operational efficiencies. 	MEASURE	TARGET	ACTUAL
		Decrease Average Time Taken to Award Contracts	120 days or less	
		Establish E-link	6/30/2009	
<p>EMPLOYEE Pride in job well done Respected experts Learning culture Making a difference in people's lives</p>	<ul style="list-style-type: none"> • We create an environment where managers and team leaders have the necessary skill sets to lead. • We create an environment that enables employees through coaching, counseling, and professional development training so that their performance is raised to "best in class." 	MEASURE	TARGET	ACTUAL
		Conduct 360° Feedback for Managers and Team Leaders	100%	
		Employee Meeting Learning Goals	800 hours	
<p>BUSINESS Minimize expenses Maximize revenue Balanced risks and results</p>	<ul style="list-style-type: none"> • We create an environment that leverages the expenditures of public funds while reducing administrative cost. 	MEASURE	TARGET	ACTUAL
		Increase Use of Consolidated Contracts	10%	
		Generate Cost Savings	\$30M	

Exhibit II: Views of Responsible Officials



**Administration & Regulatory Affairs Department's
response to the Performance Audit conducted by
Jefferson Wells International on the Strategic
Purchasing Division**

September 25, 2009

City of Houston
Administration & Regulatory Affairs
Strategic Purchasing Division





Memorandum

To: Annise D. Parker,
City Controller

From: Alfred Jay Moran Jr., Director
Administration & Regulatory Affairs Department

Date: September 25, 2009

Subject: ARA's response to SPD's Performance Audit dated August 27,
2009

This document represents the official response to the recently completed performance audit of the Strategic Purchasing Division (SPD) conducted by representatives of Jefferson Wells.

This response is categorized in the following areas; material and vendor master, requisition process, bid splitting/contract monitoring, purchase order procedures, procurement cards (P-Cards), and division metrics.

Please contact myself or Calvin Wells should you have any questions.

Kindest Regards,

A handwritten signature in blue ink, appearing to read 'AJM', written over a horizontal line.

Alfred Jay Moran Jr.



2009 SEP 25 PM 2:20
CONTROLLER'S

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Material and Vendor Master

1) Identification of Active Registered Vendors in the E-bid System

(Refer to page 15 of Jefferson Wells Performance Audit)

Background:

Vendors register on-line on the SPD website in order to view bid opportunities. In addition, they must provide a valid W-9 or W-8 to SPD in order to become a registered vendor. The e-bid system receives whatever information a potential vendor/supplier, employee, etc. inputs. This information is then interfaced into SAP. In order to become an active registered vendor, the e-bid system prompts the outside user to submit a W-9 or W-8 to SPD via fax or to houstonpurchasing.net. Once received, SPD manually inputs the W-9 or W-8 information into SAP. If the vendor names and other related information match, the vendor is unblocked in the system and a 6-digit SAP generated supplier number is assigned. This 6-digit number is then communicated back to the e-bid system.

Jefferson Wells Recommendations:

The e-bid system does not currently have a way to identify active registered vendors (with a W-9 or W-8 on file) compared to non-registered vendors or other city personnel.

We recommend that SAP be programmed to communicate when a vendor has been "unblocked" back to the e-bid system at the same time the 6 digit supplier number is communicated to the e-bid system. This should expedite the bid process and enhance the efficiency of the SPD buyers by allowing them to know which vendors have registered via the E-bid system are truly vendors eligible to do business with the City.

Response:

ARA/SPD concurs. ARA/SPD will work collaboratively with the ERP/SAP team to facilitate the programming of SAP to communicate when a vendor has been "unblocked" in the e-bid system at the same time the 6-digit supplier number is communicated to the e-bid system.

2) Commodity Codes

(Refer to page 16 of Jefferson Wells Performance Audit)

Background:

When the City issues a bid request or RFP, vendors who have registered for commodity codes that match the commodity codes identified in the bid request or RFP receive notification that bids are being requested. City buyers issuing the bid requests can use a higher-level National Institute of Governmental Purchasing (NIGP) commodity code (i.e. 3 digits) to cast the broadest possible search for potential bidders.

The following table depicts the NIGP system:

NIGP Commodity Code Information (11 digit number)

Digits	Description	Example	Example
One to Three	Class Family	Computer	Computer
Four to Five	Item	Hardware	Hardware
Six to Seven	Group	Laptop	Desktop
Eight to Eleven	Detail	HP N2540	HP de5800

Per representatives of SPD, prior to June 2009, potential vendors were limited to registering a maximum of 15 commodity codes (digits 1 to 5) in the City's e-bid system. A small number of vendors submitting bids could result in the City not obtaining the most favorable pricing available in a competitive market environment.

During June 2009, the e-bid system was enhanced to allow vendors to register an unlimited number of commodity codes.

Jefferson Wells Recommendations:

We recommend that SPD create business rules for the minimum number of commodity codes to be included in the solicitation of potential bidders. Management approval should be required for exceptions to this rule.

Furthermore, if less than three bids are received for a solicitation; buyers should review the solicitation with a supervisor and consider soliciting bids from vendors using a higher level NIGP code (i.e. only 3 digits as opposed to 5 digits) for the commodity code. Applying these recommendations should result in a larger number of vendors submitting bids and allow the City to obtain more favorable pricing due to the increased competition.

Response:

ARA/SPD concurs. The City Purchasing Agent has established a business rule requiring the Buyers to select the appropriate number of NIGP commodity codes that will closely match the requested item(s) or service(s).

Requisition Process

3) Review and Approval of Requisitions

(Refer to page 19 of Jefferson Wells Performance Audit)

Background:

Individual Departmental Purchasing Units (DPU's) are authorized to approve requisitions less than or equal to their respective department's maximum spending authority without having to obtain additional approval from SPD.

Jefferson Wells Recommendations:

SPD should update its website to reflect the proper DPU Non-Contract Spending Authority Ceiling amounts currently authorized. The website should be updated any time a change is made to a non-contract spending authority amount.

SPD should issue new letters establishing departmental spending authority for the three departments in which letters are not currently on file and verify that all spending authority limits included on the SPD website and in SAP reflect the authorized amounts. This should improve both the control mechanism and the efficiency of the process as both DPU's and departmental employees may currently be unaware of the accurate spending authority limits and may unnecessarily forward requisitions to SPD for approval.

Proper review and approval of requisitions should ensure that requisitions are not improperly considered emergency repairs and therefore go through the proper bid process.

Response:

ARA/SPD concurs. Following the recommendations made by Booz and Co. in their citywide assessment of Purchasing, the City Purchasing Agent issued memorandums increasing the spending authority of several DPUs (i.e., HAS, SWM, HFD, PWE, CEF, and HPD) to \$50,000. These spending increases were submitted to the ERP/SAP team for them to make the necessary programming changes in SAP. SPD has received confirmation that the above referenced DPUs have increased spending authority in SAP. Additionally, SPD's website now reflects the revised DPU spending authority.

4) Programming of Departmental Spending Authority in SAP

(Refer to page 22 of Jefferson Wells Performance Audit)

Background:

One of the SAP system control mechanisms is that DPUs are not able to release a purchase order in SAP if the purchase order amount exceeds their maximum allowable spending authority.

Jefferson Wells Recommendation:

SPD should coordinate with the City's ERP team to investigate the programming of SAP to determine if the parameters establishing each respective departments spending authority are consistent with their approved spending authority as determined by the City Purchasing Agent and make any corrections as necessary. This should ensure that DPU's are not approving purchase orders in excess of their spending authority.

Response:

ARA/SPD concurs. ARA/SPD will bring this recommendation to the attention of the ERP/SAP team and will work collaboratively with them to facilitate implementation.

5) Use of Outline Agreements

(Refer to page 23 of Jefferson Wells Performance Audit)

Background:

In order to take full advantage of previously negotiated arrangements or to increase the City's leverage created by an increased volume of commodity purchases, it is preferable to utilize existing outline (contract) agreements to purchase items or services whenever possible.

Each purchase of a commodity requires the input into SAP of a material (commodity) group. A purchase order cannot be issued without this. Only items purchased with a material number have the full 8 digit commodity code. In SAP, if a user issues a purchase order against a material record, SAP will provide a reminder that there a contract is in place for that material record. However, the user can ignore the reminder.

Per discussion with representatives of SPD, we noted that if a purchase of a service is made using an outline agreement, only the 5 digit Material Group is required to be populated. If the purchase is an outline agreement referencing a supply/line item contract, the 8 digit material record is supposed to be input into SAP. This is considered a "blueprint business process." Prior to going live, the ERP project team created a business process, with consensus from business owners, that any service related buys should utilize a material group number and line item or supply item purchases should use an 8 digit material record.

For each purchase of a commodity, there are two to three potential control points in which use of an existing outline agreement can be noted. The first control is the buyer, the second control would be the buyer's respective DPU approval, and the third potential control is the SPD review if the purchase amount exceeds department spending authority.

However, a formal monitoring system is not currently in place to efficiently monitor situations in which outline agreements should have been used in place of one-time procurements.

Jefferson Wells Recommendations:

SPD should formally require all purchasers to input the 8 digit SAP material record when they set-up a purchase order. SPD should also consider the cost benefits of a system change that would not allow a purchaser to process a purchase order without the required 8 digit material record.

If a user utilizes a material number on a requisition that is linked to an outline agreement, the system will provide a warning to let the user know that the material is on a contract. However, the user can ignore this warning. We recommend that the user must either use the outline agreement or provide a reason why they chose not to utilize the outline agreement (i.e. the agreement does not have funding available).

Response:

ARA/SPD concurs. ARA/SPD will bring the recommendation to the attention of the ERP/SAP team that all Buyers should be required to input the 8 digit SAP material record when they set-up a purchase order. This would prevent SAP from allowing a purchaser to process a purchase order without the required 8 digit material record.

Furthermore, it was brought to the attention of the ERP/SAP team that because a requester can ignore the warning in SAP when they are utilizing a material number on a requisition that is linked to an outline agreement. SPD will require a requester to use the outline agreement or provide a reason to the City Purchasing Agent or his designee why they chose not to utilize an established outline agreement.

ARA/SPD will work collaboratively with the ERP/SAP team to give the City Purchasing Agent or his designee the security rights in SAP to allow a requester to process a purchase without the 8 digit SAP material record. Once the programming in SAP has been completed, SPD will reinforce the new business process by conducting training classes and periodic audits.

Bid Splitting / Contract Monitoring

6) Identification of Potential Bid Splitting Situations

(Refer to page 25 of Jefferson Wells Performance Audit)

Background:

Bid-splitting contracts to avoid formal bidding of purchases from non-contract vendors exceeding \$50,000 over a period of a year would not be in compliance with State of Texas Statutes. Per Administrative Procedure. No. 5-2, Bid-Splitting is defined as follows:

"Intentional splitting of a single purchase into smaller purchases to avoid formal bidding as required by the Texas Local Government Code. Using several purchase orders during a 12-month period to procure goods/services equal to or greater than the State bid law requirement, for items that should be included in a single purchase. The code defines three bid-splitting practices:

- (1) Component Purchases - Purchases in parts that normally would be purchases as a whole. A component purchase would be the purchase of parts to be used for assembling or constructing a finished product. An example of a purchase component would be equipment and materials (each costing less than the State bid law requirement), which would be assembled into an air conditioning unit that normally would be purchased complete at a cost equal or greater than the State bid law requirement.
- (2) Separate Purchases - Purchases made separately that normally would be made in one purchase. A separate purchase would be where a number of similar goods are purchased in groups having individual totals of less than the State bid law requirement. An example of separate purchases would be a desk, chair, and credenza for use by the same office that would normally be acquired with one purchase and at or above the State bid law requirement.
- (3) Sequential Purchases - A number of purchases made within a period of time that normally would be made in one purchase. A sequential purchase would be where the same specific commodity is ordered repeatedly and where the aggregate expenditure would be equal to or greater than the State bid law requirement during a 12-month period. For example, each purchase of an item could cost less than the State bid law requirement, but the aggregate orders during a 12-month period would exceed the State bid law requirement.

In addition to the above, City Charter requires City Council approval on procurement equal to, or greater than the State Bid Law."

Jefferson Wells Recommendations:

We recommend that SPD generate a report of all City-wide purchases made on a routine basis to monitor whether potential bid-splitting is occurring or warn a department if they are approaching the possibility of exceeding the \$50,000 threshold of purchases from non-contract vendors within one fiscal year.

This could identify potential situations in which the City should consider putting a formal contract in place with a vendor in an effort to increase the efficiency of future purchases and obtain more favorable pricing.

SPD should also consider the cost benefits of a system change in which the City's ERP/SAP team would create a program in SAP to flag the purchaser if the cumulative non-contract purchases orders entered into the system to any one particular vendor in any given fiscal year (July 1 - June 30) are greater than \$50,000. The user would then have to include a reason as to why the purchase(s) should be considered "separate, non-sequential, and non-component" as defined in Administrative Procedure 5-2. This mechanized notification should reduce the possibility of the City violating the City Charter and the state procurement laws.

Furthermore, until this mechanized system is implemented, SPD should consistently utilize the existing SAP reporting system to track and generate periodic reports to determine any potential violation of City Charter and State procurement laws. Additionally, this report should be utilized to determine if a long term contract should be established with a vendor to take advantage of economy of scale purchases.

Response:

ARA/SPD concurs. ARA/SPD will bring the recommendation to the ERP/SAP team that a program in SAP be developed that would flag the purchaser if the cumulative non-contract purchases entered into the system to any one particular vendor in any given fiscal year (July 1 - June 30) is greater than \$50,000. Should this occur, the user would then have to include a reason as to why the purchase should not be considered "separate, non-sequential, or non-component" as defined in Administrative Procedure 5-2. Once the programming in SAP has been completed, SPD will reinforce the new business process by conducting training classes and periodic audits.

7) Contract Monitoring

(Refer to page 27 of Jefferson Wells Performance Audit)

Background:

One of SPD's responsibilities is to monitor contracts to ensure that applicable contracts are renewed or replaced in a timely manner to ensure continuity of goods and services.

SPD has set up an automated report that is generated monthly to flag when 25% or less of the original dollar amount of an outline contract remains. This report also includes the contract expiration dates.

When a contract appears on this report, the assigned SPD buyer analyzes the contract spend and investigates to determine:

- 1) Does SPD and/or the respective City Department need to go to City Council to add additional spending authority to the contract or
- 2) Does the contract need to be renewed?

The Buyer will also contact the respective department(s) and participate in a workshop to review specifications and initiate proposal efforts or a contract extension if necessary. On a monthly basis, the SPD buyers will update the comment section of the report to address the contract status. This update of

contract status is then provided to the City Purchasing Agent. SPD's goal is to begin the contract renewal process within 8 months of contract expiration.

Jefferson Wells Recommendations:

We commend SPD for beginning to keep a documented trail of the disposition of the contracts to minimize the risk for a contract to "slip through the cracks." We recommend that SPD ensure that all contracts that have not yet expired or are on the report of 25% of the original contract amount remaining be included on either the report provided to the City Purchasing Agent or on the "deleted" contracts list so that all contracts are accounted for properly. This should help to ensure that all applicable contracts are properly accounted for to ensure the continuity of goods and services.

Response:

ARA/SPD concurs. To ensure that all contracts that have been put in place by SPD are properly accounted for; SPD's intranet website will contain a listing of all deleted contracts.

8) Consolidation of Contracts

(Refer to page 29 of Jefferson Wells Performance Audit)

Background:

SPD representatives expressed that City departments are resistant to the consolidation of contracts with other departments which diminishes the City's leverage in obtaining favorable pricing for high volume recurring purchases.

In SAP, all departments have an add clause which allows them to purchase off a contract over their initial authorized spending authority (whether \$0 or higher) without having to get permission from SPD. In turn, this creates a potential situation in which not enough money is left in the contract for the department(s) who initially requested the contract. As a result, these departments end up having to request an increase in their spending authority when they were not the ones who initially spent more than their requested allocation. Because of this, departments are resistant to the consolidation of contracts.

Jefferson Wells Recommendations:

We recommend that SPD be allowed to "lock" the system by doing the following: In SAP, when contracts are loaded, the System should require the inclusion of a Target Value by Department. Therefore, a department could not enter requisitions over their target value without receiving approval from SPD and/or the other department(s) listed on the contract. This should help to encourage the consolidation of contracts and allow the City to better leverage its purchasing power.

Response:

ARA/SPD concurs. ARA/SPD will bring this recommendation to the attention of the ERP/SAP team, and will work collaboratively with them to facilitate its implementation. Once this recommendation is

implemented, SPD will reinforce the new business process by conducting training classes and periodic audits.

9) Contract Price Adjustments:

(Refer to page 30 of Jefferson Wells Performance Audit)

Background:

All contract price adjustments to contracts must be approved by the City Purchasing Agent. SPD's controls to ensure that accuracy of price adjustments include the following:

- For Price list adjustments (prices contractually tied to a manufacturers price list), buyers review the published price list to verify accuracy.
- For line item increases, buyers sample the documentation provided to support the increase, assess reasonableness, and compare to original contract to determine whether the increase is within the maximum price increase allowed by the contract.
- For price decreases (generally these are prices tied to a market index), SPD relies on the user departments to alert them to a potential price decrease.

Jefferson Wells Recommendations:

- While no issues were specifically noted, SPD should consider putting a mechanism in place with departments that have contracts with prices tied to a market index to ensure indices are being monitored for situations in which price decreases should occur.
- In order to improve the information available and provide a broad overview of price adjustments, we recommend that SPD maintain a log of approved price adjustments throughout the year. The log should include date approved, vendor name, contract reference information, and type of price adjustment (line item, price list, decrease).

Response:

ARA/SPD concurs. SPD is investigating the most effective way to implement the above recommendation. Meanwhile, SPD is currently using the on-line subscription services of Globe Insight Services, Inc. to check market indices for opportunities for contract price decreases. SPD is also developing a file to track all price adjustments per fiscal year.

Purchase Order Procedures

10) Use of Emergency Purchase Orders

(Refer to page 32 of Jefferson Wells Performance Audit)

Background:

Current controls regarding the use of emergency purchase orders (EPOs) include the following:

- Justification for the EPO must be provided and signed-off by either the respective Department Assistant Director or designee.
- The SPD representative (usually the SPD Deputy Assistant Director) must review and provided a signed approval memo for each approved EPO.
- SPD then enters summary EPO information into a Consolidated EPO log. A formal purchase order must still be issued for the EPO.
- Approvals from both SPD and City Council must be obtained within 30 days after receipt of the goods and/or services.

Jefferson Wells Recommendations:

On the EPO log, we noted several manual EPO numbers do not have corresponding SAP PO numbers and amounts. In addition, we noted one instance of an EPO that had been cancelled that was not reflected on the log. We recommend that on a monthly basis, SPD review the open EPO log and update for any formal PO's issued and/or cancellations. If a PO is still in progress, that should also be noted on the log. This should help to ensure a complete trail for all EPOs.

Response:

ARA/SPD concurs. The City Purchasing Agent has put a procedure in place to ensure that on a monthly basis SPD will review the open EPO log. Additionally, the City Purchasing Agent will review the EPO log on a quarterly basis for compliance.

11) Printing of Unapproved Purchase Orders

(Refer to page 35 of Jefferson Wells Performance Audit)

Background:

One of SPD's control mechanisms is that SAP should not allow users to print a purchase order that has not been approved by the appropriate authority designated by the respective Department Director (purchase order release).

Jefferson Wells Recommendations:

SPD should coordinate with the City's ERP team to consider a programming change to SAP that would prohibit the inclusion of the electronic signatures of the Mayor, Purchasing Agent, and Controller until after a purchasing order has been approved.

Response:

ARA/SPD concurs. Moreover, ARA/SPD will work collaboratively with the City's ERP/SAP team for a programming change to SAP that will prevent the inclusion of electronic signatures of the Mayor, City Purchasing Agent, and Controller on a purchase order, unless it has received the proper approval.

12) Designation of Sole Source Procurements

(Refer to page 36 of Jefferson Performance Audit)

Background:

Per the City's Administrative Procedure 5-2, "the procurement of goods and/or services from a single/sole source must be as follows:

- 1) The DPU must first determine whether those goods and/or services are exclusively available from only one source by contacting the manufacturer/supplier.
- 2) If the DPU confirms that the item/service is a single source purchase, a letter must be requested from the manufacturer/supplier which states that the item/service is exclusively available from only one source as confirmed in writing by the manufacturer/supplier. The letter must not be over 30 days old.
- 3) The DPU shall obtain approval from the single point of contact for purchases within the department's spending authority and may issue the PO.
- 4) The DPU shall forward the requisition and manufacturer/supplier's letter to SPD for approval by the City Purchasing Agent and issuance of a PO for purchases in excess of the department's spending authority, up to but less than the State bid law requirement. Single source purchases within the State bid law requirement must be formally bid, in accordance with this administrative procedure and Chapter 242 of the Texas Local Government Code.
- 5) If the DPU confirms that the item(s)/service(s) is/are a sole source purchase, a letter must be requested from the manufacturer/supplier which states that they are the sole provider/supplier of the item(s)/service(s) requested. The letter must not be over 30 days old.
- 6) The DPU shall obtain approval from the single point of contact for purchases within the department's spending authority and may issue the PO.
- 7) The DPU shall forward the requisition, manufacturer/supplier's letter and sole source justification questionnaire to SPD for approval by the City Purchasing Agent and issuance of a PO for purchases in excess of the department's spending authority. Sole source purchases within the State

bid law requirement must be approved by City Council."

Jefferson Wells Recommendations:

Currently, SAP does not provide a way to identify sole-source procurements. We recommend that SPD work with SAP to include a field in which buyer's would be required to indicate which procurements were sole-source, regardless of their dollar amount. This would allow the City to better monitor these purchases and ensure that only appropriate procurements are being made via sole source.

Further, we recommend that SPD request a change in this administrative procedure to define the time period as the time between the date of the potential manufacturer/ supplier sole source justification letter and the date that the DPU requests SPD to proceed with either an individual purchase or contract.

In addition, we recommend that the number of days be extended to 120 days to accommodate the development of a well-defined scope of work. If this timeframe is exceeded, the DPU would be required to obtain an updated sole source justification letter from the manufacturer/supplier.

We also recommend that SPD require all manufacturer/supplier's to include this signed Sole Source Certification form along with other justification support provided.

Response:

ARA/SPD concurs. ARA/SPD will bring the recommendation to the attention of the ERP/SAP team, that a field be created in SAP that would allow a Buyer to indicate whether a procurement is a sole-source regardless of the dollar amount.

Furthermore, ARA/SPD will work collaboratively with the Departments to ensure all sole source justifications are valid. SPD will require all manufacturer/suppliers to include a signed Sole Source Certification form along with any other required justification(s).

Procurement Cards

13) Authorized Use of Procurement Cards

(Refer to page 41 of Jefferson Wells Performance Audit)

Background:

Per the Finance and Administration Department (now Administration & Regulatory Affairs), SPD Standard Operating Procedures No. 07, Purchasing Card Policy and Procedures, revised September 1, 2005, the following definitions apply to P-Cards:

"Purchasing Card: The P-Card is a credit card for small dollar purchases of contract and non-contract goods and/or services required for official City business.

P-Card Program Administrator: The City's Purchasing Agent or designee within the Finance and Administration Department/Strategic Purchasing Division will serve as the single point of contact between the City of Houston and the P-Card contractor (Bank) for general oversight of the program. (JP Morgan Chase serves as the P-Card Contractor).

P-Card Coordinator: The individual is approved by a department director and shall be responsible for the administration and control of the department's P-Card program.

Purchasing Cardholders: The individual designated by the department P-Card Coordinator will be issued a P-Card in their name to procure goods and services in accordance with the applicable procedure.

Approving Authority: The individual is responsible for the budget activity level that the cardholder is assigned. This person will be a manager/supervisor in the reporting chain for the individual cardholder.

Executive Order 1-42: Policy and Procedures statement that defines appropriate purchases and outlines expectations and responsibilities for handling overrides."

Controls used to mitigate the risk of procurement use by unauthorized employees or for unauthorized purchases included the following during the period of our audit:

- The Department requesting a P-Card for an employee completes an Internal Cardholder (Employee) Agreement Form (Internal Agreement Form) which includes the spending limit and spending profile. The SPD P-Card Administrator processes applications for the issuance of P-Cards.
- Merchant restrictions are established through P-Cardholder spending profiles by use of a merchant category code (MCC). The MCC spending profiles are listed on the Internal Agreement Form approved by the Authorized Approver and Department Coordinator.

- Guidelines are established for cumulative dollar limits on P-Cards. The dollar limits are listed on the Internal Agreement Form approved by Authorized Approver and Department Coordinator. The maximum amount of single transaction will not exceed

Jefferson Wells Recommendations:

Per discussion with the SPD Contract Administrator, cardholders with IT included in their spending profile automatically are considered to have the TELE 100 profile that allows them to purchase telecommunications equipment at any telecommunications vendor up to \$100. Beginning in 2005, SPD began adding the TELE 100 MCC profile to all individual cardholders with IT in their spending profile.

The intent was to limit cardholder's ability to purchase cell phones from any telecommunications vendor rather than utilizing the City's contract for these types of purchases. However, no communication of this change in policy exists to formally make this policy change. We recommend that the City Purchasing Agent formally adopt and communicate this change in policy.

To ensure that proper control is maintained over P-Cards and that unauthorized purchases are not taking place, we recommend that SPD implement a quality control process to ensure that all information regarding card limits and cardholder spending profiles is supported by approved Internal Cardholder (Employee) Agreements on file.

Response:

ARA/SPD concurs. The City Purchasing Agent will issue a memorandum to all Directors and P-Card Coordinators that cardholders with IT included in their spending profile (i.e. TELE 100) are authorized to purchase telecommunications equipment at any telecommunications vendor up to \$100. SPD's P-Card team will generate and maintain a monthly cardholder spending profile report by department to ensure that all information regarding the card limits and cardholder spending profile is supported by approved Internal Cardholder (Employee) Agreements on file.

14) One Time Overrides

(Refer to page 44 of Jefferson Wells Performance Audit)

Background:

Per the City's Administrative Procedure 5-2, "Emergency Purchase Orders (EPOs) in excess of a department's spending authority shall be issued by SPD. Requests for EPOs will be approved only if sufficient justification exists in accordance with the criteria contained in the Texas Local Government Code and Executive Order 1-14.

If informal bids can be obtained in time to address the emergency, proper informal bidding procedures must be followed when issuing EPOs. The following procedures shall apply in processing emergency requests:

- 1) The DPU reviews the justification and verifies that an emergency exists.
- 2) The DPU creates and posts a computer requisition, obtains required approvals, and solicits

bids. If the nature of the emergency does not permit the solicitation of bids, the written approval of the single point of contact is required.

- 3) The DPU submits the requisition and justification form to SPD.
- 4) Strategic Purchasing Division documents to determine if an emergency is warranted.
- 5) Strategic Purchasing Division issues and posts an EPO.
- 6) Strategic Purchasing Division issues the EPO to the successful supplier/contractor, forwards a copy to the DPU, and files a copy of the EPO documents for audit purposes.
- 7) The DPU forwards a copy of the purchase order to the end user(s) and retains its copy.
- 8) Strategic Purchasing Division obtains City Council approval for EPOs equal to or greater than the State bid law requirement, within thirty days after receipt of goods and/or services or receipt of a valid invoice, whichever is later.
- 9) Strategic Purchasing Division obtains City Council approval before issuing EPO if the nature of the emergency permits obtaining such approval."

SPD has established merchant restrictions through P-Cardholder spending profiles (merchant category code). If a P-Cardholder wishes to make a purchase outside of their established profile, the P-Cardholder must first obtain an approval from their departmental P-Card Coordinator (PCC). The PCC forwards this to the SPD P-Card team to obtain a temporary override. This override is actively turned on and then must be actively turned off in the JP Morgan Pathway system by the SPD P-Card team. The SPD P-Card team records the requests for temporary overrides in a log.

Jefferson Wells Recommendations:

P-Cardholders requesting override approval for transactions that they are already authorized in the JP Morgan Chase system create additional emails within the departments and with SPD which results in lost productivity and inefficiency. If requests for overrides are received by the SPD P-Card team for items that P-Cardholders are already authorized to purchase, the P-Card team should notify cardholder they are already authorized to purchase the item. Since this is not an override, the override request does not need to be recorded in the override log. If override requests continue from certain departments, notification should be sent to the cardholders in the department reminding them that override requests be sent only when required.

We recommend the preparation of a list of approved overrides by Department be forwarded to each respective department (Assistant Directors and P-Card Coordinators) on a monthly basis. Departments may or may not be comfortable with the number and types of overrides issued each month. In some cases, an additional MCC group category may be added for certain P-Cardholders resulting in less time (cost savings) spent on overrides by the Department and SPD P-Card Team.

In order to adequately control MCC codes included in MCC group categories, the following procedures should be implemented:

- JP Morgan Chase should be instructed only to make changes to MCC codes in MCC group categories based on written authorization by designated members of SPD management.
- JP Morgan Chase should be requested to provide a detail listing of MCC codes in MCC group categories in the JP Morgan Chase system on a periodic basis. SPD should reconcile JP Morgan Chase's detail listing to SPD's detail listing to ensure completeness of JP Morgan Chase's database.

Response:

ARA/SPD concurs.

To address the issue of overrides, a memorandum will be issued by the City Purchasing Agent reiterating that all P-Card purchases are expected to comply with EO 1-42. This should negate the need for SPD to prepare a list of approved overrides by Department.

J.P. Morgan Chase will be contacted instructing them to only make changes to the MCC codes in MCC group categories after receiving written authorization by designated SPD personnel. Additionally, J.P. Morgan Chase will be requested to provide a detail listing of MCC codes in MCC group categories in the JP Morgan Chase system on a quarterly basis. Upon receipt, SPD will reconcile JP Morgan Chase's detail listing to SPD's detail listing.

15) Reconciliation of Procurement Cards

(Refer to page 47 of Jefferson Wells Performance Audit)

Background:

Reconciliation of P-Cards to the General Ledger included the following procedures during the period of our audit:

- On a monthly basis, SPD sends each respective DPU their individual Monthly P-Cardholder statements and a Transaction Summary Report detailing monthly P-Card activity. Each DPU goes into the JP Morgan Chase pathway.net program (Pathway) and reviews monthly activity for accurate coding (including proper cost center, correct general ledger account, charging current contracts and internal work order coding where appropriate) of P-Card transactions. They normally have approximately 5 days as a "courtesy period" to make any necessary changes, which helps to reduce errors when the files are loaded into production. No formal notification of this review is sent to SPD.
- After this courtesy period, SPD downloads P-Card transactions into 1099 Contract Purchases and 1100 Non-contract purchases text files. SPD then loads P-Card transactions into test files (TRA) to identify potential coding errors of P-Card transactions. The errors identified by SAP are investigated and corrections are made by SPD to the P-Card transactions file. SPD will correct what they are able to identify but request the respective department's assistance for many of the corrections.

- SPD loads P-Card transactions into the production files (PRA) at month end to identify coding errors of P-Card transactions. P-Card transactions with no errors are recorded in SAP. P-Card transactions with errors are not recorded in SAP and are identified in an e-mail to SPD. The errors identified by SAP are investigated (with assistance from DPU's) and corrections are made by SPD to the P-Card transactions file. After corrections are made the P-Card transactions (errors noted) are loaded into SAP. The process continues until all errors are resolved.

Jefferson Wells Recommendations:

Based on our procedures performed, we make the following recommendations to improve both efficiency and effectiveness of the reconciliation of P-Card activity to the general ledger:

Monthly Checklist

Purchasing Card Coordinator's or others responsible for the input of P-Card receipts into SAP should always check the Active Contract Roster. DPU's should complete a monthly checklist (provided by SPD) that includes the following items that can be adjusted in the JP Morgan Pathway system:

- proper cost center,
- correct general ledger account,
- proper charging of current contracts, and
- internal orders properly coded.

Monthly Update

Update the TRA test files before the end of the month process begins. Using current files should reduce the identified errors resulting from timing differences. Ensure an audit trail is maintained for all adjustments

Ensure an audit trail is maintained for all adjustments

The SPD Administration Manager for P-Cards should maintain a monthly log of unreconciled items. As adjustments are posted to clear previously unreconciled items, these adjustments should be kept in the log to maintain a clear trail of the specific month the adjustment relates and the balance remaining to be reconciled.

This log should be compiled retroactively for FY09 for the Financial Reporting Division to be able to respond to external auditor requests. In addition, all cumulative unreconciled amounts need to be cleared in order to properly close out fiscal year 2009 activity and ensure that all expenses are charged to the proper department budget.

Response:

ARA/SPD concurs.

Monthly Checklist: During training and re-fresher training, P-Card Coordinators or others responsible for the input of P-Card receipts into SAP, will be instructed to always check the Active Contract Roster for contract validity. Additionally, they will be required to complete a monthly checklist (provided by SPD) that includes the following items that can be adjusted in the JP Morgan Pathway system:

- *proper cost center,*
- *correct general ledger account,*
- *proper charging of current contracts, and*
- *internal orders properly coded.*

Monthly Update: ARA/SPD will bring the recommendation to the ERP/SAP team that the TRA test files be updated/refreshed before the end of the month process begins.

Ensure an audit trail is maintained for all adjustments: SPD's Administration Manager for P-Cards has developed, and will maintain a monthly log of unreconciled items. Unreconciled items will be brought to the attention of the effected Department Director(s) by the City Purchasing Agent.

16) Employee Training:

(Refer to page 50 of Jefferson Wells Performance Audit)

Background:

P-Cardholders are required to attend training when they are initially issued a card. In addition, when they are renewed every two years, they are required to attend additional training in order to receive their replacement card. When a department P-Card Coordinator is first named, they are required to attend training with SPD.

Jefferson Wells Recommendations:

SPD should retain records of when all designated departmental P-Card Coordinators most recently attended training. In addition, SPD should consider requiring designated P-Card Coordinators to attend a refresher P-Card Training class once every 2-3 years. Classes are approximately one hour and are available once per month.

Response:

ARA/SPD concurs. SPD's P-Card team will ensure an attendance list of all departmental P-Card Coordinators who have attended P-Card training is retained. Moreover, P-Card Coordinators will be required to attend refresher training annually. Should a P-Card Coordinator not attend training, their Department Director will be notified and their P-Card will be deactivated.

17) Fraudulent or Disputed Procurement Card Transactions

(Refer to page 51 of Jefferson Wells Performance Audit)

Background:

Executive Order 1-42 states the following with regard to unauthorized use of the purchasing card:

"Any purchases that the Department Management or the Purchasing Card Administrator deems inappropriate as outlined in this procedure will be referred back to the P-Cardholder for justification and/or explanation. If any unauthorized changes appear in the P-Cardholder's Monthly Statement, the P-Cardholder will be subject to the following:

- The Purchasing Card Administrator will investigate all circumstances surrounding alleged misuse of the P-Card and in such cases where there is evidence substantiating a procedure or policy violation, refer that information to the appropriate authority for investigations and/or disciplinary action.
- In those cases where there is evidence of negligence in the use of the P-Card but no fraudulent acts have been committed, the P-Cardholder will be required to surrender the P-Card and all further privileges revoked for the period of time established by the City Purchasing Agent."

Executive Order 1-42 states the following with regard to disputed items:

"Disputes, whenever possible, should be resolved promptly between the P-Cardholder and the supplier.

P-Cardholders should dispute an item immediately. Failure to dispute an item will result in an authorized purchase and the department will be responsible for the payment even if it is an incorrect charge."

SPD utilizes the following for any disputed alleged unauthorized use transactions using P-Cards:

- P-Cardholder completes a Dispute/Resolution Form for disputed transactions. The form is signed by Approving Manager and Department P-Card coordinator. The completed form is then forwarded to SPD.
- P-Cardholder completes a Declaration of Forgery or Unauthorized Use Form. The form is signed by the Approving Manager and Department Coordinator. The completed form is then forwarded to SPD.
- P-Card Administrator will investigate all circumstances surrounding alleged misuse of the P-Card and where appropriate, refer that information to the appropriate authority for investigation and/or disciplinary action.

Jefferson Wells Recommendations:

While the outstanding disputed items noted during our procedures were resolved, a back log of disputed P-Card amounts could result in difficulties in clearing old outstanding amounts if not addressed in a timely manner. We recommend that SPD maintain a detailed list of disputed items included on the monthly JP Morgan bank statement and monitor resolution of disputed amounts listed on the statement that are in excess of 30 days old.

Response:

ARA/SPD concurs. J.P. Morgan Chase will be contacted to modify the current report in PathwayNet in order for SPD to monitor fraudulent or disputed P-Card amounts. SPD's P-Card team will maintain a detailed list of disputed items on the monthly JP Morgan bank statement and monitor resolution of disputed amounts listed on the statement that are in excess of 30 days old.

18) Lost, Stolen, or Cancelled Procurement Cards

(Refer to page 53 of Jefferson Wells Performance Audit)

Background:

Executive Order 1-42 states the following with regard to a lost or stolen purchasing card:

"When it is determined that a P-Card has been lost or stolen, the P-Cardholder must contact the Bank at the Bank's toll-free number to report the status.

The P-Cardholder will complete a Purchasing Card Lost/Stolen Card Form and forward the form to the P-Cardholder's Approving Manager for signature for subsequent submission to the P-Card Administrator through the Department P-Card Coordinator.

It is imperative to cancel the card immediately because the City's liability on lost or stolen cards is not capped. The City is liable for all charges until the card is reported lost or stolen. Thus, the P-Cardholder to whom the P-Card is issued will be responsible for all charges made against the P-Card from the time it is lost or stolen and until the Bank is notified." When a Purchasing Card Lost/Stolen Card Form has been completed, it is forwarded to the SPD P-Card Team.

Jefferson Wells Recommendation:

Department management needs to ensure that all lost/stolen P-Card incidents are reported timely and documented adequately.

Response:

ARA/SPD concurs. The City Purchasing Agent will issue a memorandum to all Department Directors and P-Card Coordinators that lost or stolen P-Cards must be handled in accordance with EO 1-42.

19) Procurement Card Transactions Exceeding \$50,000 within One Department

(Refer to page 55 of Jefferson Wells Performance Audit)

Background:

As noted earlier in this report, non-contract purchases from a vendor using a combination of P-Cards and/or other informal procurement purchases exceeding \$50,000 would not be in compliance with the State of Texas Statutes related to competitive bidding.

Per discussion with SPD representative, SPD looked into this in 2007 and developed an action plan to establish contracts for frequent use vendors and encouraged DPU's to encourage P-Cardholders to utilize existing contracts.

Furthermore, the Assistant City Purchasing Agent provides a quarterly report of non-contract purchases by department by vendor (in excel) that is distributed to all department designees via e-mail who can then analyze.

Procedures Performed / Results

Review of Work Performed by the Audit Division of the Office of the City Controller

Inquiry of representatives from the Controller's office revealed one report resulting from work performed by the Controller's office during FY09 relating to instances of P-Card transactions exceeding \$50,000 within one department. We obtained a report performed by the Audit Division of the City of Houston Controller's Office dated June 25, 2009 relating to a Public Works and Engineering Department Purchasing Card Activity Compliance Audit and noted the following:

"During our review of the PWE P-Card transactions for the audit scope period (July 6, 2007 through July 5, 2008), we noted P-Card purchases of \$73,642 and \$55,642 respectively from two non-contract vendors. We also noted this to be a repeat finding for the third consecutive year since the two vendors mentioned above were listed as two of the merchants that exceeded the \$50,000 limit in the PWE's Internal Review Section's annual review for the years ending July 5, 2006, July 5, 2007 and on this most current report. The audit team recognizes the progress made by the Department in reducing the number of vendors exceeding the \$50,000 threshold over the previous three years.

Department management needs to improve controls so that when P-Card expenditures approach the \$50,000 limit, further purchases from these vendors are not allowed."

Jefferson Wells Recommendation:

We concur with the sentiment of the finding and recommendation noted by the Audit Division of the City Controller above. We refer to our earlier recommendation related to the identification of potential bid-splitting situations as implementation of this recommendation would also address P-Card expenditures that exceed the annual \$50,000 limit.

Response:

ARA/SPD concurs. SPD's P-Card Team will generate a Merchant Activity Report -610 from Pathwaynet (the J.P. Morgan Chase software program), to determine when expenditures with non-contract suppliers may exceed \$50,000. These expenditures will be analyzed with non-contract suppliers in SAP to determine potential future contracting opportunities.

Quarterly Report of Non-Contract Purchases by Department by Vendor

We attempted to review the distribution and the quarterly reports of non-contract purchases by department by vendor (in excel) that is distributed to all department designees via e-mail. However, per discussion with the Assistant City Purchasing Agent, SPD does not retain records of their distribution of this report.

We did obtain the quarterly report of non-contract purchases by department by vendor for each of the first three quarters of fiscal year 2009 and performed the following:

- Noted that each individual quarterly report contained columns for Business Area (department), Merchant Name, Transaction Amount, Number of Transactions, and MCC Description.
- Combined the data from each of the three quarters into one excel file noting 25,466 individual line items during this period.
- Created a pivot table based on merchant name that included both the count of the Merchant Name, and cumulative dollar amount of all transactions across the City related to the respective merchant. Based on the pivot table, we noted the following merchants whose year to date dollar amount of all transactions across the City exceeded \$35,000 through March 31, 2009:

#	Merchant Name	Count of Merchant Name	Sum of transaction Amount
1	5 STAR EVENT SERVICES	12	\$ 455,703.70
2	MELANGE CATERING	9	\$ 282,088.25
3	HILTON HOTEL AMERICAS	27	\$ 170,470.97
4	HOTEL ZA ZA	5	\$ 162,934.23
5	BENNIE FERRELL CATERIN	2	\$ 146,590.00
6	HOUSTON PLAZA HOTEL	3	\$ 124,805.00
7	UNITED SITE SVCS TX	2	\$ 76,430.00
8	A QUICK MAINTENANCE	76	\$ 74,032.11
9	HOUSTON SAW AND KNIFE	135	\$ 73,995.17
10	SYSCO FOOD SERVICES OF	9	\$ 62,077.38
11	PURVIS INDUSTRIES	133	\$ 58,602.34
12	THE HOME DEPOT 6509	644	\$ 57,797.03
13	DSHS EMS 2	692	\$ 51,536.00

#	Merchant Name	Count of Merchant Name	Sum of transaction Amount
14	GLAZIER FOODS COMPANY	1	\$ 43,072.56
15	JOHNSTONE SUPPLY HOUST	266	\$ 41,022.88
16	SAMSCLUB #6465	14	\$ 40,774.08
17	WM SUPERCENTER	76	\$ 38,988.39
18	FRY'S ELECTRONICS#23	163	\$ 38,649.54
19	COMCAST OF HOUSTON	56	\$ 35,517.99

It should be noted that many different legitimate business reasons may support the use of P-Cards for the above purchases.

Jefferson Wells Recommendations:

- We recommend that SPD review the above purchases which were made using P-Cards to determine if potential future purchases should be made using a contract.
- Furthermore, we recommend that SPD perform this analysis on a quarterly basis to identify potential situations in which the City should consider putting a formal contract in place with a vendor in an effort to increase the efficiency of future purchases and obtain more favorable pricing.
- In conjunction with the review for clusters of purchase orders with a specific company for informal contracts that resulted in purchases with one vendor aggregating over \$50,000 in one year, SPD should also consider the effect of P-Card purchases with the respective vendor.
- We also recommend that SPD retain records of their distribution of the quarterly report of non-contract purchases by department by vendor that is distributed to all department Designees. In addition, SPD should include YTD columns in addition to only the activity for the most recent quarter in these reports.

Response:

ARA/SPD concurs. The effect of Hurricane Ike on the City of Houston led to an inordinate amount of purchases with non-contract suppliers. In the future, ARA/SPD will be utilizing pre-positioning contracts whenever possible during times of declared emergencies.

Besides reviewing the clusters of purchase orders with a specific company for informal contracts that resulted in purchases with one vendor aggregating over \$50,000 in one year, SPD will take into consideration the effect of P-Card purchases with the respective vendor.

Lastly, SPD will retain records of the quarterly report of non-contract purchases by department by vendor that is distributed to all department Designees. This quarterly report will include YTD columns.

Division Metrics

20) SPD Goal:

We create a professional environment that provides team based customer service, a customer-friendly culture, accurate and no excuse customer service.

Measures / Targets:

Develop Baseline Customer Satisfaction Survey by December 2008 Increase Customer Satisfaction by 10%

SPD's Progress toward Attaining their Stated Target:

(Refer to page 62 of Jefferson Wells Performance Audit)

Due to the survey process not beginning until March 2009, there is not a baseline or other metric to determine if SPD has increased customer satisfaction by 10%.

Jefferson Wells Recommendations:

- SPD should review the results of the surveys received to date and take action to address any items receiving less than satisfactory responses. SPD should ensure that it contacts any respondents who checked yes to the question "Would you like a purchasing supervisor/manager to contact you?"
- SPD should consider asking the following additional questions in its survey:
 - Do you believe the purchase was made at a competitive price?
 - Was the item/service delivered/provided within the required timeframe?
 - Did the quality of the item/service purchased meet your expectation?
- SPD should consider using an on-line survey tool that can be purchased for a nominal cost. These survey tools allow users to quickly create online surveys and provide user-friendly reporting mechanisms. Questions can be in multiple forms (multiple choice, rating scales, drop-down menus, etc.), and can control the question flow with custom skip logic based on responses to previous questions. This would allow SPD to tailor certain questions based on the type of procurement (i.e. Hi-Tech procurements may have different questions compared to Service Contracts). Results can be viewed as they are collected in real-time and can be viewed as live graphs and charts and well as summary collections of open-ended responses.

Using an on-line survey tool would free up SPD resources currently needed to compile the results of the surveys and provide for an efficient way to view survey results at any point in time. SPD could then quickly analyze survey trends over time and provide an easy way to compare against its stated metric of increasing customer satisfaction by 10%. In addition, use of an on-line survey tool would assist in ensuring that all survey results are captured in a consistent manner.

- If SPD sets a performance metric goal, it should determine a method to track and determine if this goal has been met. Without a baseline measurement with which to compare, SPD does not currently have a method to determine if they have met their goal of increasing customer satisfaction by 10%.

Response:

ARA/SPD concurs. SPD will implement an on-line survey by June 30th 2010.

21) Time Taken to Award Contracts

SPD Goal:

We use the most effective procurement methodologies to improve the process and yield the best value.

Measures / Targets:

Decrease average time taken to award contracts to 120 days or less.

SPD's Progress toward Attaining their Stated Target:

(Refer to page 65 of Jefferson Wells Performance Audit)

SPD's calculation of the metric for determining the average time taken to award contracts computes to 138.75 days which is in excess of their stated target of 120 days or less.

However, the current process used by SPD to calculate 1) total bid/contract awards YTD, 2) average days to award/all items to date, and 3) average time to award by month is a manual process that does not provide an audit trail that can be re-performed or verified. In addition, many of the determinations of time to award are based on conversation without supporting source documentation. Also, the calculations themselves are a manual process.

Jefferson Wells Recommendations:

We recommend that a more formal process be adopted to calculate the time to award metric. SPD should consider creating an excel spreadsheet to track each individual bid/contract awarded during a month. Copies of the council agenda in which the contracts were awarded should be maintained as well as the Project Status Reports which are used to determine the beginning date used to determine time to award. For bids/contracts in which project status reports are not available, SPD should maintain documentation of the methodology used to determine the beginning date used to calculate time to award. SPD should adopt formal procedures defining the beginning date used to determine time to award a bid/contract. The monthly calculations should be reviewed and approved by SPD management.

The above would provide a documented audit trail for this calculation and reduce the potential for human error.

Response:

ARA/SPD concurs. The implementation of a formal process to determine the time taken to award contracts is being implemented, and will require the collaborative efforts of the ERP/SAP team and ARA/SPD.

22) Establishment of an E-Link

SPD Goal:

We create an environment where we leverage technology to increase operational efficiencies.

Measures / Targets:

Establish an E-link by June 30, 2008

SPD's Progress toward Attaining their Stated Target:

(Refer to page 67 of Jefferson Wells Performance Audit)

We assessed SPD's progress toward their stated target to Establish E-link by June 30, 2009 as follows:

Based on review of the SPD website, discussion with representatives from SPD, review of timelines for the RFQ Module of e-Link, and Vendor Master Interface, and e-mails discussing the go-live of the NIGP Tracking Application, we noted the following:

- The Vendor Master Interface went live on February 23, 2009. SPD met their goal of establishing this e-link by June 30, 2009.
- The NIGP Tracking Application went live on April 30, 2009. SPD met their goal of establishing this e-link by June 30, 2009.
- The RFQ Module of e-link is in process as of June 2009. While several defined steps have been completed, the project is still in the testing phase. The current planned go live date is August 24, 2009.

Based on above, SPD has met the established June 30, 2009 target for two of the three defined E-link processes.

Jefferson Wells Recommendation:

SPD should continue to move forward in accordance with the established timeline for implementation of the RFQ module of E-link.

Response:

ARA/SPD concurs. On September 1, 2009 SPD went live with the RFQ module of the E-Link.

23) Conducting of 360 degree Feedback for Managers and Team Leaders

SPD Goal:

We create an environment where managers and team leaders have the necessary skill sets to lead.

Measures / Targets:

Conduct 360 degree Feedback for Managers and Team Leaders with a target of 100%.

SPD's Progress toward Attaining their Stated Target:

(Refer to page 68 of Jefferson Wells Performance Audit)

SPD has not formally acted on this metric.

Jefferson Wells Recommendation:

SPD should formally develop a plan to obtain 360 degree Feedback for Managers and Team Leaders and determine a time period in which to complete the process.

Response:

ARA/SPD concurs. The implementation of a 360-degree feedback for managers and team leaders will occur during the next evaluation period.

24) Employee Training

SPD Goal:

We create an environment that enables employees through coaching, counseling, and professional development training so that their performance is raised to "best in class."

Measures / Targets:

Employee Meeting Learning Goals of 800 hours.

SPD's Progress toward Attaining their Stated Target:

(Refer to page 69 of Jefferson Wells Performance Audit)

Based on the above, SPD appears to have exceeded their stated target of Employee Meeting Learning Goals of 800 hours during fiscal year 2009.

Jefferson Wells Recommendation:

When determining a Division Metric that SPD striving to maintain, we recommend that SPD include a time period in which to attain the specific metric.

Response:

ARA/SPD concurs. SPD will ensure that any metric includes a time period.

25) Use of Consolidated Contracts

SPD Goal:

We create an environment that leverages the expenditures of public funds while reducing administrative cost.

Measures / Targets:

Increase Use of Consolidated Contracts by 10%.

SPD's Progress toward Attaining their Stated Target:

(Refer to page 70 of Jefferson Wells Performance Audit)

As a result of SPD not formally retaining copies of its ACR at specified intervals, we are unable to determine SPD's progress toward their stated target of increasing their use of consolidated contracts by 10%.

Jefferson Wells Recommendations:

- SPD should generate and retain copies of its ACR at the end of each month so that it can determine its progress toward reaching their stated target of increasing their use of consolidated contracts by 10%. Furthermore, when determining a Division Metric that SPD is attempting to maintain, we recommend that a time period be included in which to attain the specific metric.
- Additionally, in an effort to provide more comprehensive information to its users, the City should consider including all active contracts in place throughout the City rather than just the contracts issued directly by SPD. This could provide the City overall cost savings by enhancing the visibility of existing contracts and facilitating the use of already existing contracts.

Response:

ARA/SPD concurs. To determine the use of consolidated contracts, a snap shot of the number of contracts in place and purchase orders issued at the beginning of each fiscal year will be compared to previous fiscal year. This data will be retained on SPD's intranet.

26) Generation of Cost Savings

SPD Goal:

We create an environment that leverages the expenditures of public funds while reducing administrative cost.

Measures / Targets:

Generate Cost Savings of \$30 million.

SPD's Progress toward Attaining their Stated Target:

(Refer to page 73 of Jefferson Wells Performance Audit)

Due to the inconsistencies in documentation of the calculations used to determine cost savings, we were unable to validate the reported cost savings amount of \$49.4 million.

However, based on our procedures performed, the documentation provided to support the calculation of \$24.6 million related to multiple bids appears to validate this amount and support was provided that appeared to properly validate the calculation of \$3.1 million in cost savings related to one specific RFP. Furthermore, we noted that the Cost Savings report we reviewed was through June 4, 2009. Based on this, it appears that SPD is on pace to attain its stated target of \$30 million.

Jefferson Wells Recommendations:

We recommend that both the calculation of cost savings and targets set by SPD be segregated into the following categories:

- Multiple bids

Continue to calculate dollars saved by taking the average of all bids received and comparing to the dollars awarded to the winning bid. Ensure that documentation of all bids received is maintained.

- Purchases made utilizing co-op agreements

It should be noted that the individual co-ops, not SPD, have incurred the cost of obtaining bids and selecting the qualified low bidder. However, use of a co-op agreement does save the City cost (in terms of time and resources otherwise needed to obtain and evaluate bids). We recommend that rather than setting a target of direct cost savings (over which SPD has no direct control), SPD consider a metric of percentage of buys using co-ops and/or dollars awarded using co-ops.

- Spot Purchases

Continue to calculate dollars saved by comparing the final purchase order amount to the initial requisition amount. However, we recommend that SPD review the final purchase order to adjust for changes in the quantities and/or specific items purchased that do not reflect true cost savings but are instead changes to the requisition.

- RFP/Special Purchases

This category should be used for unique purchases that do not directly fit within one of the other methodologies. By definition, these are non-routine purchases that if not segregated, distort the cost savings achieved in the other categories.

We also recommend that SPD develop clear guidelines and definitions for the methods used to calculate cost savings. Use of standardized methodologies would help to provide consistent calculations for each category. Documentation should be retained by the buyers to support all cost savings calculations and the final calculation for each item should be approved by their supervisor.

When determining a Division Metric that SPD is striving to achieve, we recommend that SPD include a time period in which to attain the specific metric.

Response:

ARA/SPD concurs. ARA/SPD will work collaboratively with the ERP/SAP team to automate the cost savings reports. Furthermore, all cost savings calculations will be tied to a department's operational budget.