

**OFFICE OF THE CITY CONTROLLER**



**PUBLIC WORKS & ENGINEERING DEPARTMENT  
COST RECOVERY AUDIT OF INFRASTRUCTURE  
DAMAGES CAUSED BY OUTSIDE PARTIES**

**Sylvia R. Garcia, City Controller**

**Judy Gray Johnson, Chief Deputy City Controller**

**Steve Schoonover, City Auditor**



OFFICE OF THE CONTROLLER  
CITY OF HOUSTON  
TEXAS

SYLVIA R. GARCIA

December 17, 2002

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

SUBJECT: Public Works & Engineering Department  
Cost Recovery Audit of Infrastructure Damages Caused by Outside Parties  
(Report No. 02-19)

Dear Mayor Brown:

In accordance with the City's contract with MirFox & Rodriguez, P.C. (MFR), MFR has completed a Cost Recovery Audit of Infrastructure Damages Caused by Outside Parties at the Public Works & Engineering Department (PW&E). The primary purpose of this financial audit was to determine the adequacy and reliability of the City's system of internal control related to the recovery of the costs pertaining to the repairs of damaged infrastructure.

The report, attached for your review, notes that PW&E does not have adequate systems in place to ensure maximization of billing and recovery of cost incurred to repair damages caused by outside parties. The report also notes that PW&E plans to implement all recommendations except the one pertaining to the development of a research/follow-up process to identify outside party damages. PW&E does not believe that they are the appropriate City department to implement this recommendation. However, MFR continues to believe that the research/follow-up process is an essential part of the internal control process to enhance recoveries from third parties and recommends that the City's administration determine the appropriate department to implement this recommendation.

Draft copies of the matters contained in the report were provided to appropriate Department officials. The views of the responsible Department officials as to action taken or being taken are appended to the report as Exhibit I. We appreciate the cooperation extended to the MFR auditors by City personnel during the course of the audit.

Respectfully submitted,

  
Sylvia R. Garcia  
City Controller

xc: City Council Members  
Stephen Tinnermon, Chief of Staff, Mayor's Office  
Albert Haines, Chief Administrative Officer  
Anthony Hall, City Attorney  
Philip Scheps, Director, Finance & Administration Department  
Jon C. Vanden Bosch, Director, Public Works & Engineering Department

November 22, 2002

Honorable Sylvia R. Garcia, City Controller  
City of Houston  
901 Bagby, 8<sup>th</sup> Floor  
Houston, Texas 77002

Dear Controller Garcia:

In connection with the Public Works & Engineering Department (PW&E), we have completed the Cost Recovery Audit of Infrastructure Damages Caused by Outside Parties. PW&E has the responsibility for maintaining the City of Houston's (City's) infrastructure through the department's design, construction, repair and maintenance processes.

The purpose of our engagement was to determine if PW&E has adequate systems of internal control to maximize billings and recovery of costs incurred to repair water and sewer lines, street cuts, etc. related to infrastructure damages caused by outside parties. The objectives of our engagement included the following:

- Identifying the laws and ordinances related to liability for City's infrastructure damages by outside parties and determining the extent of compliance by outside parties and the City.
- Determining if PW&E's procedures are in compliance with City policies and procedures related to infrastructure damages caused by outside parties.
- Determining the adequacy and reliability of PW&E's systems of internal control related to the recovery of costs pertaining to the repairs of damaged infrastructure.
- Determining the adequacy and reliability of PW&E's processes in place to monitor construction contractor damages.
- Determining if the documentation submitted to the City's Legal Department is sufficient to pursue recovery.
- Determining if the amounts billed are adequate to recover the City's related costs.
- Identifying the amounts relating to damages that are billed and collected from the respective contractors.
- Identifying the amounts that have not been billed, if any, by the City to recover costs related to damages.

The scope of the engagement included damages by outside parties to the City's infrastructure during the period July 1, 1999 through December 31, 2001 and consisted of the following procedures:

- Obtained relevant data and performed certain analysis.
- Determined if all infrastructure damages had been identified and adequately recorded.
- Determined the reliability and accuracy of the processes and recoveries related thereto.
- Determined if there were significant damage repair costs that could not be assigned to a responsible party.

- Selected a sample of work orders from various Divisions and determined if reasons for repairs were being adequately documented and whether repair costs were maintained and billed.
- Selected a sample of damage claims and traced them to the related damage reports and determined if claims were processed timely.
- Determined if a sample of construction contracts with damages to the infrastructure could be identified and if applicable determined whether the damages were recorded on the respective Daily Inspection Reports.
- Selected a sample of recoveries received by the Legal Department and determined if checks received were properly recorded and deposited timely.
- Benchmarked the recovery of repair costs and related processes and ordinances with other cities to document best practices.

Our procedures were performed through May 15, 2002 and have not been updated since then.

Based upon the results of our review, PW&E does not have adequate systems in place to ensure maximization of billing and recovery of costs incurred to repair damages caused by outside parties.

The original scope of this engagement included selecting a sample of construction contracts with damages to the City's infrastructure. During fieldwork PW&E told us that they had a process in place to ensure that damages to the City's infrastructure caused by a construction contractor were fixed by the construction contractor prior to the completion of their contract. However, PW&E maintained inadequate documentation to identify the infrastructure damages and related contractors. Since the records pertaining to the infrastructure damages and related construction contractors could not be easily identified by PW&E, MFRPC recommended to the City Controller's Office that it was not practical for the MFRPC team to perform additional audit testing on damages caused by construction contractors. Such audit testing would be inefficient and not cost effective to the City.

### **Major Findings**

The major findings, described in detail on the following pages of this report, are as follows:

- The City does not have an adequate research/follow-up process to identify outside parties responsible for damages.
- PW&E was not in compliance with the City's accounts receivable policy because they do not have policies and procedures to record and manage their accounts receivable balances that were related to infrastructure damages caused by outside parties.
- PW&E was not adhering to the City's cash handling policy because they were not depositing checks timely and performing reconciliations monthly for recoveries pertaining to infrastructure damages caused by outside third parties.
- The Maintenance and Right-of-Way Division has work order processes that cause the monitoring and reporting processes to be very inefficient.
- The City may not be recovering all of the costs associated with outside party infrastructure damage claims.
- The City has no assurance that all amounts recovered for infrastructure damages were deposited.

**Major Recommendations**

PW&E should enhance their processes related to recovery of costs pertaining to outside party damages to the City's infrastructure. The enhancements should include, but not be limited to the following:

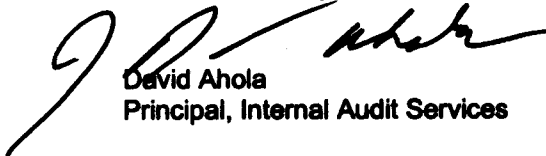
- Development of a research/follow-up process to identify outside party damages;
- Establishment of procedures to effectively and timely manage receivables related to settlements reached by Legal;
- Adhere to the City's cash handling procedures by depositing the recovery amounts on a timely basis;
- Automation of the work order process for all PW&E divisions;
- Periodic assessment and update of cost components for each type of repair or replacement; and
- Designation of a separate account to record recoveries for damages to the City's infrastructure.

The PW&E responses to the recommendations are attached to this report. PW&E plans to implement all recommendations except the one pertaining to the development of a research/follow-up process to identify outside party damages. PW&E does not believe that they are the appropriate City department to implement this recommendation. However, we continue to believe that the research/follow-up process is an essential part of the internal control process to enhance recoveries from third parties. We recommend that the City's Administration determine the appropriate department to implement this recommendation.

Mir•Fox & Rodriquez, P.C. is pleased to have assisted you with this project and we appreciate the assistance and cooperation of both the Public Works & Engineering Department and the Legal Department.

Very truly yours,

Mir•Fox & Rodriquez, P.C.



David Ahola  
Principal, Internal Audit Services

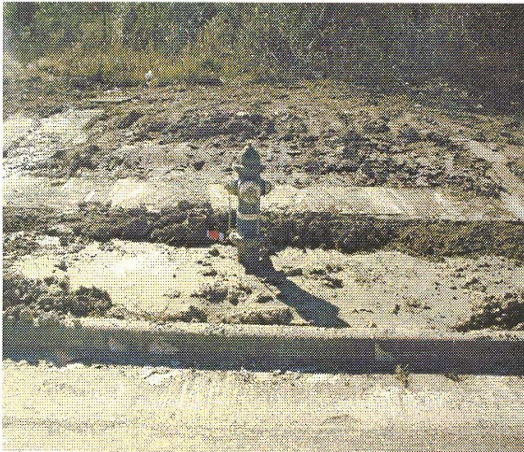
GM/jh



**CITY OF HOUSTON**

**Public Works & Engineering Department– Cost Recovery Audit of Infrastructure Damages Caused By Outside Parties**

**May 15, 2002**



CITY OF HOUSTON  
PUBLIC WORKS & ENGINEERING DEPARTMENT – COST RECOVERY AUDIT OF  
INFRASTRUCTURE DAMAGES CAUSED BY OUTSIDE PARTIES

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## Introduction

We understand that PW&E's key responsibilities are: the design construction and maintenance of the City's infrastructure, including water, sewer, streets, ditches, sidewalks, and traffic control. The Department is organized into seven Divisions: Administration, Engineering, Construction and Real Estate, Planning and Programming, Neighborhood Protection, Public Utilities, Resource Management, and Maintenance and Right-of-Way.

Of the seven Divisions, two are involved in the day-to-day repair and maintenance of the City's infrastructure: Public Utilities and Maintenance and Right of Way. The Utilities Maintenance Area (UTM) within Public Utilities is responsible for the repair and upkeep of the City's utility lines, water distribution system and wastewater collection system. Maintenance and Right of Way (MROW) is divided into two areas: Right of Way Maintenance (ROWM) and Traffic Management and Maintenance (TMM). ROWM responsibilities include repair and maintenance of City thoroughfares, bridges, guardrails and fences. TMM is responsible for repair and maintenance of traffic lights, crosswalk indicators, street and traffic signs and appropriate street and intersection marking.

During the audit, we sent a survey to UTM, ROWM, and TMM requesting the following for fiscal years 2000, 2001 and for the six-month period, July 1, 2001 through December 31, 2001:

- Repair and maintenance costs incurred;
- Number of work orders issued;
- Estimated percentage of repair and replacement costs related to damages by outside parties; and
- Budgeted amounts for repair and replacement costs related to damages by outside parties.

The responses were as follows:

### Number of Work Orders and Repair and Maintenance Costs

	FY 2000		FY 2001		7/1/01 through 12/31/01	
	No. WOs	Amount	No. WOs	Amount	No. WOs	Amount
<b>ROWM</b>	123,554	\$53,315,139	168,699	\$49,811,521	120,483	\$19,981,685
<b>TMM</b>	72,478	*	70,995	*	29,471	*
<b>UTM</b>	108,002	\$34,333,740	40,233	\$53,660,763	11,239	\$14,708,336
<b>Total</b>	304,034	*	279,927	*	161,193	*

\* TMM was unable to provide us with the related dollar amounts for the work orders processed.

### Estimated Percentage of Repair and Maintenance Costs Related to Outside Party Damages

	FY 2000		FY 2001		7/1/01 through 12/31/01	
	No. WOs	Amount	No. WOs	Amount	No. WOs	Amount
<b>ROWM</b>	*	*	*	*	*	*
<b>TMM</b>	48,634	*	47,975	*	19,799	*
<b>UTM</b>	*	*	*	*	*	*
<b>Total</b>	*	*	*	*	*	*

\* ROWM and UTM were unable to provide estimates of the outside party damages incurred. TMM was unable to provide us with the related dollar amounts for the estimates for outside party damages.



ROWM, TMM and UTM were unable to provide us with the budgeted amounts for repairs for damages caused by outside parties because they do not segregate these costs from their normal routine maintenance and repair budget. However, during our fieldwork we had discussions with certain management personnel who indicated that 30% to 75% of their repairs and maintenance costs were related to outside party damages.

Recoveries for Outside Party Damages

The City’s Legal Department (Legal) is responsible for the settlement of all outside party damages. Currently, all outside party damages are initially identified mostly through the Houston Police Department’s (HPD) “Accident Report”. All potential claims are entered into Legal’s claims database as they are received from City departments. Legal settles the claims and negotiates the payment terms. The checks pertaining to recoveries are sent to Legal. Legal records the date the check was received and the check amount into their claims database. Legal forwards the checks along with a memo to PW&E for deposit. Recoveries recorded in Legal’s claims database were as follows:

Area	FY 2000	FY 2001	7/1/01 through 12/31/01
ROWM	\$ 35,346	\$ 17,882	\$ 3,672
TMM	79,683	112,342	39,139
UTM	68,968	84,136	38,027
Other PW&E Divisions *	58,107	48,987	25,058
Total	\$242,104	\$263,347	\$105,896

\* The amounts for Other PW&E Divisions consisted primarily of recoveries related to damages to City vehicles.

Benchmarking Results

We selected several cities to contact regarding their process for recovery of costs related to damages to their infrastructure caused by outside parties. The following cities were selected: Dallas, Austin, San Antonio, Philadelphia, New York, San Francisco, Los Angeles, San Diego and Phoenix. Only Phoenix and San Francisco fully responded to our survey. We received only partial responses from the other cities. In addition, we contacted the Texas Department of Transportation (TXDOT) to gain an understanding of their process.

Phoenix, San Francisco, and the TXDOT rely on the Police Accident Report to identify outside parties responsible for damaging their infrastructure. However, the TXDOT takes it one step further by sending an investigator once a month to the Police Department to review Accident Reports for possible matches to damages that they have already identified.

City representatives from both Phoenix and San Francisco stated that the amount that they recovered from outside parties was insignificant; therefore, they do not track the amount of their recoveries. We determined that our low survey response rate indicates that most of the cities surveyed had no processes in place to identify, monitor and follow-up on damages caused by outside parties.

# Identification Process for Outside Party Damages

## Background

The City has developed the 3-1-1 Service Center to coordinate responses and resolutions to community complaints through appropriate City departments and other agencies.

The City has assigned responsibility for the repair and maintenance of the City's infrastructure to PW&E. In addition, the City has assigned the authority to reach settlements on behalf of the City to the City Attorney. See the related ordinances below:

- Chapter 2, Article VIII - 2-278(2), states that, the duties of PW&E shall include the “design, construction, repair and maintenance of streets, bridges, structures and capital projects of all natures as required for the infrastructure of the City.”
- Chapter 2, Article VII Division – 2-260 & 262 (a) states that, “The city attorney or his assistants are hereby authorized to make any settlement or compromise which in their judgment is in the best interest of the city.” ” The city attorney, or his designated assistant, is also authorized to execute and acknowledge on behalf of the city all releases of indebtedness and liability after full payment of all agreed installments have been made to the city.”

The divisions within PW&E rely mostly on the HPD “Accident Report” to identify individuals responsible for damage to the infrastructure. PW&E receives the HPD “Accident Report” from Legal and a request for the cost of the damages. PW&E prepares an invoice to summarize the costs and submits the invoice to Legal. Legal pursues the outside party for the cost of the damages and negotiates a settlement. The funds are received initially by Legal and forwarded to PW&E. PW&E records the check amount in the City's Advantage Financial Management System (AFMS) and deposits the check into the City's bank account.

Occasionally, a PW&E Investigator may inspect a site where damage has occurred while the outside party is still present at the site. PW&E prepares an invoice for the costs of the damages and submits it to Legal for settlement.

## Finding and Recommendation

### Finding

The City has not assigned the responsibility for identifying damages caused by outside parties to any specific City department. Although there is a City Ordinance that states that PW&E is responsible for the repair and maintenance of the infrastructure, there is no City Ordinance or policy that assigns the responsibility for identification of damages to infrastructure caused by outside parties. Since the responsibility has not been assigned, no process for identifying damages has been developed.

Potential recoveries may not always be identified due to the fact that there is no investigative process to identify:

- Infrastructure damages caused by outside parties,
- Outside parties responsible for the damage, and
- Costs associated with the repair or replacement.

In addition, the 3-1-1 Service Center intake call process does not include questions relating to damages caused by outside parties.

Although, Legal forwards the HPD "Accident Report" to the divisions within PW&E, no one ensures that PW&E prepares and submits an invoice to Legal for all of the damages identified on the HPD "Accident Report".

We understand that over 90% of the repair and maintenance budget for traffic signs is for outside party damages. Based on our discussions with TMM management, the costs for outside party damages to signs is approximately \$6.5 million a year. In fiscal year 2001, recoveries for signs totaled only \$47,530.

ROWM and UTM were unable to provide us with estimates of outside party damages incurred for their areas.

### Recommendation

PW&E should initiate the development of a cost effective research/follow-up process and related Ordinances for the identification of outside parties responsible for damages not identified through the HPD "Accident Report". Without an outside party identified, Legal is unable to recover the costs for the damages. The PW&E research/follow-up process should include but not be limited to:

- Developing additional questions to be asked during the 3-1-1 intake call regarding damages by an outside party.
- Determining if a service call appears to be related to outside party damage.
- Searching the Engineering, Construction, Real Estate Division's permit data for possible correlations between the location and date of damages and the location and date of a specific contractor.
- Preparing a periodic report for the City's senior management team that summarizes all outside third party damages to the City's infrastructure including the damages caused by construction contractors.
- Documenting the damages caused by outside parties on work orders.
- Reviewing on a periodic basis, HPD documents for possible outside party damages which is similar to a practice that is performed by TXDOT and their respective Police Department.
- Ensuring that all damages identified on the HPD "Accident Report" are submitted to PW&E for preparation of invoice.
- Coordinating with other City departments to determine if this new research/follow-up process should be considered on a City-wide basis.

## **Establishment and Management of Accounts Receivable**

### **Background**

The City has developed a policy for establishing and managing accounts receivable amounts that are due to the City. In Executive Order No. 1-38, the City establishes the framework for the recording and management of accounts receivable balances. The Order states that this policy is to be followed by all City Departments. Some excerpts regarding the purpose of the Order are as follows:

- Subsection 1.1.1- “To ensure that all financial transactions involving the City of Houston in exchanges with citizens, customers, etc. should be reflected in the City’s financial statements as it relates to the following: (1) distributions of City resources or services to customers in exchange for promises of future payments, and (2) receipts of payments from customers for resources and services distributed.”
- Subsection 1.2 – “To ensure that all City of Houston receivable accounts are properly recorded and presented in accordance with generally accepted accounting principles, and reported in accordance with Governmental Accounting Standards Board (“GASB”) which establishes combined statements as the required reporting level for governmental entities.”

In addition, this Order states that the Finance and Administration Collection Services Division (F&A) will be responsible for providing direction for the varied receivable accounts managed by City Departments. The advisory services performed by F&A in relation to the following are:

- Subsection 3.2.2 – “Enhance the collection of money owed to the City.”
- Subsection 3.2.3 – “Ensure that monies to be collected and collected are timely recorded in the City’s accounting records.”
- Subsection 3.2.4 – “Determine that unpaid account balances are reasonable expectations of future collections and are properly aged.”
- Subsection 3.2.5 – “Evaluate delinquent account balances owed to the City and exert aggressive efforts to collect funds.”

After Legal reaches a settlement agreement with the outside party, the accounts receivable amount is not recorded by PW&E. Once Legal receives a payment from the outside party, Legal records the amount of the recovery in their claims database. Legal sends the check to PW&E along with a memo describing the location of the damage and the settlement amount. PW&E records the amount of the check in the Recoveries and Refunds Account – 8825 and deposits the payment in the bank.

### **Finding and Recommendation**

#### Finding

Since PW&E does not have policies and procedures to record and manage the accounts receivables related to outside party damages, PW&E is not complying with Executive Order 1-38.

Of the eleven claims we reviewed where an installment agreement was negotiated by Legal to pay for the claim, there were six instances where the amount noted on the installment agreement exceeded the amount of payments collected. According to the City records reviewed, the six installment agreements totaled \$9,034; however, the payments for the six claims totaled \$1,625. There was inadequate documentation to determine if the remaining \$7,409 was ever collected by the City.

Since the settlement amount negotiated by Legal is not recorded, the City has no assurance that the settlement amount was received and deposited.

### Recommendation

To be in compliance with Executive Order 1-38, PW&E should work with Legal to develop and implement policies and procedures for managing the accounts receivable relating to settlements for outside party damages. Legal should notify PW&E once a settlement has been reached. The procedures should include but not be limited to:

- Recording the accounts receivable amount when Legal reaches a settlement amount.
- Posting the payment immediately upon receipt.
- Aging the accounts receivable outstanding balances.
- Evaluating delinquent accounts receivable and exerting efforts to collect these funds.

## **Timeliness of Deposits for Recoveries**

### **Background**

The cash handling policy for the City is stated in Administrative Procedure 2-17, Cash Handling Policies and Procedures. This administrative policy states in Paragraph 8. B.II.e.i that, "Site cash collections should ideally be delivered to the revenue section daily."

Currently, Legal forwards a memo and the original payments received related to recoveries to two different locations within PW&E, TMM and the Resource Management Division (Resource). The memo that accompanies the payments notes the damages, the responsible third party and the check amount. TMM receives all of the payments related to recoveries for damages pertaining to signs and signals. Resource receives the payments for all other recoveries for PW&E. The payments routed to TMM are held in a safe until a few thousand dollars have accumulated. TMM prepares the deposit slip and submits the deposit slip with the checks to Resource to deposit. Resource submits their checks for deposits twice a week.

### **Finding and Recommendation**

#### Finding

PW&E is not adhering to cash deposit guidelines set forth in the City's Cash Handling Policies and Procedures, AP-2-17. Checks are not being deposited timely and the reconciliation between amounts received and amounts deposited is not performed.

During our review of 147 payments totaling \$270,538 for various damages to City property, we noted that the lag time between the date on the memo from Legal and the date the related payment was deposited ranged from five to 282 days. The dates of the payments ranged from July 1, 1999 to June 30, 2001. If the payments had been deposited into a 3.5% interest bearing account upon receipt, we estimate that an additional \$12,000 in interest income would have been earned by the City. Of the 24 claim files reviewed, inadequate information was available to determine if payments related to 12 of the claims had been received by PW&E and deposited.

#### Recommendation

PW&E should develop policies and procedures to comply with the City's Cash Handling Policies and Procedures, AP-2-17. PW&E should consider setting up a lockbox at a bank for all of the payments related to settlements for damages by outside parties. The lockbox would ensure that the payments are deposited timely into the City's bank account. The City could potentially earn more interest income.

To ensure that all payments are deposited, PW&E should reconcile the payments received at the lockbox to the documentation provided by Legal regarding the settlements.

Other alternatives to the lockbox would include asking the Legal Department to deposit the check into the City's bank account to the credit of PW&E.

# Automation of Work Order Process

## Background

UTM, ROWM and TMM utilize different types of work order systems to track service requests and monitor the work performed.

UTM receives service requests from the 3-1-1 system through an interface between the 3-1-1 system and CityWorks. CityWorks is UTM's work order management system. CityWorks maintains a record of all maintenance performed on the water distribution lines and the wastewater collection lines. Once the service request is received in CityWorks, CityWorks generates a work order from the service request. The work order is assigned a sequential number by CityWorks. A PW&E investigator is dispatched to the site to review the damages. If the location requires emergency services, a crew is dispatched immediately. Otherwise, the investigator assigns a priority code to the work order and schedules the work to be performed at a later date. After the work is performed, the labor, materials and equipment used to repair the damages are entered into CityWorks.

ROWM response to a service request is similar to UTM's, except their system is not interfaced into the 3-1-1 system, so they have to go into the 3-1-1 system to obtain their service requests. In addition, their work orders are not initiated in their custom developed work order system. Their work orders are paper documents that are entered into their system after the work has been performed.

TMM also, accesses the 3-1-1 system to obtain their service requests. TMM maintains a manual log of all service requests. TMM attempts to repair the damage at the time the crew is sent out to investigate the situation. TMM prepares a work order and job ticket after the crew has completed the work. A job ticket is maintained to show the cause and particulars of the damage. Four individuals are devoted part-time to collecting and filing the paper documents utilized to manage the work performed by TMM.

## Finding and Recommendation

### Finding

The work order process for ROWM and TMM are primarily manual processes. Management is unable to easily monitor and report the status of work and retrieve and analyze data with the current manual processes. In addition, separate work order systems do not allow for integration of costs for claims. For example, if damage was caused to a curb and a water hydrant at the same location by the same outside party, the current systems would not be able to make the match because they are not integrated. In the current environment, UTM would prepare an invoice for the fire hydrant and ROWM would prepare an invoice for the damage to the curb. Both invoices would be submitted separately to Legal for settlement.

### Recommendation

PW&E should consider utilizing one integrated work order system for all three areas. PW&E should determine the feasibility of utilizing CityWorks for all three areas. If it is not cost-effective to switch ROWM to CityWorks, then management should fully automate ROWM's system. Their system should be updated to include at a minimum, the following functions:

- Interface with the 3-1-1 system;
- Generation of sequentially numbered work orders from service requests; and
- Analysis of pending work orders and backlog.

TMM should automate their work order process. TMM should determine if CityWorks could accommodate their processes. If CityWorks is not compatible to their processes, another automated system should be implemented.

## **Inclusion of all Costs Incurred for Repair or Replacement**

### **Background**

According to Executive Order 1-38, Subsection 3.4.2 – “Departments should review, on an annual basis, its charges for providing services to customers and citizens. This process is designed to ensure that service fee structures adequately cover the applicable costs incurred by the City to deliver them. The review should include an evaluation of all relevant cost components, projected costs of service provision for the ensuing fiscal year, and projected service levels.”

Legal provides a copy of the HPD “Accident Report” to the respective division requesting the costs relevant to the outside party damage noted on the report. The division may have received the request prior to the repair or replacement being performed for the item noted on the report.

If the work has been completed, all divisions attempt to provide Legal with the actual cost incurred to repair or replace the damaged item. The cost provided to Legal for sign repairs is an average cost. If the damage has not been repaired or replaced and cost not incurred, PW&E provides Legal with an estimated cost.

### **Finding and Recommendation**

#### Finding

There is a risk that the City is not recovering all of the cost it has incurred in repairing or replacing damages caused by outside parties. We noted that in 13 of the 24 claims reviewed, the rates included in the invoice provided to Legal were less than the rates published in the 2001 Intertec Publishing, A PRIMEDIA Company, Rental Rate Blue Book. The Blue Book (BB) is commonly used throughout the construction industry to establish equipment rates. The BB rates are based on machine manufacturer, equipment age, and size. PW&E invoices did not have sufficient information to determine the exact rental rate of the machines. For the purpose of determining the rates for the equipment in the examples below, we selected the lowest rate for each specific type of equipment in the BB. In our in-depth review of three of the 13 claims, we noted undercharges totaling approximately \$990. See analysis below:

- On Claim #096101539001 for \$1,589, we identified undercharges of \$563 for the excavator, and operating costs. In addition, the description stated that there had been damage to the concrete curb and street surface, yet the invoice shows only asphalt being replaced. If concrete was used, it was not included in the invoice. The BB hourly rate for an excavator, Komatsu PC150LC-S, which is the smallest excavator, was \$60/hr. The City charged a rate of \$46/hr. In addition, there was not a charge for operating cost or any costs related to the delivery of the excavator to the work site. Incidental costs such as traffic control and small tools were also not included in the invoice.
- On Claim #0960000255001 for \$9,900, we identified undercharges of \$210 for the dump truck, backhoe, delivery charges, and operating costs. The City charged \$26.46/hr for a dump truck while the BB rate for the same truck was \$29/hr. The BB equipment rental rate for a backhoe, 416 CAT, was \$28.65/hr while the City charged \$10.96/HR. Operating costs were not included. According to the BB, the minimum cost to deliver equipment to the job was \$125; however, the City charged only \$24.02. There was no charge for any small tools or traffic control.



- On Claim #0960100865001 for \$560, we identified undercharges of approximately \$217 for the dump truck, backhoe, delivery charges, and operating costs. The hourly truck rate charged by the City was \$26.46/hr while the BB rate for the actual truck used on the project was \$30.00/hr. The equipment rental rate for a backhoe, 416 CAT was \$28.65/hr while the City charged \$10.96/hr. In addition, operating costs related to the backhoe were not included. Per BB, the minimum cost to move equipment to the job was \$125, however, the City charged only \$30.05. There was no charge for any small tools or traffic control.

#### Recommendation

PW&E should ensure that all costs related to outside party damages are identified and included in the invoice prepared and submitted to Legal for settlement. PW&E should develop a process to review the components of the costs associated with the different types of damages. This review should include, but not be limited to:

- Analysis of all the cost components and related rates charged;
- Periodic evaluation of the equipment and labor rates utilized;
- Determination of whether costs should be included for miscellaneous expenses such as operating cost, traffic control, small tools, etc.

## **Designation of an Account for Recoveries for Damages**

### **Background**

The City has established a policy to govern the completeness and accuracy of information available to accounting users. In Executive Order 1-38, Subsection 3.4.5 - "Departments should provide accounting users with reasonable assurance that reported information can be reconciled with reality and evaluated."

### **Finding and Recommendation**

#### Finding

There is a risk that all of the recoveries received by the City were not deposited, since PW&E did not reconcile the 8825 account entitled "Account Recoveries and Refunds". Legal's database showed approximately \$105,000 in recoveries for PW&E for the period July 1, 2001 through December 31, 2001. The 8825 account in AFMS showed entries totaling \$1,348,085 for the same period. Information was not available during our review to reconcile the difference between AFMS and Legal's claims database.

During our review of the 8825 account for the period of July 1, 1999 to December 31, 2001, we noted that the account was utilized for a variety of transactions that were not related to recoveries for damages by outside parties. Since the 8825 account was used to record various transactions, it would be very difficult and time consuming to reconcile the 8825 account transactions to the amount recorded in Legal's claims database.

#### Recommendation

PW&E should establish a distinct account for their department. The new account should be named Recoveries for Damages to the City's Infrastructure and designated to be used only for such transactions.

# EXHIBIT 1



**CITY OF HOUSTON**  
Public Works and Engineering  
Department

**Lee P. Brown**  
Mayor

Jan C. Vanden Bosch, P.E.  
Director  
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November 8, 2002

Mir.Fox & Rodriguez, P.C.  
1900 One Riverway  
Houston, Texas 77056

Attn: David Ahola

Re: Department of Public Works & Engineering's  
Response to Cost Recovery Audit for Damages to  
Infrastructure Caused by Outside Parties

We have reviewed your report on the assessment of the department's systems of internal controls related to Cost Recoveries on Infrastructure Damages Caused by Outside Parties. In general, we concur with the findings and will make a concerted effort to implement the necessary changes to improve internal controls.

If you have any further questions, please contact Waynette Chan at (713) 837-0249 or Godwin Okoro (713) 837-0347.

Sincerely,

A handwritten signature in black ink, appearing to read "J. C. Vanden Bosch", written over a horizontal line.

Jon C. Vanden Bosch

JV:ra

Attachment

cc: Eric Dargan  
Jeff Taylor  
George Bravenec  
Gilbert Garcia  
Waynette Chan  
Godwin Okoro

Council Members: Bruce Tatro Carol M. Galloway Mark Goldberg Ada Edwards Addie Wiseman Mark Ellis Bert Keller Gabriel Vasquez Carol Alvarado  
Annise D. Parker Gordon Quan Shelley Sekula-Gibbs, M.D. Michael Berry Carroll G. Robinson Controller: Sylvia R. Garcia

**Views of Responsible  
Officials**

# EXHIBIT 1

## Cost Recovery of Infrastructure Damages By Outside Parties

### Finding 1: Identification Process for Third-Party Damages

**Response:** Disagree. PW&E is not the appropriate city department to initiate this recommendation. It should be noted that the cost of developing an investigative process has not yet been assessed to determine whether such a process would be cost-effective. The auditor's own survey could find no other benchmark city with such a process in place. PWE will continue to rely on the HPD Reports and will consider designating employees to review on a monthly basis the HPD Accident Reports to the extent HPD provides such reports.

### Finding 2: Establishment and Management of Accounts Receivable

**Response:** Agree. Currently the Utility Maintenance Branch of the Public Utilities Division tracks all damage-related claims in a PC-based system. We will implement this procedure in the Right-of-Way and Fleet Maintenance Division (ROWFM), which includes Traffic Maintenance and Management.

The Department will discuss with the Legal Department more efficient and effective policies and procedures for managing the accounts receivable relating to settlements for outside party damage.

### Finding 3: Cash Handling

**Response:** Agree with first statement. The Director has reissued AP 2-17 to ensure compliance with city policies and procedures. Further, instructions have been given to the Internal Review Section to conduct periodic surprise audits to ensure compliance.

Disagree with second statement. The lockbox suggestion was considered in the past and it was determined that the 3-4 times weekly deposits were sufficient.

### Finding 4: Automation of Work Order Process

**Response:** Agree. ROWFM is in the process of uploading an interface with 311. The Division is also exploring cost-effective measures to fully automate its system, which is separate from CityWorks used by Public Utilities. The plans include generation of sequentially numbered work orders from service requests and analysis of pending work orders and

*Views of Responsible  
Officials*

## **EXHIBIT 1**

backlog. Any delay in this implementation process will be the result of budget considerations.

### **Finding 5: Inclusion of All Costs Incurred for Repair and Replacement**

**Response:** Agree. The ROWFM Division has already begun to evaluate the accuracy of current third party damage invoices.

In addition, ROWFM established a review committee to develop a process to periodically review the components of the cost associated with damages caused by third parties to City property for which the Department is responsible. Adjustments in the cost of these components will be made to insure that the most current costs associated with repair or replacement of these damages is being used.

### **Finding 6: Accounts Receivable Reconciliation**

**Response:** Agree. PWE requested and the Controller's Office established a new revenue account entitled Recoveries for Damages to the City's Infrastructure. This account will be used to deposit all the funds recovered from third party damages to the City's Infrastructure.

*Views of Responsible  
Officials*