

OFFICE OF THE CITY CONTROLLER



**POLICE DEPARTMENT
BUDGET AND FINANCE DIVISION
FINANCIAL AUDIT**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor

Report No. 01-04



SYLVIA R. GARCIA

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

April 6, 2001

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

SUBJECT: Police Department
Budget and Finance Division
Financial Audit

Dear Mayor Brown:

The City Controller's Office Audit Division has completed a Financial Audit of the Police Department Budget and Finance Division located at 1200 Travis. The audit objective was to assist management with the assessment of the adequacy of internal controls related to financial activities under the control of the Budget and Finance Division. In addition, the financial audit evaluated compliance with departmental standard operating procedures.

Based on the results of our audit, we concluded that internal controls over financial activities are adequate to provide Department management with reasonable assurance that activities are efficiently and effectively performed, and that assets are properly safeguarded. However, we did find areas where we feel internal controls could be enhanced. The findings and recommendations are presented in the body of the report and views of responsible officials as to actions being taken are appended to the report as Exhibit I.

We commend the Department for taking immediate action on the recommendations identified in the report. In addition, we appreciate the cooperation extended to our auditors by Department personnel during the audit.

Respectfully submitted,


Sylvia R. Garcia
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Cheryl Dotson, Chief of Staff, Mayor's Office
C.O Bradford, Chief, Police Department
Philip B. Scheps, Ph.D., Director of Finance and Administration
Larry J. Yium, Director, Police Department, Budget and Finance

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EXECUTIVE SUMMARY

- P-card approving managers (supervisors who review and approve P-card purchases and P-card bank statement activity) do not receive training defining their roles and responsibilities related to monitoring P-card activity, including reviewing and approving monthly bank statement reconciliations. Failure to train approving managers may result in inappropriate P-card purchases in violation of Executive Order 1-42.
- The Purchasing Section does not maintain a signature log to verify that monthly P-card bank statement reconciliations were reviewed and approved by the proper authority. A signature log would strengthen internal controls allowing the Purchasing Section to verify that only authorized personnel sign bank statement reconciliations.
- The Department has purchased computer hardware and software items without approval from the HPD Computer Services Division, as required by General Order No. 400-19. Three of 58 (5%) P-card transactions tested were for the purchase of computer hardware and software items.
- Hazardous materials were purchased without obtaining the proper approvals outlined in A.P. 5-3 and A.P. 2-14, presenting potential hazards to City employees, pollution of the environment, and violation of Federal, State, and Local Government laws and ordinances.
- HPD does not maintain complete salary rate and payroll deduction forms in a central location for each of its employees. The lack of centrally located documentation may result in challenges to the validity of the benefit plans selected by City employees.
- The Division does not consistently issue pre-numbered receipts to take ownership of deposits delivered from various divisions. Disputes could arise should a discrepancy occur, or if a division questions the amount of funds credited to them.

SCOPE AND PURPOSE

We have completed an audit of the HPD Budget and Finance Division financial activities. The audit objectives were to evaluate the Department's compliance with applicable City of Houston administrative policies and procedures, ordinances, executive orders and the Department's own standard operating procedures related to purchasing cards (P-cards), purchasing, receiving, accounts payable, controllable assets, payroll, cash handling, and the budget process. The audit evaluated the adequacy of internal controls related to the above financial operations. The audit scope period was from December 1999 through November 2000.

The scope of our work did not constitute an evaluation of the overall internal control structure of the Department. Our examination was designed to evaluate and test compliance with procedures and internal controls related to the Budget and Finance Division financial activities. This was a financial audit executed in accordance with Generally Accepted Government Auditing Standards

Department management is responsible for establishing and maintaining a system of internal controls to adequately manage and account for financial activities, and to adequately safeguard assets as an integral part of the Department's overall internal control structure. The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

CONCLUSION

Based on the results of our audit, we conclude that internal controls over the financial activities at HPD's Budget and Finance Division are adequate, except for the findings presented in the body of the report. HPD's internal controls provide management with reasonable assurance that financial activities are adequately managed and accounted for, and that assets are properly safeguarded in accordance with applicable City of Houston administrative policies and procedures, ordinances, executive orders and the Departments own standard operating procedures.

Scott Haiflich
Auditor-in-charge

Rudy Garcia
Audit Manager

Steve Schoonover
City Auditor

INTRODUCTION

The HPD Budget and Finance Division of the Police Department (HPD) is responsible for overseeing financial activities for the department. Specifically, Budget and Finance prepares, submits, and monitors the budget; maintains financial accounting and prepares reports; processes requisitions and issues purchase orders; receives, safeguards, and deposits revenue (cash, checks and money orders) collected by other HPD divisions; reconciles bank statements; processes invoices for payment; reviews purchasing card statements and supporting documentation for compliance with Executive Order 1-42; processes payroll for the department; maintains the controllable assets ledger for the department; and administers HPD and city-wide contracts with HPD involvement. The fiscal year 2001 budget for the Budget and Finance Division was \$6,206,228, and the division had 53 approved positions.

AUDIT FINDINGS AND RECOMMENDATIONS

PURCHASING CARDS

BACKGROUND

HPD is the second largest user of P-cards in the city, second only to the Public Works and Engineering Department. In May 2000, HPD had 181 P-cardholders. The majority of cardholders were assigned a \$750 single purchase limit, and all have been assigned a \$5,000 total monthly purchase limit. From October 1998 (the beginning of the P-card pilot program) through May 2000, HPD completed 10,531 P-card transactions. Average monthly P-card expenditures for the period July 1999 through May 2000, totaled approximately \$100,000. P-card expenditures are recorded in the Advantage 2000 System based on a merchant category code assigned to each vendor, and linked to a specific accounting object codes.

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

E.O. 1-42, Section 5.2.3, requires approving managers (supervisors who approve monthly P-card bank statements) to:

- Review and approve P-card applications prior to submission to the Departmental Purchasing Card Coordinator (P-card Coordinator)
- Review receipts and monthly bank statement reconciliations prior to submission to the P-card Coordinator
- Recommend suspension or cancellation of a card to the P-card Coordinator when considered necessary
- Notify the P-card Coordinator when a cardholder is terminated so the card will be collected and purchasing privileges terminated.

E.O. 1-42, Section 7.0 allows P-cards to be used to purchase any item and/or service for “immediate use” not prohibited by the executive order, another policy or procedure approved by the Mayor, or an ordinance of the City of Houston. Section 12.0 stated that any non-contract purchase for supplies and or services in excess of \$750 required conformance to the bidding process as stated in City Administrative Policies and Executive Orders.

I. FIREARM PURCHASES

FINDING

Five handguns totaling \$2,964 were purchased for the HPD Training Academy by a P-Cardholder. The guns were purchased pending City Council approval of a Request for Council Action (RCA) to purchase 66 firearms at a cost exceeding \$15,000. Additionally, it appears the purchases were split in order to avoid complying with P-card bid requirements for goods exceeding \$750.

The Division discovered the bid split situation described above during their routine monthly review of P-Card statements, and issued a written reprimand to the cardholder.

RECOMMENDATION

We recommend that cardholders comply with E.O. 1-42, Section 12.0 requiring cardholders to conform with the bidding process. We also recommend that Approving Managers thoroughly review P-Card statements prior to forwarding them to the P-Card Coordinator. Approving Managers’ responsibilities should be clearly defined through formal training.

II. P-CARD JUSTIFICATION

FINDING

There are no established criterion or minimum requirements to qualify for a P-card. An Internal Cardholder Agreement Form (Exhibit 1 to E.O. 1-42) is submitted by an “authorized approver” (typically the employee’s supervisor or someone in his/her reporting chain) to the P-card Coordinator, who establishes the single purchase and total monthly purchase limits. However, the form does not include a field to justify the employee’s need for a P-card.

RECOMMENDATION

We recommend that the Department’s P-card Coordinator, along with the Finance and Administration Department’s P-card Administrator, develop minimum requirements to qualify for a P-card.

Perhaps a committee minimally made up of the P-card Administrator and all the P-card Coordinators from the departments participating in the pilot program should form to assist in the development of the P-card administrative procedure currently being drafted. P-card findings presented in this report related to the HPD financial audit, as well as other concerns raised by P-card Coordinators, should be considered by the committee when developing the new administrative procedure.

III. P-CARD APPROVING MANAGER TRAINING

FINDING

P-card approving managers (supervisors who review and approve P-card purchases and P-card bank statement activity) do not receive training defining their roles and responsibilities related to monitoring P-card activity, including reviewing and approving monthly bank statement reconciliations. Some approving managers had not even attended the basic P-card training. Failure to train approving managers resulted in inappropriate P-card purchases in violation of the Executive Order 1-42.

RECOMMENDATION

We recommend that HPD discuss with the P-card Administrator the need for training approving managers to define their roles and responsibilities for monitoring P-card activity.

IV. P-CARD AUTHORITY SIGNATURE LOG

FINDING

HPD's Purchasing Section does not maintain a P-card authority signature log to verify that monthly bank statement reconciliations are reviewed and approved by the proper authorities. A signature log would strengthen internal controls allowing the Purchasing Section to verify that only authorized personnel sign bank statement reconciliations.

RECOMMENDATION

We recommend HPD's Purchasing Section prepare and maintain a P-card authority signature log and verify that monthly bank statement reconciliations are reviewed and approved by authorized personnel. The log should list the manager's name and the name of the P-card users who report to the manager. Approving managers should be responsible for informing the Purchasing Section of changes in approving authority, so that signature logs can be updated when necessary.

V. P-CARD PURCHASES

BACKGROUND

HPD General Order No. 400-19, *Microcomputer Regulations*, Section 2., *Procurement*, states that, "All requests for the purchase of microcomputer hardware, software, and related supplies will be sent to the Computer Services Division for approval to ensure the purchase meets department standards. E.O. 1-42 requires that cardholders annotate the purpose of purchases on all receipts.

FINDING

The Department has purchased computer hardware and software items without approval from HPD's Computer Services Division. Three of 58 (5%) P-card transactions tested were for the purchase of computer hardware/software items. The purchases were not pre-approved by the Computer Services Division. Additionally, Cardholders did not record the purpose of the purchase on 36 of 58 (62%) receipts reviewed during audit testing.

RECOMMENDATION

We recommend that the Department develop procedures to ensure that the purchase of computer hardware/software is approved in writing by the Computer Services Division. The written

approval should be attached to P-cardholders' monthly statements. We also recommend that P-card users be reminded to record the purpose of purchases on receipts. Alternatively, the purpose can be recorded on a log and attached to the monthly bank statement reconciliations.

VI. HAZARDOUS MATERIALS

BACKGROUND

A.P. 5-2, Section C.1, states that the "Purchase of toxic, hazardous or restricted materials must be approved by the department's emergency coordinator and the City's HAZCOM Compliance Officer (HCO), the Administrator of Accident Prevention and Loss Control, or the Risk Manager unless materials are on approved contract pursuant to A.P. 2-14." Listed among the hazardous materials are paint, fertilizer, and other similar products. The various HPD Divisions are responsible for a variety of activities including, but not limited to, the maintenance of vehicles, operation of jail facilities, and ground maintenance at various City locations.

The City's HazCom Officer, stated that prior approval for the purchase of any materials that may contain chemicals must be obtained from him or the appropriate Division Safety Officer.

FINDING

Hazardous materials were purchased without obtaining the proper approvals. Two of 58 purchase requisitions tested were for items containing chemicals. These requisitions were processed without obtaining approval from the City's HazCom Officer or an appropriate Division Safety Officer. Failure to comply with administrative procedures may result in potential hazards to City employees, pollution of the environment, and violation of Federal, State and Local Government laws and ordinances.

RECOMMENDATION

We recommend the department comply with A.P. 5-3 and A.P. 2-14, by obtaining the required approval for hazardous materials prior to purchase. A copy of the approval should be attached to the purchase requisition or purchase order. Additionally, we recommend this requirement be included in P-card training.

VII. PAYROLL DOCUMENTS

BACKGROUND

Good business practices require that adequate documentation of all payroll-related information (including deductions) be filed and maintained in a central location. Specifically, well-documented payroll information is filed by employee and includes all current and prior salary rates and payroll deductions. Complete employee payroll files support each payroll deduction and are authorized by employee signature and date.

FINDING

HPD's Payroll Section does not maintain complete salary rate and payroll deduction forms in a central location for each of its employees. Not all payroll deduction forms are forwarded to F&A Central Payroll for processing. Central Payroll files deduction forms by payroll period, rather than by employee. With this filing method, reliable verification of payroll deductions is difficult, if not impossible. In other words, finding a deduction form for health insurance premiums, filed by pay period, does not ensure that the form is applicable to the period being audited. Therefore, we were unable to verify the correctness of all deductions while testing payroll. This filing procedure has city wide implications and is not only an HPD issue.

The lack of such documentation may result in challenges to the authorization by City employees for amounts deducted from payroll.

RECOMMENDATION

We recommend that the Department consider maintaining complete salary rate and payroll deduction forms in employee files, subject to space and cost considerations. Files should contain all past and present payroll information. All deduction forms should be signed and dated by employees.

VIII. CASH HANDLING

BACKGROUND

The Division receives revenue funds for deposit from various HPD divisions. Funds are received in the form of cash, checks and money orders. Some deposits are received in sealed bank deposit bags with deposit slips already completed, while other deposits are not received in sealed bags. Deposits are held by the Budget and Finance Division and secured in a locked safe with limited access. Funds secured in the safe are transferred to armored car drivers for bank deposit on Tuesday and Friday of each week. The armored car driver issues a receipt to the Budget and Finance representative to document the transfer of funds.

Adequate internal controls require consistent documentation of fund transfers from the source division to the Budget and Finance Division, and ultimately to the armored car driver.

FINDING

The Budget and Finance Division does not document the receipt of funds from various divisions in a consistent and standard manner. Therefore, receipts do not support several fund transfers and the funds are often not counted increasing the risk for errors or irregularities. Disputes could arise should a discrepancy occur or if a division questions the amount of funds credited to them.

The following explains the inconsistencies in the documentation of the transfer of funds:

- The Special Operations Division delivers checks (proceeds from special events like festivals) to the Budget and Finance Division for deposit. Budget and Finance does not issue a prenumbered receipt. No documentation of the transfer is prepared.
- The Auto Dealers Division delivers sealed bank deposit bags to the Budget and Finance Division for deposit. Budget and Finance does not issue a prenumbered receipt. The Budget and Finance Division representative initials or signs, and dates deposit slips prepared by the Auto Dealers Division, and both receive a copy. The copy of the deposit slip is intended to serve as the receipt documenting the transfer of funds.
- The Records Division delivers funds in sealed bank deposit bags, while the Training Division does not deliver funds in sealed bags. Neither division receives prenumbered receipts from the Budget and Finance Division representative documenting the transfer of funds. Those divisions prepare memos reflecting the deposit amounts. The Budget and Finance Division representative signs and dates the memo in the spaces provided. The source division provides a copy of the memo to the Budget and Finance Division for their records. The memo is intended to serve as a receipt for the transfer of funds.
- The Vice Division delivers funds that are not in sealed bank deposit bags. The Budget and Finance Division issues prenumbered receipts to document the transfer of funds. The Budget and Finance Division representative counts funds that are not delivered in sealed bank deposit bags. Funds received in sealed bank deposit bags are not counted. However,

documentation of the transfer of funds does not explain that the funds delivered in sealed bags were not counted by the Budget and Finance Division representative.

RECOMMENDATION

We recommend that the Budget and Finance Division develop written procedures for consistent documentation of the receipt of funds from source divisions. Specifically, procedures should require that, in all cases, a prenumbered receipt be issued by the Budget and Finance Division to document the receipt of funds. The receipt should require the signature of both the source division and the Budget and Finance Division. Prenumbered receipts should also document when funds were counted in the presence of both representatives at the time of the transfer. The receipt of sealed bank deposit bags should be noted on prenumbered receipts to indicate that fund amounts were not verified.

IX. ADMINISTRATIVE PROCEDURE 2-17

FINDING

The Records, Training, Auto Dealers, Vice and Special Operations Divisions did not have copies of A.P. 2-17, *Cash Handling Policies and Procedures*. The Records Division had a copy of S.O.P. 300/3.01, *Handling Cash and Checks*, and S.O.P. 300/3.08, *Reconciliation of Cash, Checks and Receipts*. The remaining divisions did not have any written cash handling procedures in their possession.

RECOMMENDATION

We recommend that the Budget and Finance Division provide the Records, Training, Auto Dealers, Vice and Special Operations Divisions with copies of A.P. 2-17, and applicable HPD standard operating procedures.

X. UNANNOUNCED PETTY CASH AUDITS

BACKGROUND

A.P. 5-3 states that periodic verifications of petty cash are necessary to ensure that the cash entrusted to the custodian is adequately safeguarded. Section 7, bullet no. 10, states that S.W.A.T. is one of the only divisions that may purchase food and beverages while on emergency calls. A.P. 5-3, Section 5.1, bullet #5 states that, "the Approving Authority is responsible for periodically designating an employee to conduct unannounced

audits of petty cash funds to ensure the integrity and accuracy of these funds". We performed unannounced audits of the following two petty cash funds, which are not under the direct control of the Budget and Finance Division.

- S.W.A.T., Fund 100, Account # 0111, located at 1500 W. Dallas in the amount of \$2,000
- Fleet Maintenance Fund 100, Account #0116, located at 61 Reisner in the amount of \$2,000

FINDING

We found no evidence of unannounced petty cash audits at the S.W.A.T. location. HPD's Inspections Division is responsible for performing quarterly as well as unannounced verifications of the petty cash fund balance. The custodian stated that unannounced audits have not been performed since he took ownership of the petty cash fund. Unannounced audits assist in assessing compliance with policy and procedures over petty cash, and ensures proper safeguards are in place.

RECOMMENDATION

The Department should conduct and document unannounced verifications of petty cash funds as required by A.P. 5-3. Management may want to consider assigning Budget and Finance Division personnel to conduct and document unannounced petty cash audits.

XI. PETTY CASH ADVANCES

BACKGROUND

S.W.A.T.'s \$2,000 petty cash fund was divided into three amounts. The majority of the fund (\$1,600) is located in a safe in the petty cash custodian's office at the 1500 W. Dallas S.W.A.T. location. An amount for food, \$300 is kept in a lock box inside a locked drawer in the S.W.A.T. emergency vehicle. The remaining \$100 is located at the Dive Team Rescue Division Office, at 61 Reisner, and is used for the purchase of food when on emergency call, or small miscellaneous items. A.P. 5-3 requires that advances be liquidated within 3 days.

FINDING

There is no documentation to support the permanent advances of the \$300 to the S.W.A.T. emergency vehicle and the \$100 advance to the Dive Team locations. Failure to document petty

cash advances violates petty cash administrative procedures, weakens internal controls, and may result in misappropriation of the funds.

RECOMMENDATION

The Department should request, from the Finance and Administration Department, a revision to A.P. 5-3 to exempt S.W.A.T's petty cash advances to the S.W.A.T emergency vehicle and to the Dive Team locations from the three day liquidation requirement, due to the nature of S.W.A.T's operation.

XII. VENDOR TABULATION REPORT FORM

BACKGROUND

HPD issues its own in-house standard operating procedures, some of which are designed to supplement City administrative procedures and improve internal controls. HPD's SOP No. 99-001, *Generating and Processing Requisitions*, Section 3., Bullet no. 3 states that for purchase requisitions totaling \$750.01 and no greater than \$5,000 a vendor tabulation report form summarizing bids obtained is required. This form is not required under the City's A.P. 5-2.

FINDING

Twelve of the 28 (43%) requisitions tested that required bids did not have the Department required vendor tabulation report form attached. The tabulation form summarizes the bids received on one document for ease of review.

RECOMMENDATION

We recommend that management re-emphasize to purchasing personnel the department's requirement for Vendor Tabulation Report Forms, under HPD SOP No. 99-001.

EXHIBIT 1

CITY OF HOUSTON

INTER OFFICE CORRESPONDENCE

TO: Sylvia Garcia
City Controller

FROM: C.O. Bradford
Chief of Police

DATE: June 28, 2001

SUBJECT: Response to HPD Budget and
Finance Division Financial
Related Audit Findings

Attached is the revised management response to the final draft of the recent audit of the Houston Police Department, Budget and Finance Division financial related activities for the period of December 1999 through May 2000 conducted by the City Controller's Office Audit Division. I agree with your conclusion that internal controls over financial related activities are adequate to provide the department management with reasonable assurance that activities are efficiently and effectively performed, and that assets are properly safeguarded. However, your staff did identify some areas where internal controls could be enhanced. There were twelve specific findings, which were summarized into six points in the executive summary.

Our responses to the executive summary are outlined below:

- ◆ **Finding** - P-card approving managers (supervisors who review and approve P-card purchases and P-card bank statement activity) do not receive training defining their roles and responsibilities related to monitoring P-card activity, including reviewing and approving monthly bank statement reconciliations. Failure to train approving managers may result in inappropriate P-card purchases in violation of Executive Order 1-42.

Response - The Budget & Division will develop training for supervisors and managers regarding P-card administration.

- ◆ **Finding** - The Purchasing Section does not maintain a signature log to verify that monthly P-card bank statement reconciliations were reviewed and approved by the proper authority. A signature log would strengthen internal controls allowing the Purchasing Section to verify that only authorized personnel sign bank statement reconciliations.

Response - The procedures have been modified to require that on each cardholder's monthly statement, the Assistant Chief or civilian equivalent will verify that the approving authority signature and the purchases are correct. Due to the limited number of assistant chiefs and civilian equivalents, their signatures are easily identifiable by the Budget & Finance reviewers. Further, the Budget & Finance Purchasing Section has signatures of the command level personnel on file.

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Officials*

EXHIBIT 1

Sylvia R. Garcia

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June 28, 2001

- ◆ **Finding** - The Department has purchased computer hardware and software items without approval from the HPD Computer Services Division. Three of 58 (5%) P-card transactions tested were for the purchase of computer hardware and software items.

Response - Prior to September 2000, HPD Computer Services Division gave hardware and software purchase approvals verbally. Currently, cardholders receive purchase approval via written communication or e-mail that is attached to the monthly activity statement.

- ◆ **Finding** - Hazardous materials were purchased without obtaining the proper approvals outlined in A.P. 5-3 and A.P. 2-14, presenting potential hazards to City employees, pollution of the environment, and violation of Federal, State, and Local Government laws and ordinances.

Response - Since the questioned materials were regularly purchased by the two divisions in prior years, it was assumed that prior City Hazcom Officers made initial approvals and were allowable purchases as outlined by Section 6 of City Administrative Procedure # 2-14. The procedure states that the City Purchasing Department should govern the purchase of hazardous materials within city departments including documentation review and approvals for contract and non-contract purchases. However, the Department will strengthen its own internal procedures to ensure future compliance.

- ◆ **Finding** - HPD does not maintain complete salary rate and payroll deduction forms in a central location for each of its employees. The lack of centrally located documentation may result in challenges to the authorization by employees for amounts deducted from payroll.

Response - Currently, all records concerning employees' pay, changes to status, work assignments, etc. are kept in their personnel file in the HPD Personnel Division and deduction requests are kept by Budget & Finance for two years. It is assumed that employees should be aware of their deductions and would raise questions within a reasonable period of time. It would not be economically feasible to maintain a file for each employee for all deductions during his/her employment tenure. It is possible that with future advances and cost reductions in imaging technology that this recommendation will be more cost feasible.

- ◆ **Finding** - The Budget & Finance Division does not consistently issue pre-numbered receipts for funds received from various divisions. Disputes could arise should a discrepancy occur, or if a division questions the amount of funds credited to them.

Response - As recommended, clerical personnel are now required to document the transfer of funds with pre-numbered receipts except for wire transfers and some mailed-in checks. Both the signatures of the person from the source division and the Budget & Finance Division, when feasible, are now required on the pre-numbered receipts. Further, it is now

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EXHIBIT 1

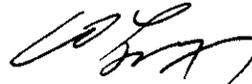
Sylvia R. Garcia

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June 28, 2001

noted on the pre-numbered receipt that funds have not been counted when received in sealed bank deposit bags.

Please contact Larry Yium at 308-1778 if you have any questions.



C.O. Bradford
Chief of Police

COB:ljj

Attachments

CC: Al Haines, CAO, Mayor's Office

COP # 01-2581

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EXHIBIT 1

RESPONSE TO AUDIT FINDINGS

NOTE: The findings and recommendations are copied verbatim from the auditor's report.

I. Firearm Purchases

Finding

Five handguns totaling \$2,964 were purchased for the HPD Training Academy by a P-Cardholder. The guns were purchased pending City Council approval of a Request for Council Action (RCA) to purchase 66 firearms at a cost exceeding \$15,000. Additionally, it appears the purchases were split in order to avoid complying with P-card bid requirements for goods exceeding \$750.

The Division discovered the bid split situation described above during their routine monthly review of P-Card statements, and issued a written reprimand to the cardholder.

Recommendation

We recommend that cardholders comply with E.O. 1-42, Section 12.0 requiring cardholders to conform to the bidding process. We also recommend that Approving Managers thoroughly review P-Card statements prior to forwarding them to the P-Card Coordinator. Approving Managers' responsibilities should be clearly defined through formal training.

Management's Response

In this case, it appears that the controls for discovering non-compliance worked. Notification of violation was issued. We will ensure that approving managers receive more detailed training.

II. P-Card Justification

Finding

There are no established criterion or minimum requirements to qualify for a P-card. An Internal Cardholder Agreement Form (Exhibit 1 to E.O. 1-42) is submitted by an "authorized approver" (typically the employee's supervisor or someone in his/her reporting chain) to the P-card Coordinator, who establishes the single purchase and total monthly purchase limits. However, the form does not include a field to justify the employee's need for a P-card.

Recommendation

We recommend that the Department's P-card Coordinator, along with the Finance and Administration Department's P-card Administrator, develop minimum requirements to qualify for a P-card.

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Officials*

EXHIBIT 1

Perhaps a committee minimally made up of the P-card Administrator and all the P-card Coordinators from the departments participating in the pilot program should form to assist in the development of the P-card administrative procedure currently being drafted. P-card findings presented in this report related to the HPD financial audit, as well as other concerns raised by P-card Coordinators, should be considered by the committee when developing the new administrative procedure.

Management's Response

The City has no specific criteria for P-card holders, and this issue will be addressed to Finance & Administration for review. In theory, the ultimate goal of P-cards is that the cards will be used for a variety of purposes – routine purchases, fueling, travel, or contract purchases. As such, it will be difficult to develop specific minimum qualifications, as opposed to a generic description. Notwithstanding this fact, the Houston Police Department requires compliance to the following before any card is issued:

- Cardholders must attend training prior to P-card issuance.
- Cardholders' chain of command approves the need for an individual to be assigned a P-card.
- The chain of command up to the Assistant Chief reviews cardholder activity and may discontinue a P-card at any time.

III. P-Card Approving Manager Training

Finding

P-card approving managers (supervisors who review and approve P-card purchases and P-card bank statement activity) do not receive training defining their roles and responsibilities related to monitoring P-card activity, including reviewing and approving monthly bank statement reconciliation. Some approving managers had not even attended the basic P-card training. Failure to train approving managers resulted in inappropriate P-card purchases in violation of the Executive Order 1-42.

Recommendation

We recommend that HPD discuss with the P-card Administrator the need for training approving managers to define their roles and responsibilities for monitoring P-card activity.

Management's Response

The Department will develop this training for supervisors and managers.

IV. P-Card Authority Signature Log

Finding

HPD's Purchasing Section does not maintain a P-card authority signature log to verify that monthly bank statement reconciliations are reviewed and approved by the proper authorities. A signature log would strengthen internal controls allowing the Purchasing

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Officials*

EXHIBIT 1

Section to verify that only authorized personnel sign bank statement reconciliations.

Recommendation

We recommend HPD's Purchasing Section prepare and maintain a P-card authority signature log and verify that monthly bank statement reconciliations are reviewed and approved by authorized personnel. The log should list the manager's name and the name of the P-card users who report to the manager. Approving managers should be responsible for informing the Purchasing Section of changes in approving authority, so that signature logs can be updated when necessary.

Management's Response

The procedures have been modified to require that on each cardholder's monthly statement, the Assistant Chief or civilian equivalent will verify that the approving authority signature and the purchases are correct. Due to the limited number of assistant chiefs and civilian equivalents, their signatures are easily identifiable by the Budget & Finance reviewers. Furthermore, the Budget & Finance Purchasing Section has signatures of the command level personnel on file.

V. P-Card Purchases

Finding

The Department has purchased computer hardware and software items without approval from HPD's Computer Services Division. Three of 58 (5%) P-card transactions tested were for the purchase of computer hardware/software items. The purchases were not pre-approved by the Computer Services Division. Additionally, Cardholders did not record the purpose of the purchase on 36 of 58 (62%) receipts reviewed during audit testing.

Recommendation

We recommend that the Department develop procedures to ensure that the purchase of computer hardware/software is approved in writing by the Computer Services Division. The written approval should be attached to P-cardholders' monthly statements. We also recommend that P-card users be reminded to record the purpose of purchases on receipts. Alternatively, the purpose can be recorded on a log and attached to the monthly bank statement reconciliations.

Management's Response

Prior to September 2000, HPD Computer Services Division gave hardware and software purchase approvals verbally. Currently, cardholders receive purchase approval via written communication or e-mail that is attached to the monthly activity statement.

HPD cardholders are aware that they must comply with G.O. No. 400-19, which requires the Computer Services Division to approve hardware and software purchases. The monthly reconciliation statement makes reference to:

Computer related items (hardware/software) have been approved or reported to the Computer Services Division as appropriate.

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When the cardholder signs the monthly statement they are confirming compliance with G.O. No. 400-19. Further, our monthly transmittal to P-card holders of the reconciliation statement emphasizes the need for stating the purpose of the purchase.

VI. Hazardous Materials

Finding

Hazardous materials were purchased without obtaining the proper approvals. Two of 58 purchase requisitions tested were for items containing chemicals. These requisitions were processed without obtaining approval from the City's HazCom Officer or an appropriate Division Safety Officer. Failure to comply with administrative procedures may result in potential hazards to City employees, pollution of the environment, and violation of Federal, State and Local Government laws and ordinances.

Recommendation

We recommend the department comply with A.P. 5-3 and A.P 2-14, by obtaining the required approval for hazardous materials prior to purchase. A copy of the approval should be attached to the purchase requisition or purchase order. Additionally, we recommend this requirement be included in P-card training.

Management's Response

The purchase orders in question pertain to materials regularly purchased for years by the two divisions. In prior years, it was assumed that the City Hazcom Officer made initial approvals. Section 6 of Administrative Procedure # 2-14 states that the City Purchasing Department should govern the purchase of hazardous materials within city departments, including documentation review and approvals for contract and non-contract purchases. Since these purchase orders were not rejected for non-compliance, the Department assumed that these were allowable purchases. However, as recommended, the Department will implement procedures to require prior approval by the Department's Safety Officer of any acquisition of this type of material and proper documentation be attached to each requisition or P-card statement. The Budget & Finance Division will ensure that this requirement be included in P-card training.

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VII. Payroll Documents

Finding

HPD's Payroll Section does not maintain complete salary rate and payroll deduction forms in a central location for each of its employees. Not all payroll deduction forms are forwarded to F&A Central Payroll for processing. Central Payroll files deduction forms by payroll period, rather than by employee. With this filing method, reliable verification of payroll deductions is difficult, if not impossible. In other words, finding a deduction form for health insurance premiums, filed by pay period, does not ensure that the form is applicable to the period being audited. Therefore, we were unable to verify the correctness of all deductions while testing payroll. This filing procedure has citywide implications and is not only an HPD issue.

The lack of such documentation may result in challenges to the authorization by City employees for amounts deducted from payroll.

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Recommendation

We recommend that the Department consider maintaining complete salary rate and payroll deduction forms in employee files, subject to space and cost considerations. Files should contain all past and present payroll information. All deduction forms should be signed and dated by employees.

Management's Response

Currently, all records concerning employees' pay, changes to status, work assignments, etc. are kept in their personnel file in the HPD Personnel Division. All deduction requests are forwarded to Central Payroll for process with the exception of health benefits. All forms are signed and dated by the employee before being processed. Currently, Budget & Finance maintains the records for one year in house and one year in archives. They are filed by deduction type. The division processes, on the average, 100-150 deduction requests per month. Over a period of one year, this would add up to about 1,200-1,800 documents. Considering the fact that in a 5-year period each employee would change or update their deductions twice, it would require several file cabinets and one full time employee for just filing and maintaining the records. If these files were to be forwarded to the Personnel Division, similar filing requirement would be needed in their area. In this instance, the audit did not identify this finding as a problem with police employees, but as a potential problem.

Currently, the Department follows all City procedures in records retention for this area. It is a logical assumption that employees should also be aware of their deductions and to bring any discrepancies immediately to the attention of the Payroll Section.

Therefore, it is not economically feasible at this time to maintain a file for each employee of deductions during his/her employment tenure. It is possible that with future advances and cost reductions in the imaging technology, that this recommendation will be more cost feasible.

VIII. Cash Handling

Finding

The Budget and Finance Division does not document the receipt of funds from various divisions in a consistent and standard manner. Therefore, receipts do not support several fund transfers and the funds are often not counted increasing the risk for errors or irregularities. Disputes could arise should a discrepancy occur or if a division questions the amount of funds credited to them.

The following explains the inconsistencies in the documentation of the transfer of funds:

- Special Operations Division delivers checks (proceeds from special events like festivals) to the Budget and Finance Division for deposit. Budget and Finance does not issue a pre-numbered receipt. No documentation of the transfer is prepared.
- The Auto Dealers Division delivers sealed bank deposit bags to the Budget and Finance Division for deposit. Budget and Finance does not issue a pre-numbered receipt. The Budget and Finance Division representative initials or signs, and

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dates deposit slips prepared by the Auto Dealers Division, and both receive a copy. The copy of the deposit slip is intended to serve as the receipt documenting the transfer of funds.

- The Records Division delivers funds in sealed bank deposit bags, while the Training Division does not deliver funds in sealed bags. Neither division receives pre-numbered receipts from the Budget and Finance Division representative documenting the transfer of funds. Those divisions prepare memos reflecting the deposit amounts. The Budget and Finance Division representative signs and dates the memo in the spaces provided. The source division provides a copy of the memo to the Budget and Finance Division for their records. The memo is intended to serve as a receipt for the transfer of funds.
- The Vice Division delivers funds that are not in sealed bank deposit bags. The Budget and Finance Division issues pre-numbered receipts to document the transfer of funds. The Budget and Finance Division representative counts funds that are not delivered in sealed bank deposit bags. Funds received in sealed bank deposit bags are not counted. However, documentation of the transfer of funds does not explain that the funds were not counted by the Budget and Finance Division representative when not delivered in sealed bags.

Recommendation

We recommend that the Budget and Finance Division develop written procedures for consistent documentation of the receipt of funds from source divisions. Specifically, procedures should require that, in all cases, a pre-numbered receipt be issued by the Budget and Finance Division to document the receipt of funds. The receipt should require the signature of both the source division and the Budget and Finance Division. Pre-numbered receipts should also document when funds were counted in the presence of both representatives at the time of the transfer. The receipt of sealed bank deposit bags should be noted on pre-numbered receipts to indicate that fund amounts were not verified.

Management's Response

As recommended, the following procedures are being implemented:

- The clerical personnel documents the transfer of funds with pre-numbered receipts except for reimbursements received in the mail for cell phone calls, long distance calls, and checks received from outside agencies or received through wire transfers. The phrase "in all cases" should be modified to read "in most cases".
- Both signatures of the person from the source division and the Budget & Finance Division on the pre-numbered receipt are required except when checks are sent in the mail by divisions.
- The clerical personnel writes on the pre-numbered receipt that funds have not been counted when received in sealed bank deposit bags.

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IX. Administrative Procedure 2-17

Finding

The Records, Training, Auto Dealers, Vice and Special Operations Divisions did not have copies of A.P. 2-17, *Cash Handling Policies and Procedures*. The Records Division had a copy of S.O.P. 300/3.01, *Handling Cash and Checks*, and S.O.P. 300/3.08, *Reconciliation of Cash, Checks and Receipts*. The remaining divisions did not have any written cash handling procedures in their possession.

Recommendation

We recommend that the Budget and Finance Division provide the Records, Training, Auto Dealers, Vice and Special Operations Divisions with copies of A.P. 2-17, and applicable HPD standard operating procedures.

Management's Response

The divisions will be provided with the copy of A.P. 2-17, *Cash Handling Policies and Procedures* and HPD Standard Operating Procedures on Cash Handling and Deposits.

X. Unannounced Petty Cash Audits

Finding

We found no evidence of unannounced petty cash audits at the S.W.A.T. locations. HPD's Inspections Division is responsible for performing quarterly as well as unannounced verifications of the petty cash fund balance. The custodian stated that unannounced audits have not been performed since he took ownership of the petty cash funds. Unannounced audits assist in assessing compliance with policy and procedures over petty cash, and ensure proper safeguards are in place.

Recommendation

The Department should conduct and document unannounced verifications of petty cash funds as required by A.P. 5-3. Management may want to consider assigning Budget and Finance Division personnel to conduct and document unannounced petty cash audits.

Management's Response

The Department's petty cash procedures have recently been revised. Budget and Finance Division is working with the Inspections Division in regards to the audits.

XI. Petty Cash Advances

Finding

There is no documentation to support the permanent advances of the \$300 to the S.W.A.T emergency vehicle and the \$100 advance to the Dive Team locations. Failure to document petty cash advances violates petty cash administrative procedures, weakens internal controls, and may result in misappropriation of the funds.

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Recommendation

The Department should request, from the Finance and Administration Department, a revision to A.P. 5-3 to exempt S.W.A.T.'s petty cash advances to the S.W.A.T emergency vehicle and to the Dive Team locations from the three day liquidation requirement, due to the nature of S.W.A.T.'s operation.

Management's Response

We agree with the finding. We are, however, still evaluating various alternatives for compliance:

- Accept the auditors' recommendations for an exemption.
- Set up separate funds at the different locations.
- Consolidate the different funds and substitute P-cards.

XII. Vendor Tabulation Report Form

Finding

Twelve of the 28 (43%) requisitions tested that required bids did not have the Department required vendor tabulation report form attached. The tabulation form summarizes the bids received on one document for ease of review.

Recommendation

We recommend that management re-emphasize to purchasing personnel the department's requirement for Vendor Tabulation Report Forms, under HPD SOP No. 99-001.

Management's Response

We agree with the findings and recommendation. To comply with the Department's internal procedure, the Budget & Finance Purchasing Section will re-emphasize to the user divisions the requirement for tabulation of bids on the standardized form and to attach this form with the requisition submittal. Procurement employees were trying to expedite the purchasing process by overlooking the form since this document is an internal document and is not required by the City's procedures.

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