

OFFICE OF THE CITY CONTROLLER



**PUBLIC WORKS AND ENGINEERING DEPARTMENT
VEHICLE ALLOWANCE PROGRAM AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor

Report No. 2008-08



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

May 23, 2008

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Public Works and Engineering Department
Vehicle Allowance Program Audit (Report No. 2008-08)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of the Vehicle Allowance Program within the Public Works and Engineering Department (Department). The audit objective was to determine whether the allowances were administered in compliance with Administrative Procedure 2-2 (Motor Vehicle Assignment and Use), Executive Order No. 1-41 (Executive Vehicle Assignment/Allowance), and applicable Departmental Standard Operating Procedures.

The report, attached for your review, concluded that the Department was generally in compliance with AP 2-2 and EO 1-41, except for the finding presented in the body of the report. A draft copy of the report was provided to Department officials.

We appreciate the cooperation extended to our auditors by Department personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony W. Hall, Jr., Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Michael S. Marcotte, P.E., Director, Public Works and Engineering Department
Alfred J. Moran, Jr., Director, Administration and Regulatory Affairs Department
Michelle Mitchell, Director, Finance Department

CONTENTS

LETTER OF TRANSMITTAL	i
PURPOSE AND SCOPE	2
AUDIT PROCEDURES	2
CONCLUSION	2
INTRODUCTION	3

FINDING & RECOMMENDATION

SEMI-ANNUAL REVIEWS OF VEHICLE MILEAGE REPORTS	3
VIEWS OF RESPONSIBLE OFFICIALS.....	EXHIBIT I

PURPOSE AND SCOPE

The Office of the City Controller has completed an audit of the Vehicle Allowance Program (Program) within the Public Works and Engineering Department (Department). Our objective was to determine whether the Program was operating in compliance with Administrative Procedure 2-2, Motor Vehicle Assignment and Use (AP 2-2), Executive Order No. 1-41, Executive Vehicle Assignment/Allowance (EO 1-41), and Departmental Standard Operating Procedures.

The audit scope included Department employees currently receiving a vehicle allowance. The work did not constitute an evaluation of the overall internal control structure within the Department. The audit procedures were designed to: assess the level of compliance with procedures; determine adequacy of internal controls related to the Program; and provide recommendations for improvement where appropriate.

Departmental management is responsible for establishing and maintaining a system of internal controls to adequately account for vehicle allowances as an integral part of the Department's overall internal control structure. The objectives of the system are to provide management with reasonable, but not absolute, assurance that administration of vehicle allowances complies with all applicable procedures, orders, and laws.

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.

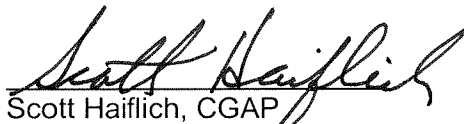
AUDIT PROCEDURES

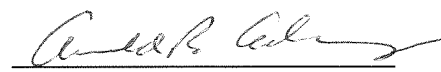
Audit procedures included development of an attribute checklist used to test compliance with AP 2-2, EO 1-41, and IRS Regulations applicable to vehicle allowances, such as:


- Completion, proper approval, and maintenance of required forms
- Determination of driver qualifications
- Correctness of approved allowance rates
- Semi-annual reviews of mileage logs to adjust allowance rates when necessary
- Implementation of disciplinary action for non-compliance with AP 2-2 and EO 1-41

CONCLUSION

Based on the results of our audit, we concluded that the Department was generally in compliance with AP 2-2 and EO 1-41, except for the finding presented in the body of the report.


Scott Haiflich, CGAP
Auditor-in-charge


Arnie Adams, CFE, CIA
Audit Manager


Steve Schoonover, CFE
City Auditor

INTRODUCTION

According to a report generated from the payroll system and provided by the Administration and Regulatory Affairs Department, as of February 22, 2008, the Department had 29 employees receiving vehicle allowances, three Executive and 26 Non-Executive staff members.

EO 1-41 establishes a policy of vehicle assignment or allowance for City Executive staff who use a vehicle or incur transportation expenses while engaged in the performance of City business. This EO also requires that vehicle allowances for Department Directors and Deputy Directors be approved by the Office of the Mayor.

AP 2-2 provides uniform operating rules and procedures to help ensure driver and passenger safety, protection of the public, disciplinary equity, and efficient use and maintenance of vehicles.

FINDING AND RECOMMENDATION

SEMI-ANNUAL REVIEWS OF VEHICLE MILEAGE REPORTS

BACKGROUND

AP 2-2, Section 5.1.3 requires that Department heads conduct semi-annual reviews of mileage reports and adjustments be made to vehicle allowance amounts when actual mileage reported places the recipient in a different rate category.

FINDING

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.

RECOMMENDATION

The Department should continue their semi-annual reviews of mileage reports and adjust vehicle allowance amounts as necessary. The Department should also calculate over and under-payment amounts to recipients that occurred while semi-annual reviews were not being conducted. Once these amounts are determined, the Department should coordinate the recouping of any over-payments and processing of any under-payments.

EXHIBIT I



CITY OF HOUSTON
Department of Public Works &
Engineering

Interoffice

Correspondence

To: Annise Parker
Controller

From: Director

Date: May 7, 2008

Subject: **VEHICLE ALLOWANCE PROGRAM**

We have completed our response to your Vehicle Allowance Program audit findings. We appreciate the recommendations made by your auditors.

SEMI-ANNUAL REVIEWS OF VEHICLE MILEAGE REPORTS

Recommendation:

The Department should continue their semi-annual reviews of mileage reports and adjust vehicle allowance amounts as necessary. The Department should also calculate over and under-payment amounts to recipients that occurred while the semi-annual reviews were not being conducted. Once these amounts are determined, the Department should coordinate the recouping of any over-payments and processing of any under-payments.

Response:

We agree with the recommendation. In response to the referenced PWE internal audit report finding the Department developed and implemented a procedure for a) addressing the noted instance of non-compliance with A.P. 2-2, b) correcting the records and c) preventing reoccurrence of the problem.

Department employees researched mileage records for all employees participating in the vehicle allowance program under A. P. 2-2 for the calendar year 2007. While we were able to recreate the auditor's test, we found the amount due from this one employee was not representative of the rest of the group. The majority of the records were correct as stated and employees were paid correctly.

Based on the information we've gathered it does not appear cost effective to go farther back in the records but we have reviewed and verified each employee receiving the vehicle allowance to insure that each employee is being paid correctly now. The new procedures should prevent reoccurrence.

A handwritten signature in black ink, appearing to read "Michael Marcotte".

Michael Marcotte, P.E., DEE

CC: Waynette Chan, Chief of Staff
Daniel Krueger, Deputy Director
Godwin Okoro, Deputy Assistant Director

**Views of Responsible
Officials**