

**OFFICE OF THE CITY CONTROLLER**



**PUBLIC WORKS & ENGINEERING DEPARTMENT**

**COST RECOVERY AUDIT OF INFRASTRUCTURE  
DAMAGES CAUSED BY OUTSIDE PARTIES FOLLOW-UP**

**Annise D. Parker, City Controller**

**Steve Schoonover, City Auditor**

**Report No. 05-23**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

ANNISE D. PARKER

November 30, 2005

The Honorable Bill White, Mayor  
City of Houston, Texas

SUBJECT: Department of Public Works and Engineering Follow-Up (Report No. 05-23)  
Cost Recovery Audit of Infrastructure Damages Caused By Outside Parties

Dear Mayor White:

The City Controller's Office Audit Division has completed a Follow-Up of the Department of Public Works and Engineering (PW&E) Cost Recovery Audit of Infrastructure Damages Caused by Outside Parties, Report No. 02-19 (report) that was issued on December 17, 2002. The findings and recommendations that were presented at the time of the report were distributed to the Mayor and City Council Members. Our current review was designed to determine the progress PW&E has made towards implementation of the recommendations made in the original report.

The report, attached for your review, concludes that PW&E has made significant progress in implementation of the recommendations detailed in the report or has implemented alternative procedures in certain instances. Draft copies of the matters contained in the report were provided to PW&E officials. Management's responses as to actions being taken are appended to the report as Exhibit I.

We appreciate the cooperation extended to our auditors by PW&E personnel during the course of their work.

Respectfully submitted,

Annise D. Parker  
City Controller

xc: City Council Members  
Anthony Hall, Chief Administrative Officer  
Michael Moore, Chief of Staff, Mayor's Office  
Michael Marcotte, Director, Department of Public Works and Engineering  
Judy Gray Johnson, Director, Department of Finance and Administration

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## SCOPE AND PURPOSE

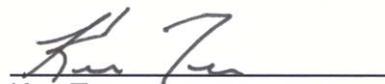
We have completed a follow-up review of the findings and recommendations that were presented in the Department of Public Works and Engineering (PW&E) Cost Recovery Audit of Infrastructure Damages Caused by Outside Parties, Report No. 02-19 (report) dated December 17, 2002. Our review was designed to determine the progress the department has made towards implementation of the recommendations made to the department in the original report.

The review consisted principally of conducting on-site interviews with department personnel; reviewing relevant documentation related to recommendations implemented; and creating a compliance matrix categorizing the status of action taken by management. The scope was limited to the recommendations from the report. The review included examining PW&E responses in detail to determine whether management considered the recommendations and strategies for implementation as presented in the report and whether progress was made since its issuance.

## CONCLUSION

Based on the results of our review, we conclude the Department of Public Works and Engineering has made significant progress in implementation of the recommendations detailed in the report or has implemented alternative procedures in certain instances.

  
Scott Haiflich  
Auditor-in-charge

  
Ken Teer  
Audit Manager

  
Steve Schoonover  
City Auditor

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Audit Division

EXHIBIT 1

**PUBLIC WORKS AND ENGINEERING DEPARTMENT  
COST RECOVERY AUDIT FOLLOW-UP**

AUDIT FINDING		RECOMMENDATION	ACTION STATUS	WORK PERFORMED	PW&E MANAGEMENT RESPONSE
<b>Identification Process of Outside Party Damages</b>					
<p>(Synopsis) 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&amp;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.</p> <p>In addition, the 3-1-1 Service Center intake call process does not include questions relating to damages caused by outside parties.</p>	1	<p>(Synopsis) PW&amp;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.</p>	Alternative Implemented	<p>We interviewed PW&amp;E and Legal Department (Legal) personnel. We also reviewed documents (subrogation claims) submitted to Legal by PW&amp;E to report and calculate damages to infrastructure by outside parties that are not identified through HPD Accidents Reports.</p> <p>We were informed by PW&amp;E management that identification of damages to infrastructure and voluntary repairs by those causing the damage is one of the ways City infrastructure is repaired. PW&amp;E does not submit subrogation claims to the Legal Department related to voluntary repairs of damages to infrastructure, nor is submission of those claim documents required.</p> <p>Legal personnel supplied us with subrogation claims submitted by the PW&amp;E Utilities Maintenance (UM) Division to recover costs for</p>	<p>In cases where a party is identified (typically a contractor) and the party agrees to restore, and then restores the infrastructure to its condition prior to damage, then no subrogation claim is made against that party and no police report filed.</p> <p>In addition, when UM can identify a contractor that has caused damage to UM property, UM submits a subrogation claim to Legal.</p>

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				<p>damages to infrastructure not reported through HPD Accident Reports.</p> <p>Although PW&amp;E has not formally initiated development of a cost effective research/follow-up process and related ordinances as originally recommended, we found that the Utilities Maintenance Division (UM) is identifying damages and submitting subrogation claims directly to Legal for cost recovery without depending on HPD reports being submitted.</p>	
<b>Establishment and Management of Accounts Receivable</b>					
<p>Since PW&amp;E does not have policies and procedures to record and manage the accounts receivables related to outside party damages, PW&amp;E is not complying with Executive Order 1-38.</p> <p>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</p>	2	<p>To be in compliance with Executive Order 1-38. PW&amp;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&amp;E once a settlement has been reached. The procedures should include but not be limited to:</p>	Implementation in Progress	<p>We interviewed PW&amp;E and Legal personnel and found that calculated amounts of damages to infrastructure by identified outside parties are not being recorded as accounts receivables. Therefore, PW&amp;E does not formally report the status of pending judgments and settlement receivables or collection experience, a procedure that could</p>	<p>Right of Way &amp; Fleet Maintenance (ROWFM) and Traffic &amp; Transportation (TTD) Divisions currently track all claims related to infrastructure damages that are received from the Legal Department in an MS Excel spreadsheet.</p> <p>ROWFM, TTD and UM record the claim amounts.</p> <p>All three divisions post the payments immediately upon</p>

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<p>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.</p> <p>Since the settlement amount negotiated by legal is not recorded, the City has no assurance that the settlement amount was received and deposited.</p>		<ul style="list-style-type: none"> <li>Recording the accounts receivable amount when Legal reaches a settlement amount.</li> <li>Posting the payment immediately upon receipt.</li> <li>Aging the accounts receivable outstanding balances.</li> <li>Evaluating delinquent accounts receivable and exerting efforts to collect these funds.</li> </ul>		<p>improve oversight and control over these receivables. In other words, recording subrogation claims as receivables is not a financial reporting requirement, but it would provide for a useful management internal control over such claims.</p>	<p>receipt.</p> <p>Outstanding claims are aged over 60, 90, and 120 days.</p> <p>Legal Department is responsible for evaluating and collecting funds.</p> <p><b>RMD: The Resource Management Division is also recommending the formation of a centralized A/R Group so the invoice generating, tracking, receipts, can be handled systematically.</b></p>
<b>Timeliness of Deposits for Recoveries</b>					
<p>PW&amp;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.</p> <p>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</p>	3	<p>PW&amp;E should develop policies and procedures to comply with the City's Cash Handling Policies and Procedures, AP 2-17. PW&amp;E should consider setting up a lockbox at a bank for all 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</p>	Alternative Implemented	<p>We discussed settlement check receipt and deposit practices with both PW&amp;E and Legal Department personnel. We also tested a sample of settlement check receipt/deposit transactions. Based on discussions and audit sample testing, it is our opinion that the check-receipt and subsequent deposit time spans appear to be reasonable. It is also our opinion, based on</p>	<p>The divisions do not make cash deposits into this account. Deposit activity is centralized through the Resource Management Division. Capital Projects Section receives the funds and makes deposits to the Bank on every Monday and Thursday except on holidays.</p>

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<p>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&amp;E and deposited.</p>		<p>income.</p> <p>To ensure that all payments are deposited, PW&amp;E should reconcile the payments received at the lockbox to the documentation provided by Legal regarding the settlements.</p> <p>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&amp;E.</p>		<p>discussions with PW&amp;E and Legal Department personnel, that the procedures for depositing checks received for damages to infrastructure are adequate.</p>	
<b>Automation of Work Order Process</b>					
<p>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 a match because they are not integrated. In the current environment, UTM would prepare an invoice for the fire hydrant and ROWM would prepare</p>	4	<p>PW&amp;E should consider utilizing one integrated work order system for all three areas. PW&amp;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:</p> <ul style="list-style-type: none"> <li>• Interface with the 3-1-1</li> </ul>	Not Implemented	<p>We discussed the automation and integration of division work order processes with PW&amp;E personnel and determined that the situation reported by Mir*Fox &amp; Rodriguez in November 2002, still exists. As indicated in the updated response, TTD's goal is to have an automated work order system implemented by December 2006. However, it will not be integrated with ROWFM's</p>	<p>TTD is currently in the process of implementing CityWorks IMS as its work order / asset management information system. TTD's goal is to have IMS fully implemented, tested, and in production by December 19, 2006. ROWFM uses the Right of Way Decision Support System to capture all work order activities of the Division. It creates sequentially numbered work orders. In tandem with a Pavement Maintenance &amp; Management System, the Division is developing a new work order tracking system, which will</p>

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an invoice for the damage to the curb. Both invoices would be submitted separately to Legal for settlement.		<p>system;</p> <ul style="list-style-type: none"> <li>• Generation of sequentially numbered work orders from service requests; and</li> <li>• Analysis of pending work orders and backlog.</li> </ul> <p>TMM should automate their work order processes. TMM should determine if CityWorks could accommodate their processes. If CityWorks is not compatible to their processes, another automated system should be implemented.</p>		work order system. In addition, it appears that work order tracking may continue to be a manual process for recovery of damages by outside parties.	<p>integrate 3-1-1 tracking capabilities. 3-1-1 reports are run daily to evaluate outstanding service requests.</p> <p><b>RMD:</b> <b>Note: The SAP system to be in place next fiscal year will not have the A/R Module that may integrate the work orders. Therefore, for recovery purpose, tracking may still be manual process.</b></p>
<b>Inclusion of all Costs Incurred for Repair or Replacement</b>					
(Synopsis) 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	5	<p>PW&amp;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&amp;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:</p> <ul style="list-style-type: none"> <li>• Analysis of all the cost components and related rates charged;</li> </ul>	Implementation in Progress	We discussed this issue with representatives from the ROWFM, TTD, and UM Divisions and found that the calculations of costs related to damages to infrastructure by outside parties varied among divisions. We pointed out the inconsistencies between divisions in calculating damage amounts and verbally recommended that management from all three divisions collectively	<p>The Divisions have adjusted their billings to accurately reflect the actual cost of labor, material and equipment. Other adjustments will include:</p> <ol style="list-style-type: none"> <li>1. Updating equipment rental rates (ROWFM)</li> <li>2. Charging a "call out" fee similar to the one charged by UM. (ROWFM)</li> <li>3. Charging an overhead rate of 30% on all damage estimates. (TTD)</li> </ol>

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information to determine the exact rental rate of machines.		<ul style="list-style-type: none"> <li>• Periodic evaluation of the equipment and labor rates utilized;</li> <li>• Determination of whether costs should be included for miscellaneous expenses such as operating cost, traffic control, small tools, etc.</li> </ul>		determine the most effective method of calculating and identifying all costs to be recovered for damages by outside parties. Those discussions prompted the efforts identified in the Department's most recent response to the original finding. Therefore, we concluded that implementation of the recommendation is in progress.	<p><b>RMD:</b> The Resource Management Division is working on developing a standardized overhead model so it can be used by these divisions for recovery purpose. The multiplier will incorporate the supplies and services items, plus direct cost for equipment rental, delivery, etc.</p> <p>The Resource Management Division is also recommending the formation of a centralized A/R Group so the invoice generating, tracking, receipts, can be handled systematically.</p>
<b>Designation of an Account for Recoveries for Damages</b>					
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	6	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.	Implemented	We discussed the original finding and recommendation with PW&E personnel and were informed that account #8828 had been established to record the receipt of recoveries for damages to infrastructure by outside parties. We also reviewed the	Deposit activity is centralized and coordinated through the Resource Management Division. The department uses Revenue Account # 8828 solely for transactions related to recoveries from third parties for damages to City's infrastructure and Revenue Account # 8825 for transactions related to recovery for damages to City's vehicles by outside parties.

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<p>during our review to reconcile the difference between AFMS and Legal's claims database.</p> <p>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.</p>			<p>"Revenue Source Index" and found that account #8828 is described, "Recover Damage – Infrastructure". Finally we selected a sample of settlement check deposits to verify that recoveries for damages to infrastructure were correctly recorded in account #8828. We found that four recovery amounts for damages to vehicles that should have been recorded in account #8825 were recorded in account #8828. We discussed audit test results with PW&amp;E management and were informed that they were aware of the problem, and that personnel have been instructed as to the correct recording of damages to infrastructure versus damages to vehicles. However, the response from PW&amp;E management indicates that infrastructure and vehicle damage recoveries may both be recorded in account #8828 in the future.</p>	<p><b>RMD:</b> <b>The Resource Management Division is recommending the use of #8828 for vehicles and infrastructure recovery and #8825 for all other 'recoveries' and this will be communicated to the Divisions.</b></p>