

**OFFICE OF THE CITY CONTROLLER**



**PUBLIC WORKS AND ENGINEERING DEPARTMENT (PWE)**

**FISCAL YEAR 2013 FOLLOW-UP PROCEDURES**

**Ronald C. Green, City Controller**

**David A. Schroeder, City Auditor**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

RONALD C. GREEN

December 19, 2012

The Honorable Annise D. Parker, Mayor

**SUBJECT:      REPORT #2013-04  
                  PUBLIC WORKS AND ENGINEERING DEPARTMENT (PWE) –  
                  FY2013 AUDIT FOLLOW-UP PROCEDURES**

Dear Mayor Parker:

The Office of the City Controller's Audit Division has completed its follow-up procedures related to the FY2012 remediation efforts performed by management. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>1</sup>

During FY2011, the Audit Division changed the Audit Follow-Up Process to utilize a risk-based approach, which contains two primary components:

- Management Status/Self-Reporting
- Fieldwork Testing/Verification

Based on the procedures performed, we obtained sufficient and appropriate evidence to render our conclusions related to PWE as follows:

- There were a total of seven (7) findings contained in the five (5) reports issued during the scope period. Our test work resulted in six (6) being "**Closed**" (remediated) with the one (1) remaining being identified as "**Ongoing**" or open (Objective 1).
- In reviewing the remediation process associated with the seven (7) findings previously reported, all seven (7) were deemed adequate, yielding an overall assessment of **Adequate** (Objective 2)

We appreciate the cooperation and professionalism extended to the Audit Division during the course of the project by personnel from PWE.

Respectfully submitted,

Ronald C. Green  
City Controller

cc:      City Council Members  
          Chris Brown, Chief Deputy City Controller, Office of the City Controller  
          Waynette Chan, Chief of Staff, Mayor's Office  
          Daniel Krueger, Director, Public Works and Engineering Department  
          David Schroeder, City Auditor, Office of the City Controller

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<sup>1</sup> IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."



Office of the City Controller  
Audit Division

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## **BACKGROUND**

The Office of the City Controller's Audit Division has completed its follow-up procedures related to the FY2012 remediation efforts performed by management. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>1</sup>

The Audit Division (Division) Audit Follow-Up Process utilizes a risk-based approach, which contains two primary components:

- Management Status/Self-Reporting
- Fieldwork Testing/Verification

### **MANAGEMENT STATUS/SELF REPORTING:**

During the 3<sup>rd</sup> quarter of the fiscal year, the current list of findings is reviewed and ranked according to three levels of risk (high, medium, and low). They are organized and identified by department and sent for management's self-reported status as to progress of remediation based on their responses in the Audit Report. This information is then assessed by the audit team considering (1) responsiveness to the original issue and (2) resolution of the issue identified.

### **FIELDWORK/TESTING VERIFICATION PHASE:**

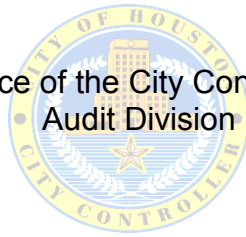
During the first quarter of the subsequent fiscal year, the information obtained through the management status phase is used as a basis to select departments for follow-up testing. Using the results of weighted risk-ranked findings, while also ensuring complete review of all City Departments, four to six are then selected for follow-up. All findings for those departments are then tested for: (1) Accuracy of management self-reporting (Ongoing, Closed, or Disagreed) and (2) assessment of the remediation process (Adequate or Inadequate), with consideration of the accuracy of management's self-reported status. The assessment of the remediation process also considers the risk of the finding (High, Medium, or Low) to the City. A rating of **Adequate** indicates the department has processes in place to sufficiently monitor and address issues identified. This could be demonstrated by having either remediated (if the finding is Closed) or is exhibiting progress in the remediation efforts (if the status is Ongoing).

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<sup>1</sup> IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."

GAGAS 2.10, 4.05, 5.06, 6.36, 7.05, and A3.10c(4)

GAGAS Appendix I Supplemental Guidance A1.08 states "Managers have fundamental responsibilities for carrying out government functions. Management of the audited entity is responsible for...f. addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations..."



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An **Inadequate** rating is assessed when the status of the findings are not as reported by management and/or the issues have not been addressed as originally committed to by the responsible management (consideration is given for changing environment that may require a different approach to solving the issue). If a department's remediation efforts have been assessed as **Inadequate** a rating of magnitude is also attached, based on the risk ranking of the associated finding(s). For example, a rating of **Inadequate/Low Impact** indicates that the remediation efforts are not sufficient; however, the risk to the City is Low.

## ***AUDIT SCOPE AND OBJECTIVES***

We identified **all** findings issued in **all** reports through the Office of the City Controller beginning in *FY2009* (this includes reports issued by outside professional services firms as well as those performed and issued exclusively by Audit Division professional staff).

Based on the Process described above the six (6) departments selected were:

- Public Works and Engineering Department (PWE)
- Houston Airport System (HAS)
- Houston Emergency Center (HEC)
- Houston Police Department (HPD)
- Houston Public Library (HPL)
- Mayor's Office

This report provides the results of the follow-up process as it relates to PWE and includes seven (7) individual findings issued via five (5) formal audit reports during the period July 1, 2008 through March 31, 2012.

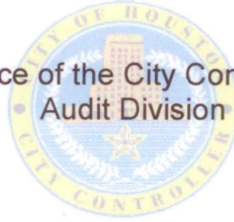
The objectives of our Follow-Up Procedures were to determine:

1. The Status for each open item and
2. The adequacy of the department's remediation put in place to resolve its' universe of findings.

## ***PROCEDURES PERFORMED***

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained and reviewed Management's Self-reporting of Findings status;
- Performed a Risk Assessment considering the number of findings directed to departments and their assigned risk ranking;
- Selected the departments for testing based on risk ranking, responsiveness to status update requests (department self-reporting), remediation efforts as reported (i.e. completed, non-responsive, responsive/unresolved), and Audit Division efficiency (combining follow-up testing with planned engagements);
- Determined and requested the documentation necessary to support the status reported by management;
- Performed Interviews with Management and relevant staff;
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness; and where appropriate, substantive testing was performed.



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## **AUDIT METHODOLOGY**

We conducted Follow-Up Procedures in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) and 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 our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained meets these standards to support our findings and conclusions based on our audit objectives.

## **CONCLUSIONS**

Based on the procedures performed above, we obtained sufficient and appropriate evidence to render our conclusions as follows:<sup>2</sup>

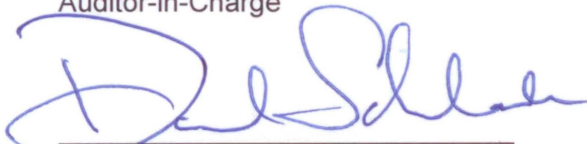
- There were a total of seven (7) findings contained in the five (5) reports issued during the scope period. Our test work resulted in six (6) being "Closed" (remediated) with the one (1) remaining being identified as "Ongoing" or open (Objective 1).
- In reviewing the remediation process associated with the seven (7) findings previously reported, all seven (7) were deemed adequate, yielding an overall assessment of **Adequate** (Objective 2)

## **ACKNOWLEDGEMENT AND SIGNATURES**

The Audit Team would like to thank PWE, specifically: Godwin Okoro, Deputy Assistant Director; and Renata Spann, Senior Auditor for their efforts throughout the course of the engagement.

  
Scott Haiflich, CGAP  
Auditor-in-Charge

  
Arnie Adams, CFE, CIA  
Audit Manager

  
David Schroeder, CPA, CISA  
City Auditor

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<sup>2</sup>

See Exhibit 1 for the Detailed Remediation Assessment - "FY2013 Audit Follow-Up Procedures Matrix"

EXHIBIT 1 Detailed Remediation Assessment - "FY2013 Audit Follow-Up Procedures Matrix - PWE"

Report Number	Title	Finding	Management Status As Of 5/31/2012	Conclusion	
				Ongoing/Closed	Remediation Process
2008-08	SEMI-ANNUAL REVIEWS OF VEHICLE MILEAGE REPORTS	Semi-annual reviews of vehicle allowances were not conducted on the 10 non-executive staff members' files we tested. The Department began retroactive reviews in September 2007 going back to January 2007, as a result of a vehicle allowance audit (issued December 13, 2006) and subsequent follow-up audit (issued November 26, 2007) conducted by Public Works and Engineering Department auditors. Our analysis of one recipient's mileage reports indicated an approximate over-payment of \$1,900 while semi-annual reviews were not being conducted. The analysis was performed to demonstrate the possible impact of not performing semi-annual reviews. Not performing semi-annual reviews could have also resulted in employees receiving allowance rates less than dictated by AP 2-2.	<p>Actions Taken: ECD has continued to apply the biannual audit on the use and vehicle allowance rates and has adjusted rates according to the procedure.</p> <p>Date Completed/To Be Completed: Process has been observed since this audit in 2008. PWE Auditors verify we are adhering to the process set in action.</p> <p>Supporting Documentation: Documentation maintained: monthly mileage reports, quarterly mileage reports, adjustment notification memorandums, tracking logs.</p>	<b>Closed</b>	<b>Adequate</b>
				We were provided a list of 11 PWE employees who receive/received vehicle allowances. At the time of testing, there were three (3) employees receiving vehicle allowances and eight (8) whose vehicle allowances ended in September 2012. We selected two (2) of the three employees currently receiving allowances and one (1) whose allowance ended in September. Testing revealed that PWE reviews Quarterly Car Allowance Mileage Reports and makes adjustments to allowance amounts when necessary. This practice is more frequent than the semi-annual reviews required by AP 2-2.	

Report Number	Title	Finding	Management Status As Of 5/31/2012	Conclusion	
				Ongoing/Closed	Remediation Process
2009-26	LOST OR STOLEN PURCHASING CARDS	<p>We reviewed three instances of lost/stolen P-Cards for three P-Cardholders and we noted the following: □</p> <p>□</p> <p>a) Two of the three lost/stolen cards were not reported on Internal-Lost/Stolen Card Forms as required by EO 1-42. □</p> <p>b) Purchasing Card Information Record Forms were not completed to cancel one of the three lost/stolen cards. □</p> <p>c) An Internal Cardholder (Employee) Agreement Form was not completed to replace one of the three lost/stolen cards.</p>	<p>Actions Taken: Bi-Annual PWE PCard training instructs PCardholders to submit an Exhibit 1 form to replace the old PCard. All replacement cards are sent from the bank to ARA PCard Team. PCards are not released to the cardholders without completed Exhibit 1 and Exhibit 2 forms on file. From FY11 through 5/31/2012 there have been five Lost/Stolen PCards reported. They were all reported to the bank in a timely manner and documentation received or currently in process.</p> <p>Date Completed/To Be Completed: July 1, 2011</p> <p>Supporting Documentation: See attached sample reports</p>	<p><b>Closed</b></p> <p>Based on our review of the audit work performed by the PWE Audit Division, we concluded that Lost/Stolen P-Cards are being properly reported recorded on E.O. 1-42 Exhibit 2 forms (<i>Internal-Lost/Stolen Card Form</i>) and that Exhibit 1 forms [<i>Internal Cardholder (Employee) Agreement Form</i>] are being completed as required to replace cards. E.O. 1-42 does not require <i>Purchasing Card Information Record Forms</i> to be completed to cancel Lost/Stolen P-Cards. Exhibit 2 forms serve that purpose.</p>	<p><b>Adequate</b></p>



Report Number	Title	Finding	Management Status As Of 5/31/2012	Conclusion	
				Ongoing/Closed	Remediation Process
2009-26	COMPETITIVE BIDDING LIMIT REQUIREMENT	<p>During our review of the PWE P-Card transactions for the audit scope period, we noted P-Card purchases of \$73,642 and \$55,854 respectively from two non-contract vendors. □</p> <p>□</p> <p>We also noted this to be a repeat finding for the third consecutive year since the two vendors mentioned above were listed as two of the merchants that exceeded the \$50,000 limit in the PWE's Internal Review Section's annual review for the years ending July 5, 2006, July 5, 2007, and on this most current report. □</p> <p>□</p> <p>The audit team recognizes the progress made by the Department in reducing the number of vendors exceeding the \$50,000 threshold over the previous three years.</p>	<p>Actions Taken:</p> <p>Starting in FY 2012, from July 1, 2011, PWE has implemented a new internal control system to identify and prevent any vendors from going over the \$50,000 limit. In the past, quarterly and monthly analyses were done to identify vendor spend level. With the new internal control system, this analysis is done weekly, and the reports generated easily identify in detail, all purchases made. Once a vendor is identified as approaching the \$50,000 threshold, an e-mail is sent out to the Division Coordinators to communicate to the field cardholders to immediately abstain from making purchases to those vendors. As of May 31, 2012, there have been no additional occurrences of vendors going over the \$50,000 threshold since the implementation of this new internal control system.</p> <p>Date Completed/To Be Completed: July 1, 2011</p> <p>Supporting Documentation: See sample report attached.</p>	Ongoing	Adequate
2010-17	SWM's folios from Hotel Za Za did not accurately record the non-City disaster workers rooms	Because the room occupants could not be verified after the first week, room charges could not be tied to non-City disaster workers.	<p>Actions Taken: PWE has no plans to revisit this issue.</p> <p>Date Completed/To Be Completed:</p> <p>Supporting Documentation:</p>	Closed	Adequate

EXHIBIT 1 Detailed Remediation Assessment - "FY2013 Audit Follow-Up Procedures Matrix - PWE"

Report Number	Title	Finding	Management Status As Of 5/31/2012	Conclusion	
				Ongoing/Closed	Remediation Process
2009-20	Segregation of Duties	Of 14 of 67 (21%) pay estimates reviewed, the same individual signed the Reviewed by signature block (14) and either Approval Recommended (3) or Submitted by (11) signature blocks.	<p>Actions Taken: Instruction to employees provided prior to the issuance of the 2009 report continue to be in effect. As previously noted, there will always be circumstances that require a "work around" such as employee vacations and illnesses but these occasions are the exception.</p> <p>Date Completed/To Be Completed: 2009</p> <p>Supporting Documentation: Monthly Pay Estimates on each active contract.</p>	<b>Closed</b>	<b>Adequate</b>
2010-11	Inaccurate SAP Contract Data	During our sample selection process of long-term contracts, MFR relied on the contract end date information in SAP. Based on subsequent testing, MFR identified seven of the 14 contracts selected that had start and end dates which did not agree between the executed contracts and the SAP system information. No documentation was provided to support the contract date discrepancies between the two.	<p>Actions Taken: We have contacted and are working with the ERP team to find a way to better control the contract term for service contracts, including the possibility of adding a system controlled field for 'ending date' of a contract to provide warning for payments after the contract expiration date. Procedures are already in place so that the SRO's are created based on the contract term and budgeted amount and invoices are closely reviewed for service period to ensure compliance with the contract term. Any change to the contract information will be approved and re-released by the Controller's Office.</p> <p>As it relates to CIP items - we have written policies and procedures in place to set up Contracts in the accounting system according to the business process and work flow defined in SAP. Even though the contract document may provide an "estimated work days" to complete the project, a specific "contract expiration date" is not specified. Therefore, no further action is required.</p> <p>Date Completed/To Be Completed: Ongoing with ERP team. Procedures in place.</p> <p>Supporting Documentation: None</p>	<b>Closed</b>	<b>Adequate</b>

EXHIBIT 1 Detailed Remediation Assessment - "FY2013 Audit Follow-Up Procedures Matrix - PWE"

Report Number	Title	Finding	Management Status As Of 5/31/2012	Conclusion	
				Ongoing/Closed	Remediation Process
2010-11	Insufficient Supporting Documentation	The term of an original five year City contract with Severn Trent Environmental Services, Inc., started on 2/18/2002 and was extended for three additional years during April of the second year of the original contract term. MFR was not able to obtain sufficient documentation to support the decision to amend the contract term.	<p><u>Actions Taken:</u> The CTR retains the supporting documents with electronic copies on file in the office of the Deputy Director of Public Utilities. This includes the legal agreement and/or any amendments or extensions, along with the approved RCA from City Council. In this example, a new contract was signed in July 2010. Dan Ratnayake, Supervising Engineer in WWO, was assigned as the CTR.</p> <p><u>Date Completed/To Be Completed:</u> New procedures for document retention and access in place upon a new contract signed July 2010 with Severn Trent.</p> <p><u>Supporting Documentation:</u> Contract documents on file in City Legal Department, Dan Ratnayake, and office of the Director of Public Utilities.</p>	<b>Closed</b>	<b>Adequate</b>
				Our sample test revealed that documentation existed to support decisions/approvals for the contract extensions tested.	