

OFFICE OF THE CITY CONTROLLER



**ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT
(ARA)**

**BUREAU OF ANIMAL REGULATION AND CARE (BARC)
PROCUREMENT COMPLIANCE PERFORMANCE AUDIT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

November 20, 2018

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

SUBJECT: REPORT #2019-07 BARC PROCUREMENT COMPLIANCE PERFORMANCE AUDIT

Mayor Turner:

The Office of the City Controller's Audit Division (AD) has completed a performance audit of the Bureau of Animal Regulation and Care (BARC), procurement compliance. BARC, a Division under Administration and Regulatory Affairs (ARA), manages the City of Houston (City) animal shelter and adoption facility and is the only shelter in Houston required by law to accept every animal that comes through its doors. BARC collaborates with pet rescue groups to seek pet adoption possibilities. BARC also provides neo-natal and adult pet fostering programs, volunteer training classes and workshops, spaying/neutering, microchipping, vaccinations, and training class services. BARC serves as Houston's animal licensing facility. Its mission is to promote and protect public health, animal care and animal law enforcement.

Houston has one of the largest urban land areas in the U.S. Its size and unique characteristics create challenging circumstances regarding animal population and control. These challenges include:

- A year-long breeding season that steadily increases the area's animal population;
- A semi-tropical climate that serves as a welcoming environment for fleas, ticks and other parasites harmful to animals, and
- Home to a variety of animals like coyotes, bobcats, raccoons, etc., which increases local authority concern regarding rabies outbreaks.

The scope of our audit covered transactions and operational activities occurring from July 1, 2016 through June 20, 2017 and current operations and internal controls in existence at the time of our audit. The primary audit objectives were to:

- Evaluate BARC management's compliance with applicable policies, procedures, legislative and regulatory requirements; and
- Evaluate internal controls over BARC procurement.

During the audit, we noted BARC management has implemented certain internal controls to safeguard the inventory of animals (primarily dogs and cats) and medical supplies in its custody. We also noted that BARC performs periodic inventory counts and the results of those counts are reconciled against the general ledger to determine any differences.

We also noted the following exceptions:



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CHRIS B. BROWN

- The City's Chief Procurement Officer (CPO) has not implemented provisions of AP 5-13 including the communication of instructions on how to complete the required evaluations and how to submit evaluations to the CPO; and
- BARC has not performed the mandatory contractor performance evaluations required by AP 5-13 nor has it submitted them to CPO.

We would like to express our appreciation to the management and staff of the Administration and Regulatory Affairs Department and to BARC for their time and effort, responsiveness, and cooperation during this audit.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Tina Paez, Director, Administration and Regulatory Affairs Department
Tantri Emo, Director, Finance Department
Marvalette Hunter, Chief of Staff, Mayor's Office
Harry Hayes, Chief Operations Officer, Mayor's Office
Greg Damianoff, Director, ARA Bureau of Animal Regulation and Care
Valerie Berry, Assistant Director, Administration and Regulatory Affairs Department
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

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EXECUTIVE SUMMARY

INTRODUCTION

The Office of the City Controller’s Audit Division (AD) has completed a performance audit of the Bureau of Animal Regulation and Care (BARC) procurement processes. BARC is a Division under the supervision of the Administration and Regulatory Affairs (ARA) Department, and currently manages the City of Houston’s (the “City”) animal shelter and adoption facility. This audit was performed as part of our responsibilities under Article VIII, Section 7 of the City of Houston Code of Ordinances (the “Code”) and outlined in the Fiscal Year 2018 Annual Audit Plan.

BACKGROUND

BARC’s mission is to promote and protect public health and animal care through sheltering, pet placement programs, pet ownership education and animal law enforcement. BARC collects fees for various services it provides as well as fines pursuant to City or ordinance.

Houston has one of the largest urban land areas in the U.S. Its size and unique characteristics create challenging circumstances for animal population and control. In addition to a year-long breeding season that steadily increases the area’s animal population, the city’s semi-tropical climate serves as a welcoming environment for fleas, ticks and other parasites harmful to animals. The city is also home to a variety of animals like coyotes, bobcats, raccoons which increases local authority concern regarding rabies outbreaks. BARC is the City’s Animal Shelter and Adoption Facility. It is the only city shelter in Houston required by law to accept every animal regardless of breed, temperament, health conditions, and circumstances, i.e. whether from owner surrender, stray pick-up, rescue, or confiscation.

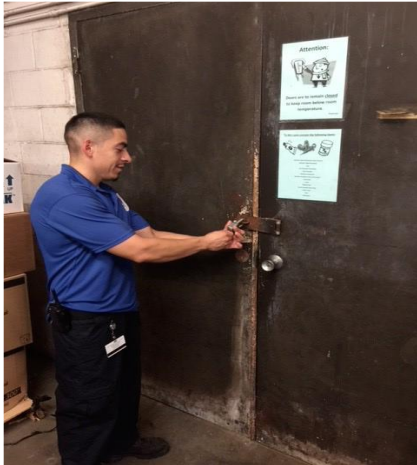
The primary responsibility of BARC is to provide shelter and veterinary care for all animals in its custody. This responsibility requires the purchase of animals and animal supplies in accordance with procurement standards found in the City’s Code of Ordinances (the “Ordinance”), Administrative Procedures (AP) and relevant state laws and regulations. Our audit engagement involved the review of BARC procurement practices and procedures against applicable policies, legislative and regulatory requirements to determine compliance. For this purpose, we reviewed provisions of the relevant Ordinance and AP and performed procedures to determine management compliance with the requirements of the applicable policies and regulations.

In addition, as part of our audit, we reviewed internal controls established by management regarding procurement. BARC has inventories of animal supplies that they maintain in a refrigerated environment as well as shelf secured locations. Physical access to these locations are restricted to

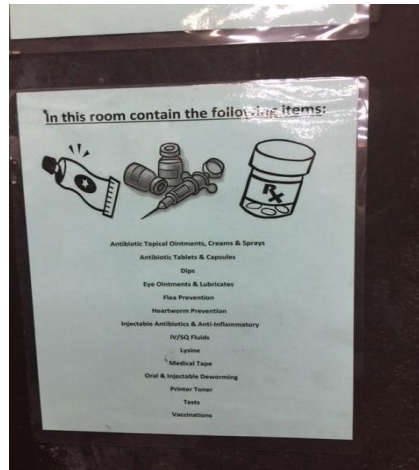
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authorized personnel. BARC personnel perform a physical count to determine how many items exist. Secured facilities are maintained for the drugs and supplies BARC uses in its operations:



BARC staff member securing sensitive procurement items storage facility



Signage advising staff of sensitive nature of procurement items



Signage warning BARC staff to keep access doors closed



BARC storage bins - Secured inventory items

We performed physical inventory and reconciled the amounts we observed to the balance contained in the inventory records. We also obtained samples of invoices and procurement transactions by vendors and performed procedures to determine, 1) whether they were properly approved and authorized and, 2) whether the vendors were debarred or suspended.

For the period Fiscal Years 2016, 2017 and July 1, 2017 through May 22, 2018 of Fiscal Year 2018, BARC incurred the following amounts on animal supplies:

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Table 1 - Summary of BARC Supplies and Purchases 2016 through 2018

Description of Supplies	2018			2017			2016		
	Budget	Actuals	Diff	Budget	Actuals	Diff	Budget	Actuals	Diff
161090 Gen'l Inventory	-	(7,051)	7,051	-	165,059	(165,059)	-	-	-
511010 Chem., Gas & Special Fluids	6,900	1,621	5,279	6,900	808	6,092	6,900	2,430	4,470
511015 Cleaning & Sanitary	168,898	57,177	111,721	168,898	175,732	(6,834)	153,982	152,428	1,554
511080 General Laboratory	-	792	(792)	-	-	-	-	-	-
511085 Drugs & Medical Chem	38,838	5,761	33,077	128,572	7,918	120,654	59,572	27,162	32,410
511090 Medical & Surgical	65,000	24,097	40,903	99,240	51,086	48,154	89,521	44,766	44,755
511100 Veterinary & Animal	1,000,000	822,854	177,146	1,128,699	894,857	233,842	968,606	893,351	75,255
511150 Miscellaneous Parts	78,671	62,037	16,634	78,671	59,048	19,623	44,464	89,230	(44,766)
Totals	1,358,307	967,288	391,019	1,610,980	1,354,508	256,472	1,323,045	1,209,367	113,678

AUDIT SCOPE AND OBJECTIVES

The primary objectives of the audit were to:

- Evaluate compliance with applicable policies, procedures, legislative and regulatory requirements; and
- Evaluate internal controls over BARC procurement.

The scope of the audit was all BARC animal care transactions and operational activities from July 1, 2016 through June 30, 2017.

PROCEDURES PERFORMED

To obtain sufficient audit evidence to achieve our audit objectives and support our conclusions, we performed the following steps:

- Reviewed the City's relevant regulations i.e. Code of Ordinances, Administrative Policies etc. to gain an understanding of procurement processes and procedures within the City's operations;
- Developed an internal control questionnaire to obtain information and assess internal controls and compliance procedures established by management;
- Performed research of existing ALGA and IIA websites for similar reports by local governments and institutions;
- Interviewed key management and BARC personnel to gain understanding and obtain information regarding the procurement process;
- Performed process walkthroughs with key BARC personnel;

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- Interviewed the Chief Procurement Officer (CPO) and obtained information regarding procurement procedures within the City's operations and performed procedures to assess its implementation;
 - Obtained and reviewed the general ledger accounts for BARC and ARA expenses related to procurement;
 - Obtained and reviewed the ARA BARC Asilomar / Maddie's Fund reports for FY 2017;
 - Obtained copies of BARC Animal Care Contracts with third parties to review the nature and extent of contracting within the Division;
 - Identified potential areas for process improvements and control gaps; and
 - Performed physical inventory and reconciled sample inventory counts with records to determine accuracy.
-

AUDIT METHODOLOGY

We conducted this performance and compliance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of the City of Houston nor that of ARA and BARC. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are following laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related Audit Objective for consistency and reference. For the detailed findings, recommendations, management response, comment and assessment of responses see the "Detailed Finding, Recommendations, Management Response, and Assessment of Response" section of this report.



CONCLUSION 1 – (AUDIT OBJECTIVE #1 & #2)

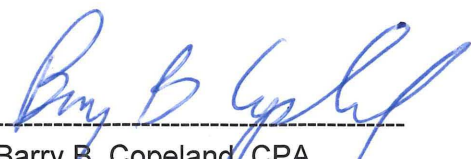
Based on work performed, we concluded that the provisions of AP 5-13 have not been implemented by the CPO (**See Finding #1**).

CONCLUSION 2 – (AUDIT OBJECTIVE #1)


Based on work performed, we concluded that the provisions of AP 5-13 have not been implemented by BARC management (**See Finding #2**).

ACKNOWLEDGEMENT AND SIGNATURES


The Audit Team would like to thank the management of ARA, the management and staff of the BARC Division for their cooperation, time, and efforts throughout the course of the engagement.



Barry B. Copeland, CPA
Assistant City Auditor III



Olaniyi Oyedele, CPA
Audit Manager



Courtney Smith, CPA, CIA, CFE
City Auditor



DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

**FINDING #1 – AP 5-13 REQUIREMENTS NOT FORMALLY IMPLEMENTED
RISK RATING (IMPACT AND MAGNITUDE) = HIGH**

BACKGROUND:

Administrative Policy 5-13 (AP 5-13, the AP) *Performance Evaluations* was enacted and approved on April 4, 2016. The provisions of AP 5-13 were effective upon approval. According to the policy statement; “all entities that hold a contract (vendors, contractors, consultants) with the City of Houston (City) for the provision of goods and/or services provide quality service to the City”. The purpose of AP 5-13 was to establish standards for evaluating entities that do business with the City. Section 6.1 of the policy requires the Chief Procurement Officer (CPO) to:

- promulgate policies relating to performance evaluations (**Section 6.1.1**)
- promulgate and publish forms for all departments to use in conducting performance evaluations (**Section 6.1.2**)
- maintain a central repository for performance evaluations that is accessible by all departments (**Section 6.1.3**)

During the audit, we performed procedures to assess internal controls established by management relating to procurement and in addition, we examined compliance with applicable policies, procedures legislative and regulatory requirements as determined in the audit objectives contained in the audit notification letter.

FINDING:

Audit procedures revealed that the CPO has not implemented the provisions of Sections 6.1.1 through 6.1.3 of AP 5-13 as required. Additionally, we have not seen any evidence that BARC personnel have not been trained on the appropriate forms to use or how to complete those forms. Non-implementation of the relevant provisions of AP 5-13, represents an internal control weakness and may result in the following:

- (a) City employees are unaware they are subject to severe penalties - disciplinary action up to and including indefinite suspension/termination (Section 5.3.1);
- (b) The City has no written documentation regarding vendor/contractor/consultant contract performance to include adherence to industry regulations and standards;
- (c) The City has no written documentation of circumstances surrounding contractor cost overruns that can lead to unnecessary delays and extension of work at tax payers' expenses



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Representations provided by the CPO to our inquiries regarding the non-implementation of these requirements, revealed that the Strategic Purchasing Department (SPD) did not have contract analysts in place until mid-year. According to information provided by the CPO, hiring the contract analysts was primarily to fulfill the requirements of the provisions of AP 5-13 regarding performance evaluations. In addition, the CPO represented that the centralized contract management system, which has been in the works for a few years, has remained un-operational due to lack of funding. However, the CPO informed that the implementation of these requirements will commence by year end to address these deficiencies.

RECOMMENDATIONS:

1. We recommend that the CPO communicate the policies and procedures relating to performance evaluation in accordance with Section 6.1.1 of AP 5-13.
2. We recommend that the CPO continue to publish forms for the use of all city departments in conducting performance evaluations of all city contracts in accordance with the provisions of Section 6.1.2, as well as instructions on how to complete those forms.
3. We recommend the establishment and maintenance of a central repository by the CPO in accordance with the provisions of Section 6.1.3 of AP 5-13.
4. We recommend that the CPO develop a timeframe for city departments to review their contracts and perform performance evaluations of contractors using the forms developed by the CPO. This is necessary for the establishment and maintenance of a central repository that will be available to city employees as required by AP 5-13.
5. We recommend that the CPO develop a training schedule in conjunction with the Learning and Development Center (LDC) to train city employees involved with contracts and/or contract administration about the requirements of completing contract performance evaluations and submission of the evaluations to the CPO.

FINANCE DEPARTMENT MANAGEMENT RESPONSE:

The CPO will issue a memo to all Department Directors advising of the requirements for participation in the *Performance Evaluation* process, detailing quantity and frequency of submissions, providing instructions on 1) how to complete the document and 2) where / how to submit the completed document for storage in a central repository. The memo will address all departments with procurement under the control of SPD and all DPUs with delegated authority to manage their own procurement actions.

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There are standard forms attached as an addendum to the AP 5-13 policy. These are standard forms for each of the three main procurement types – Contractor Performance, Consultant Performance and Vendor Performance. In the memo (referenced above in response to issue #1) the CPO will advise that, although these standard forms will fit most evaluations, there may be times when a simple memo may be attached to provide better understanding / corrective action.

The CPO will develop a central repository for all Performance Evaluations with visibility / access to any listed subscriber. This repository will contain a summary of vendor information with a link to all Vendor Performance records for that vendor.

Referring to the memo to be issued in response to Item #1, the CPO will publish a timeframe for compliance to AP 5-13 including receipt of the Vendor Performance documents. As an example, the established timeframe may be for each department to provide Performance Evaluations on 100% of their current active vendors each year, with 25% due at the end of each quarter. The list of total active vendors may be provided by SPD, with submissions selected by the department based on activity, performance, issues, concerns, etc.

The CPO will schedule multiple training events providing the opportunity to review the active vendor list, identify key department personnel / responsible parties, SPD contacts, review the Performance Evaluation forms as well as review of the AP 5-13 and other applicable policies. SPD will work with HITS to also provide a web-based training for continuing education. Further, this matter will be reviewed at the standard department meetings currently attended by most City Departments.

RESPONSIBLE PARTY:

Finance Department, Strategic Purchasing Department

ESTIMATED DATE OF COMPLETION:

This action will be completed on or before Friday, November 30, 2018. A notification detailing location, instructions and contact information will be provided at that time. These training events will be held on or before December 21, 2018.

ASSESSMENT OF RESPONSE:

The management response cited sufficiently address the issues identified and corrective actions are appropriate.



FINDING #2 – CONTRACTOR PERFORMANCE EVALUATION NOT IMPLEMENTED

RISK RATING (IMPACT AND MAGNITUDE) = MED

BACKGROUND:

According to Section 3 of Administrative Policy (AP) 5-13 *Performance Evaluations* (AP 5-13, the AP) the policy applies to all City departments and to all the following contracts involving (a) Commodities (b) Consulting services (c) Work services (d) Purchase and install, and (e) professional services. Accordingly, City departments are required to conduct performance evaluations of all entities involved in the contract with the City. Consequently, city departments were charged with various responsibilities under the AP for performance evaluation of all city contracts as follows:

- Departments shall conduct performance evaluations on a regular basis for all vendors, consultants and contractors holding City contracts. **(Section 5.1).**
- At least once a quarter or more often as appropriate, departments shall submit written performance evaluations to the Chief Procurement Officer (CPO). **(Section 5.2).**
- All employees through the department director shall comply with this policy from the date of approval forward. Violations of this policy may subject the offending employee to disciplinary action up to and including indefinite suspension/termination. **(Section 5.3.1).**
- Department Directors or Designees designate individuals responsible for evaluating vendor, contractor, and consultant performance. These individuals may be project managers, contract compliance officers, or other individuals with oversight of the vendor, contractor, or consultant. **(Section 6.2.1).**
- Department Directors or Designees shall conduct written performance evaluations of the vendors, consultants, and contractor(s) on a quarterly basis, at a minimum and submit them to the CPO. For some complex contracts, weekly or monthly evaluations may be appropriate. **(Section 6.2.2).**
- Department Directors or Designees communicate performance issues (good or bad) to the vendor, consultant, or contractor via telephone, in-person meetings, and status reports. **(Section 6.2.3).**
- Department Directors or Designees ensures that the performance evaluation document is completed no less than quarterly. For some complex contracts, weekly or monthly evaluations may be appropriate. **(Section 6.2.4).**

During the audit, we obtained existing BARC contracts and performed procedures to determine whether they were in compliance with applicable policies, procedures, and legislative requirements. Some contracts, allow for periodic inspection and audits including but not limited to, how animals have been adopted, euthanized, died of disease by the Contractor. The provisions in these agreements represent best practice in contract administration and are in line with the requirements of AP 5-13.



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FINDING:

Audit procedures performed indicated that the relevant sections of AP 5-13 noted in the Background section above have not been implemented. We found no documentary evidence of the following:

- (a) Regular performance evaluations of BARC vendors holding city contracts as required by the provisions of Section 5.1 of AP 5-13.
- (b) Submission of written performance evaluations to the Chief Procurement Officer (CPO) as required by the provisions of Section 5.2 of AP 5-13.
- (c) Designation of BARC personnel with adequate oversight of vendor activities to be responsible for evaluating vendor performance as required by the provisions of Section 6.2.1.
- (d) Communication of performance issues (good or bad) to the vendor(s) via telephone, in-person meeting and status reports as required by the provisions of Section 6.2.3.

Representations made by the CPO in response to our inquiries confirmed that no written performance evaluations have been submitted by any city department. Although no training on AP-5-13 has been provided, the penalty for non-compliance can be severe (disciplinary action up to and including indefinite suspension/termination), and the implementation of evaluations can provide the City with a stronger basis for measuring performance. Implementation of the evaluation system can result in:

- (a) Written historical information upon which future procurement decisions can be based.
- (b) Documented basis to aid objective determination of adequate value for taxpayer funds.

RECOMMENDATIONS:

- 1. We recommend that BARC conduct and submit performance evaluations on a regular basis for all its vendors, consultants and contractors holding City contracts in accordance with the provisions of AP 5.-13.
- 2. We recommend that BARC institute a procedure for communicating performance issues (good or bad) to the vendor, via telephone, in-person meetings, status reports as required under the provisions of Section 6.2.3

ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT RESPONSE:

The Administration and Regulatory Affairs Department will await Finance Department's (SPD) implementation of AP 5-13 on a Citywide basis. We will fully comply once the policy has been implemented.

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BARC DEPARTMENT MANAGEMENT RESPONSE:

BARC is not a City of Houston department. BARC is an operational division in the Administration and Regulatory Affairs Department. As stated above, the Administration and Regulatory Affairs Department will fully comply with the policy upon implementation by the Finance Department's Strategic Division.

RESPONSIBLE PARTY:

Administration and Regulatory Affairs Department

ESTIMATED DATE OF COMPLETION:

The timeline of completion is dependent on Finance Department's Strategic Purchasing Division's processes for Citywide implementation.

ASSESSMENT OF RESPONSE:

The issues and the cited corrective actions contemplated under AP 5-13 are directed to the Administration and Regulatory Affairs Department. We anticipate BARC, being a part of the Administration and Regulatory Affairs Department will be responsible for implementing those actions. Therefore, we believe that management response cited sufficiently address the issues identified and corrective actions are appropriate.



EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT



Acknowledgement Statement

Date: November 7, 2018

Chris B. Brown
City Controller
Office of the City Controller

Subject: Administration and Regulatory Affairs (ARA) Department, Bureau of Animal Regulation and Care (BARC) – Procurement Compliance Performance Audit Report – Acknowledgement of Management Responses

I acknowledge that the management responses contained in the above referenced report are those of the Houston Administration and Regulatory Affairs (ARA) Department. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,

A handwritten signature in black ink, appearing to read "Tina Paez", is written over a horizontal line.

Tina Paez, Director
Administration and Regulatory Affairs (ARA)
Department



EXHIBIT 2

ACKNOWLEDGEMENT STATEMENT

FINANCE DEPARTMENT

Office of the City Controller
Audit Division



Acknowledgement Statement

Date: November 9, 2018

Chris B. Brown
City Controller
Office of the City Controller

Subject: Finance Department – Procurement Compliance Performance Audit Report –
Acknowledgement of Management Responses

I acknowledge that the management responses contained in the above referenced report are those of the Houston Finance Department. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,

A handwritten signature in black ink, appearing to read "Tantri Emo", is written over a horizontal line.

Tantri Emo, Director
Finance Department

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