

**OFFICE OF THE CITY CONTROLLER**



**ADMINISTRATIVE AND REGULATORY AFFAIRS DEPARTMENT  
HOUSTON POLICE DEPARTMENT  
PUBLIC WORKS AND ENGINEERING DEPARTMENT  
SOLID WASTE MANAGEMENT DEPARTMENT**

**PURCHASING CARD ACTIVITY AUDIT  
HURRICANE IKE HOTEL CHARGES**

**Ronald C. Green, City Controller**

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OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

RONALD C. GREEN

April 23, 2010

The Honorable Annise D. Parker, Mayor  
City of Houston, Texas

SUBJECT: Administrative and Regulatory Affairs Department (ARA);  
Houston Police Department (HPD);  
Public Works and Engineering Department (PWE);  
Solid Waste Management Department (SWM);  
Purchasing Card Activity Audit – Hurricane Ike Hotel Charges (Report No. 2010-17)

Dear Mayor Parker:

The Audit Division of the City of Houston (the City) Controller's Office has completed an audit for Purchasing Card (P-Card) activities during Hurricane Ike, specifically for room and board for non-City employees performing disaster recovery work for the departments listed above. The general audit objectives were to evaluate the expenses to ensure the amounts were reasonable, accurately computed, supported and properly recorded, and the original scope period was from September 14, 2008 through November 15, 2008.

The attached document represents the final issuance of a series of reports related to the P-Card activity for hotel charges associated with Hurricane Ike. The previous reports addressed other departments and were distributed as 2010-12 and 2010-15, respectively.

The audit team noted that some Hotel Occupancy Taxes (HOT) and sales taxes were paid inadvertently as the Governor of Texas suspended HOT for the Hurricane Ike disaster area and the City is exempt from paying sales tax for the items purchased. Erroneous HOT and Sales Tax charges for the four departments identified in this audit were \$21,167 while possible overpayments for other items were \$29,916, totaling \$51,083. Efforts to collect these charges from the hotels have been unsuccessful to date.

A commendation was noted in this report that identified Best Practices by HPD for their management of non-city disaster workers. We appreciate the cooperation and professionalism extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Ronald C. Green  
City Controller

xc: City Council Members  
Waynette Chan, Chief of Staff, Mayor's Office  
Michael Marcotte, Director, Public Works and Engineering Department  
Charles A. McClelland, Jr., Chief of Police, Houston Police Department  
Harry Hayes, Director, Solid Waste Management Department  
Alfred Moran, Director, Administration and Regulatory Affairs Department  
Michelle Mitchell, Director, Finance Department  
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## PURPOSE AND SCOPE

The Audit Division of the City of Houston (the City) Controller's Office has completed an audit of specific activity related to the following four departments:

1. Administration and Regulatory Affairs Department (ARA),
2. Houston Police Department (HPD),
3. Public Works and Engineering Department (PWE), and
4. Solid Waste Management Department (SWM).

The original scope of the audit was for Purchasing Card (P-Card) activities during Hurricane Ike, specifically for room and board for non-City employees performing disaster recovery work. PWE incurred charges for *non-City* disaster workers, which were coordinated and paid by ARA's Strategic Purchasing Division (SPD) on ARA P-Card(s). PWE also incurred charges for *their own* employees in support of emergency operations that were paid using PWE P-Card(s). SPD *did not* utilize non-City disaster workers for their own activities, while HPD and SWM *did* have non-City disaster workers for which they paid room and/or board on department P-Card(s).

Our objectives for this audit were to:

- Determine the accuracy, reasonableness and appropriateness of hotel charges
- Identify Hotel Occupancy Tax (HOT) amounts paid
- Obtain and verify proper supporting documentation for hotel charges
- Identify and report possible overcharges

Professional standards require that we plan and perform audit procedures that obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusion. The original audit scope period began September 14, 2008 and continued through until November 15, 2008, but after further analysis, the scope was expanded by including pertinent P-Card transactions outside the stated period and also including City employees performing disaster work. The dates are recorded in our workpapers and the information was included in our audit.

## BACKGROUND AND METHODOLOGY

Hurricane Ike formed on September 1, 2008 and made landfall on Galveston Island, Texas in the early morning hours of September 13, 2008. Hurricane Ike's highest recorded sustained winds were 145 mph making it the 4<sup>th</sup> most intense hurricane to make United States landfall. Damage caused by Ike totaled over \$32 billion throughout seven countries and across 15 states.

When it came onshore in Texas, it was a Category 2 hurricane with a Category 5 equivalent storm surge. In downtown Houston, numerous skyscrapers had windows that were blown out, many of which were in the 75 story JP Morgan Chase Tower. This added to the devastation as it caused both wind and water damage within the buildings, littering many of the downtown streets with broken glass, window framing, and other debris.

CenterPoint Energy reported that 2.1 million of their 2.26 million customers were without electrical power as of 11:00 AM, Saturday September 13. As of September 29, 2008 over 2 million customers had electrical service restored. The efforts were highlighted because of the over 9,000 mutual assistance lineman and tree trimmers from other parts of the country who worked tirelessly to assist CenterPoint's 3,000 workers. Even with the high number of workers, some homes and businesses were still without power into October, 2008.

City management performed damage assessments and created a prioritized plan of action to get the municipality back to providing the necessary operational services. Once this was determined, the departments coordinated with their counterparts in other cities throughout Texas and identified those that had a "Mutual Aid Agreement" (MAA), which allowed these departments to coordinate for resources the City did not have or could not otherwise get. If a MAA was not signed and in place for municipalities that had critical resources available for assistance, then both parties took the necessary steps to have one put in place. (A jurisdiction in Texas, cannot be helped or provide help without having a MAA in place). Once the foundational MAA was in place, the departments determined what personnel, equipment, and vehicles were available for the Houston recovery effort, which culminated in a document representing a commitment for those resources (Form 213) was prepared.

Upon the signing of the Form 213 by the appropriate department personnel, the other Texas cities began sending the agreed upon women, men, vehicles, and equipment. While they were travelling to Houston, the appropriate departments were coordinating with local hotels and catering businesses to house and feed the disaster workers. Many departments looked to the ARA's Strategic Purchasing Division (SPD) for guidance and assistance in coordinating for sufficient lodging for their disaster workers.

SPD worked tirelessly for many days trying to secure the necessary rooms for the numerous disaster workers from all over the State. While the Federal Emergency Management Agency (FEMA) had reserved almost all of the available hotel/motel rooms, the SPD Team was able to secure some rooms beginning September 15, 2008. FEMA released their hold on many rooms beginning September 18, 2008 and this allowed the departments to secure lodging for their disaster workers. By October 24, 2008, almost all of the Law enforcement officers and disaster workers had departed Houston for their home cities after providing over 4,000 man-days of service to the City of Houston and its citizens.

HPD coordinated all efforts to support up to 140 law enforcement officers from throughout Texas. Prior to and just after the storm reached landfall, HPD was in a preventive mode by increasing police officer presence and instituting a daily curfew between 8:00 PM and 8:00 AM. The curfew and HPD's strong presence protected the City from looting and other crimes. Their efforts were further challenged as many parts of the City were without electrical power, rendering many security systems either non-functional or giving false alarms, which all had to be investigated.

PWE began its emergency efforts before Hurricane Ike came on-shore, with the Emergency Operations Center being on standby as of Thursday, September 11, 2008. Their crews had prepared 54 dump trucks for high water rescue and another 180 dump trucks for debris removal, primarily from City streets. The Monday after the storm made landfall, clean up crews began, which included deployment of 500+ people that had most roads open to traffic the next day. Concurrently, the Traffic and Transportation Division repaired 2,200 of the City's 2,426 traffic lights, while the Right-of-Way and Fleet Maintenance Division Bulk Fuel Operations Group delivered fuel to locations all over the City, as well as two trips to provide a much needed 10,000 gallons to Galveston. The recovery efforts coordinated by PWE were supported by over 180 disaster workers from Fort Worth, Dallas, and Austin.

SWM coordinated with San Antonio and other Texas cities to provide as many as 69 disaster workers for their recovery efforts. They, along with SWM personnel and other contractors, collected and disposed of over 6 million cubic yards of debris. To put that into perspective, the amount collected would fill a football field, end zone to end zone, sideline to sideline, and be stacked solid over twice as high as the Empire State Building.

Our procedures were designed to meet the audit objectives identified above and to provide recommendations for improvement where appropriate. Departmental management is ultimately responsible for establishing and maintaining a system of internal controls over P-Card purchases as an integral part of the overall internal control structure. The objective of the system is to provide management with reasonable, but not absolute, assurance that administration of the purchasing process complies with all applicable procedures, orders, and law enforcement officers.

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

## **PROCEDURES PERFORMED**

In order to obtain sufficient and appropriate evidence to conclude on the audit objectives identified above, the audit team performed the following procedures:

- Obtained and examined relevant APs, EOs, Charter, proclamations, ordinances, and state law related; to P-Card activities, allowable purchases, declaring “Emergency” status, and suspension of the payment of HOT;
- Analyzed an extract from the P-Card software used to manage the City’s P-Card usage and functions: NOTE: The extract included all transactions for FY 2009 (July 1, 2008 through June 30, 2009);
- Obtained and reviewed supporting documentation for propriety;
- Recalculated the City’s amount spent on hotel room and board expenses for the scope period in aggregate, by department, and cardholder, identifying discrepancies; and
- Interviewed appropriate department management.

### CONCLUSIONS

Based upon the procedures performed in relationship to the audit objectives outlined above, we were able to conclude that:

- The hotel charges were accurate and reasonable except for the items listed in Table 1.
- Erroneous HOT and Sales Tax totaled \$21,695 (See Table 1 below).
- Invoices were properly supported except as indicated in Table 2.
- The City has a total possible overcharge amount of \$51,611.

**Table 1 - Possible Refundable Payments**

Department	HOT & Sales Tax	Possible Over Payments	Subtotal
ARA	\$0	15,649	15,649
PWE	399	0	399
HPD	7,697	0	7,697
SWM	13,071	14,267	\$27,338
<b>Totals from this Audit</b>	<b>21,167</b>	<b>29,916</b>	<b>51,083</b>
PARD (Report 2010-12)	0	0	0
HAS (Report 2010-15)	88	0	88
HDHHS (Report 2010-15)	351	0	351
ITD (Report 2010-15)	89	0	89
<b>Totals from Previous Reports</b>	<b>528</b>	<b>0</b>	<b>528</b>
<b>Grand Totals</b>	<b>21,695</b>	<b>29,916</b>	
<b>Possible Refundable Payments - Grand Total</b>			<b>\$51,611</b>

**Note:** Table 1 contains department amounts identified in other audits already published, for PARD, HAS, HDHHS, and ITD (Report 2010-12 and 2010-15, respectively).

We noted the following exceptions as reflected in Table 2 below.

**Table 2 - Exceptions**

Issue	SWM	HPD	PWE *	ARA
Paid HOT	X	X	X	
Paid Sales Tax			X	
Exceeded spending limit	X	X		X
Incomplete invoice support	X			X
Did not bring to Council	X	X		X

\* - PWE non-City disaster worker expenses were paid by ARA, issues identified were for hotel stays for PWE employees.

**X Indicates Exceptions**

In attempting to place Table 2 into perspective, it is important to note that each of the departments were performing in extreme conditions and when the local hotels/motels declined the City's use of Emergency Purchase Orders, the remaining guidance included in the APs and EOs restricted the departments in providing even minimal support to the disaster workers. As an example, the amendment to EO 1-42 sets the monthly limit of emergency department P-Card purchases at the State formal bid limit of \$50,000. In lodging there were six individual purchases totaling almost \$431,000 and twelve purchases for food totaling over \$925,000. Five individuals accounted for these 18 purchases.

While the departments did what was necessary to provide for the City employees and disaster workers to get Houston back to normal as soon as possible, exceptions to spending limits as outlined and noted above, had not been brought to the attention of the Mayor and City Council.

### **RECOMMENDATIONS**

- The Legal Department should determine if the City should attempt to recoup the amounts indicated in Table 1.
- The Office of Emergency Management (OEM) should coordinate meetings with Department representatives to develop emergency procedures that streamline existing operational plans and subsequently amend existing APs, EOs, and if necessary, the City Charter. This should support the success of the recovery efforts, while still retaining full responsibility for the management of the disaster workers assigned to them.
- The OEM should establish an Emergency Internal Communications Plan to ensure pertinent information (i.e. HOT and Emergency Proclamations, et al) is passed to all departments.
- Departments should prepare "Emergency Packets" for disaster workers informing them of necessary "need to know" information such as appropriate management/supervisory contact information, work assignments and locations, local maps, hotel locations and directions, room keys, emergency notification information. Emergency packets can also be prepared for vendors identifying acceptable charges.
- ARA/SPD should coordinate with Departments and "Partner" with vendors who could provide supplies, equipment, lodging, catering, etc. so that mutual benefit is provided in both normal and emergency situations.

### **COMMENDATION FOR BEST PRACTICE**

The Audit Team would like to acknowledge HPD personnel as follows: Joseph Fenninger (CFO/Deputy Director), Rosalie Brillon (Financial Analyst), and Candace Womack (Executive Office Assistant) for their Best Practice of managing the lodging of volunteer Law enforcement officers from Austin, Mansfield, Fort Worth, San Antonio, and Dallas.



## MANAGEMENT RESPONSES AND/OR CORRECTIVE ACTIONS

Most departments under the scope of audits 2010-12, 2010-15 and this report (HPD, PARD, ITD, HDHHS, ARA/SPD, and HAS) have agreed with the issues and recommendations identified without requesting any changes, while PWE and SWM offered the following responses:

### PWE:

“Please accept the following comments from PWE on the recommendations in the Purchasing Card Activity Audit, Hurricane Ike Hotel Charges:

1. Should the Legal Department decide to try and recoup the \$399.00 in HOT and Sales Tax paid by PWE we will fully cooperate with the effort.
2. PWE works with HEC/OEM to continually improve plans and procedures. We will cooperate fully to improve the process to house employees and disaster workers responding to emergencies.
3. Should HEC/OEM develop an Emergency Internal Communication Plan we will participate. We are currently working with HEC/OEM to train key PWE employees in WEBEOC and the electronic 213 form.
4. PWE will work with HEC/OEM, SPD, and other City Departments to develop a standard package for responders and vendors that can help them navigate the "system."
5. PWE will work with ARA/SPD to identify opportunities to better identify pre-event critical supplies such as lodging and catering.”

### SWM:

“The Solid Waste Management Department acknowledges the efforts of the Controllers’ Office in reviewing and identifying administrative improvements to the City’s emergency response efforts. The department agrees with suggestions that will address areas such as:

1. Contracting for and managing hotel accommodations
2. Assembling information and producing needed forms for out-of-town disaster workers such as contact information and the “do’s and don’ts” associated with their limited stays.
3. Pre-coordination with vendors for supplies, equipment, catering, etc.
4. Streamlining operational plans and amending administrative requirements to support all city departments disaster recovery efforts

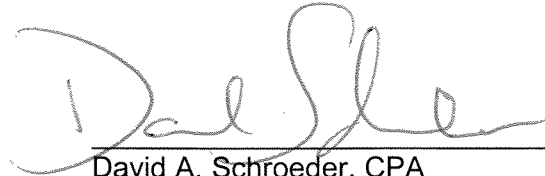
Solid Waste Management believes that these functions would be best coordinated by the ARA Department and will prevent many of the administrative challenges encountered after a disaster occurs. These changes should be designed to allow departments to focus on their core mission of serving the public and managing the effective deployment of resources in response to the emergency.”

### ASSESSMENT OF MANAGEMENT RESPONSES

While initiatives and strategies resulting from the recommendations outlined above may delineate some areas of accountability related to the procurement process during emergency situations, the auditors believe that when good(s) or service(s) are procured, responsibility of managing those good(s) or service(s) continues to reside with the ordering/receiving department(s). This is consistent with standard procurement practices.



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