

OFFICE OF THE CITY CONTROLLER



**HOUSTON PUBLIC WORKS DEPARTMENT
REBUILD HOUSTON PERFORMANCE AUDIT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

April 8, 2019

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

SUBJECT: REPORT #2019-09 HPW-REBUILD PERFORMANCE AUDIT

Mayor Turner:

The Office of the City Controller's Audit Division contracted the professional services of Protiviti to complete a performance audit of Houston Public Works Department (HPW) ReBuild Houston, the business model in place to improve the quality of life and mobility for residents of the City of Houston by rebuilding the drainage and street infrastructure. HPW is responsible for operation and maintenance of the City's streets and drainage, production and distribution of water, collection and treatment of wastewater, permitting, and regulation of public and private construction.

The ReBuild model is a direct result of City voters approving Proposition One on November 2, 2010. The proposition directed the City's Charter to "be amended to provide for the enhancement, improvement and ongoing renewal of Houston's drainage and streets by creating a Dedicated Pay-As-You-Go Fund for Drainage and Streets". The Pay-as -You Go feature means no new debt is incurred which eliminates interest payments on new projects.

The scope of the audit is to perform a review of the ReBuild Houston program from Fiscal Year 2010 through the end of Fiscal Year 2018. Our original objectives were broadly defined to encompass a review of the ReBuild Houston program. After conducting initial research on ordinances, policies, operating procedures, information systems, and interviews with key personnel, we refined the audit objectives to incorporate the following:

- Identify and develop an understanding of valid uses of ReBuild Houston funds;
- Document sources of funding for street and drainage projects to further understand fund management processes;
- Calculate the amount of funding received from each source to determine total funding levels by utilizing SAP data provided by the City; and
- Analyze the flow of funds from receipt to commitment (executed purchase order) and test funds utilization for compliance with the applicable policies, procedures, and funding requirements provided by the City.

During the audit, we collected data, performed data analysis, performed sample testing and validated samples. As a result, we determined:

- Ad Valorem revenue for July 2016 to June 2018 reconciles with the expected revenue (tax schedule)
- Drainage revenue reconciles with the billed amount and booked amount
- METRO reimbursements to the Dedicated Drainage and Street Renewal Fund (DDSRF 2310) reconciles with the amount invoiced



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- Transfers from DDSRF 2310 to the Capital Project Fund (Fund 4042) reconciles with the Capital Improvement Plan (CIP) expenses
- CIP expenses are appropriately used as described by City ordinances for samples reviewed and based on the project documentation that was provided, funds were appropriately used in accordance with existing agreements and on allowable expenses.

We would like to express our appreciation to the management and staff of the Houston Public Works Department for their time and effort, responsiveness, and cooperation during this audit.

Respectfully submitted,

Chris B. Brown
City Controller

xc: Carol Haddock, Director, Houston Public Works Department
City Council Members
Marvalette Hunter, Chief of Staff, Mayor's Office
Harry Hayes, Chief Operations Officer, Mayor's Office
Samir Solanki, Deputy Director, Houston Public Works Department
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

March 14, 2019

Chris B. Brown, City Controller
Office of the City Controller
City of Houston
901 Bagby
Houston, TX 77002

Re: Performance Audit of Houston Public Works Department- Rebuild Houston

Dear Mr. Brown:

Protiviti has completed the City of Houston's Performance Audit of Houston Public Works Department (HPW) - Rebuild Houston as outlined in our revised engagement letter dated December 4, 2018 under Contract Number 4600013948, approved by City Council Ordinance Number 2016-0559.

The audit objective was to assess with reasonable, but not absolute assurance, the valid uses of Rebuild Houston funds, document sources of funding for street and drainage projects to further understand fund management, calculate the amount of funding received from each source to determine total funding levels by utilizing SAP data provided by the City, analyze the flow of funds from receipt to commitment (executed purchase order) and test a sample of funds utilization for compliance with the applicable policies, procedures, and funding requirements provided by the City.

The audit scope covered drainage billings for fiscal years 2017 and 2018, and purchase order expenditures for projects completed between 2012 and 2018

Errors or fraud may occur as the scope of our work did not constitute a review and evaluation of the overall internal control structure of HPW or controls within in-scope systems from which data was obtained for this audit.

The attached report is intended for the use of Public Works Engineering (PWE) and the Office of the City Controller, and is not intended to be used for any other purpose.

Thank you for the opportunity to perform this audit and the cooperation received from PWE and your office.

Sincerely,



Jon Critelli
Managing Director

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EXECUTIVE SUMMARY

INTRODUCTION

ReBuild Houston is an initiative to improve the quality of life and mobility for residents of the City of Houston (City) by rebuilding the drainage and street infrastructure. This initiative is a direct result of City voters approving Proposition One on November 2, 2010. The proposition directed the City's Charter to "be amended to provide for the enhancement, improvement and ongoing renewal of Houston's drainage and streets by creating a Dedicated Pay-As-You-Go Fund for Drainage and Streets." In this program, no new debt is incurred, and cash payment means there are no more interest payments on new projects. As the old debt is paid off, the balance of funds reserved by City Council via Drainage Utility Ordinance No. 2011-254 now goes toward new street and drainage projects via Pay-As-You-Go funding. The "Dedicated Pay-As-You-Go Fund for Drainage and Streets" is known as the Dedicated Drainage and Street Renewal Fund (DDSRF). The Houston Public Works (HPW) Department is responsible for operation and maintenance of the City's streets and drainage, production and distribution of water, collection and treatment of wastewater, permitting, regulation of public and private construction. ReBuild Houston is Houston Public Work's business model for managing the operation/maintenance of the City's infrastructure.

In the November 2018 election, the residents of the City of Houston voted to reaffirm the lockbox surrounding the drainage fees for ReBuild Houston.

AUDIT SCOPE AND OBJECTIVES

The audit scope consisted of a review of the funding and spend associated with the ReBuild Houston Program from Fiscal Year 2010 through Fiscal Year 2018. The refined audit objectives included:

- Identifying and developing an understanding of valid uses of ReBuild Houston funds;
- Documenting sources of funding for street and drainage projects to further understand fund management processes;
- Calculating the amount of funding received from each source to determine total funding levels by utilizing SAP data provided by the City;
- Analyzing the flow of funds from receipt to commitment (executed purchase order) and testing of fund utilization for compliance with the applicable policies, procedures, and funding requirements provided by the City; and
- Provide management with reasonable, but not absolute assurance that the funds were managed effectively.

APPROACH

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards contained in Government Auditing Standards. Those standards require that we plan and perform the audit 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

An understanding of the internal control structure of HPW was not deemed to be significant in meeting the above audit objectives. Therefore, the scope of our work did not constitute a review and evaluation of the overall internal control structure of HPW or controls within in-scope systems from which data was obtained for this audit. Management is responsible for establishing and maintaining a system of internal controls to ensure that assets are secured; financial activity is accurate and reliable; and that employees follow laws, ordinances, policies and procedures.

To achieve the objectives of this audit the following phased approach was utilized:

Phase 1: Document Collection

- Obtained applicable policies and procedures associated with ReBuild Houston funding requirements and funding sources from the City;
- Reviewed documentation and conducted interviews with key personnel and stakeholders to develop an understanding of the funding sources and types of projects considered to be allowable for each funding source; and
- Identified and collected, from the City's resources, SAP data associated with ReBuild Houston projects funded from DDSRF. We collected SAP data for budget versus actual collections, ad-valorem taxes, drainage billings (FY2017 and FY2018), and purchase order expenditures for projects completed between 2012 and 2018.

Phase 2: Data Analysis

- Developed classifications for cost of services (budget versus actual collections, annual contract status, billing summaries to third parties-METRO only, monthly reconciliations, and transfers for expenses) against the Street Renewal Fund utilizing SAP data provided by the City including, but not limited to, budget versus actual collections, annual contract status, billing summary to third parties (METRO only), monthly reconciliations and transfers for expenses.
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Phase 3: Test Samples

- Reviewed cost of service classifications (e.g., construction, repair, architectural, engineering, legal administrative costs, direct and indirect costs, etc.) outlined in the Local Government Code Chapter 552 (Title 13. Water and Utilities, Subtitle A. Municipal Water and Utilities).
- Compared the classified data developed in Phase 2 to the cost of service classifications contained in the Local Government Code to determine whether sampled purchase order expenditures were an allowable use of funds (related only to descriptions associated with purchase orders and purchase order data).

Phase 4: Validate Samples

- Identified potential areas of non-compliance and conducted interviews with key personnel and stakeholders to review the findings and further understand the rationale for the use of the funds.

Phase 5: Audit Reporting

- Compiled this audit report that outlines funding and identifies areas of non-compliance for remediation.

PROCEDURES PERFORMED

In order to satisfy engagement objectives and support potential findings, the following procedures were performed:

- Identified and obtained all applicable policies, procedures and manuals associated with ReBuild Houston Program.
 - Reviewed Local Government Code Chapter 252 (Purchasing and Contracting Authority of Municipalities), Chapter 552 (Municipal Utilities) and Municipal Drainage Ordinance 2011-254
 - Developed abstract of Local Government Code Chapter 552 (Title 13. Water and Utilities, Subtitle A. Municipal Water and Utilities) to test expenditures associated with DDSRF 2310, a dedicated account for fund collection.
 - Obtained SAP detailed transactional data for the ReBuild Houston fund from DDSRF 2310, Ad Valorem tax schedule, daily and monthly drainage customer billing invoices and summary reports for customer invoices to METRO.
 - Obtained reconciliation reports of fund transfers from DDSRF 2310 to Capital Projects Fund (4042 and 4042A) along with expense reports.
 - Analyzed funding source mechanisms from Ad Valorem, drainage charges and METRO reimbursements to DDSRF 2310 and reconciled to the actual SAP transactions.
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- Analyzed transfers from DDSRF 2310 to 4042 based on transfer reconciliation reports, 4042 expense reports, and actual SAP transactions.
 - Reviewed eight (8) line item details for 4042 expenses (Actual Construction work, excluding all City Personnel Payrolls) for appropriateness and validity based on the ReBuild Houston policies and procedures abstracts.

ANALYSIS

This section illustrates the lifecycle of ReBuild Houston which has Revenue, Adopted Budget and Capital Fund as the three key areas in which the funds flow to deliver ReBuild Houston Projects. Our analysis of the ReBuild Houston Program is categorized into Funding Validity and Capital Expense Validity. Funding Validity includes the sources of funds along with detailed analysis of transfers to other accounts. Capital Expense Validity is the analysis for funds that were spent on Capital Improvement Plan (CIP) Projects and the objective of this audit was to determine that funds are appropriately used in the Capital Fund.

The items listed below are the sources of funding, approval, and expenditure mechanisms of the funds of the ReBuild Houston Program.

- Funding (incoming Sources of Revenue)
- Revenue (Billings and Charges)
- Adopted Budget and Adopted CIP (Approved Budget for Capital Improvement Plan)
- Capital Fund (Project Expenditures)
- Capital Expense Validity (Validation of Capital Fund Expenditures)

FUNDING VALIDITY

The ReBuild Houston Pay-As-You-Go solution has four sources of funding and all funds collected by the City beginning in FY 2011, and such other monies are available to the City for the purpose of drainage and are used exclusively for creation, operation, planning, engineering, inspection, construction, repair, maintenance, improvement, reconstruction, administration and other reasonable and customary expenses associated with the cost of service to provide drainage services, street projects, traffic signalization projects, operation and maintenance for street and traffic control within the service area. The income derived from the operation of municipal drainage services is maintained in accordance with Section 552.049 of the Texas Local Government Code and Section 22 of Article IX of the City Charter. The following sections are a part of the Municipal Drainage Utility System Ordinance 2011 -254:

- Sec. 47-822 Exemptions for drainage charge
 - Sec. 47-823 Review and adjustment of drainage rates
 - Sec. 47-824 Verification and correction
 - Sec. 47-825 Appeals
-



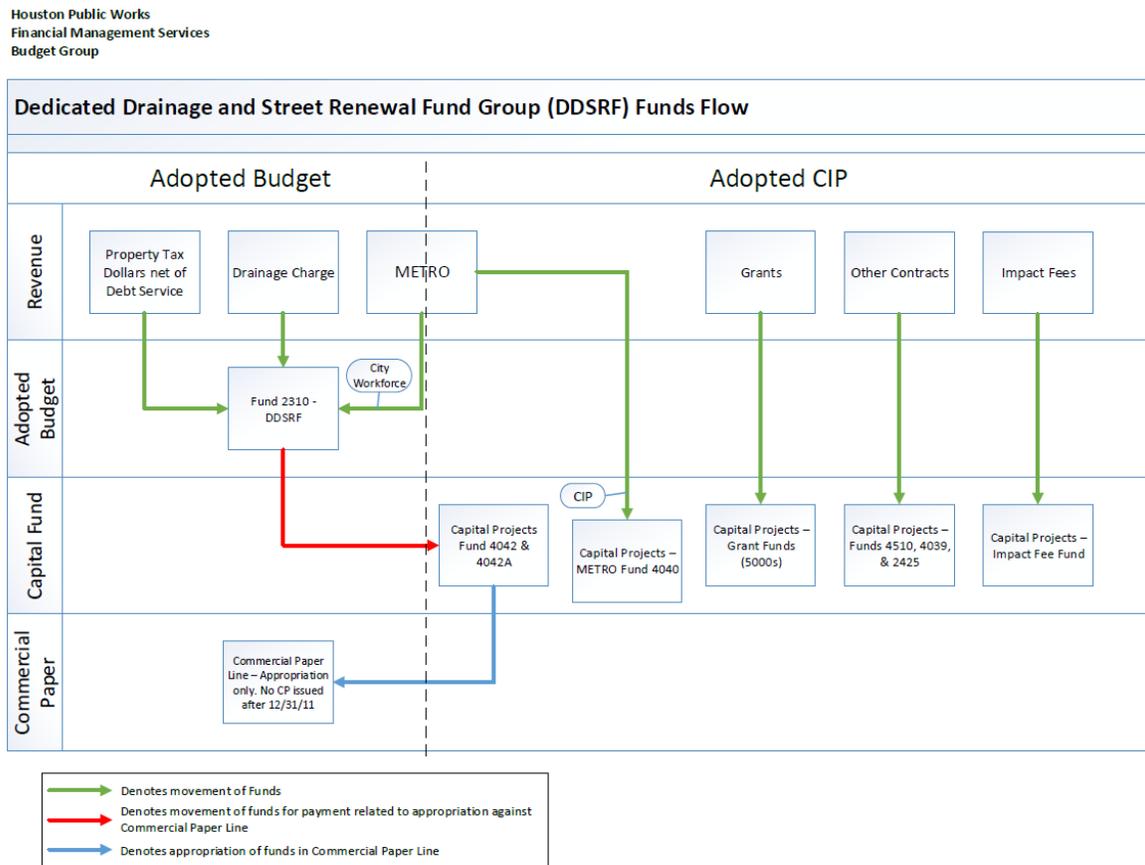
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- Sec. 47-826 Record review

The Municipal Drainage Utility System Ordinance – Division 2 – Funding, addresses funding for the municipal drainage utility system. The enhancement, improvement and ongoing renewal of Houston's drainage and streets is funded from the DDSRF and there are four Sources of Funding for DDSRF:

- Drainage Utility Charge
- Developer Impact Fee
- Ad Valorem Taxes (Property Taxes)
- Third- Party Funds (METRO, TxDOT, Feds)

The Graphic below represents the three tiers of how the funding is received from various sources that becomes the Revenue. The funds flow from Revenue to Adopted budget for DDSRF, which projects are funded based on the Five-year Capital Improvement Plan (CIP). The funds are then transferred to Capital Funds for project commitments.



6/4/2018



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REVENUE

Billing charge is a key component of the Dedicated Pay-As-You-Go Fund for Drainage and Streets known as the DDSRF 2310 and is addressed in Division 3 Chapter 47 Article XIV of the City's Ordinances. The following sections are a part of the Municipal Drainage Utility System Ordinance 2011-254.

- Sec. 47-841 Billing and payment
- Sec. 47-842 Delinquent charges and penalties
- Sec. 47-843 Determination of payment responsibility.

Detailed below are the analyses performed during this audit for Funding, Billing and Test Results.

AD VALOREM TAXES ANALYSIS: Ad Valorem (property taxes) is one of the four funding sources for DDSRF 2310. Property taxes are projected with an Ad Valorem tax schedule (Appendix 1). For Fiscal Years 2012 through 2019, 11.8¢ equivalent of every \$100 of property value collected goes into the General Fund 1000 where then a set amount of dollars is transferred over to DDSRF 2310. Increases in property taxes for the City of Houston is limited to the terms of a revenue cap ordinance passed in 2004. This reduces the amount of property taxes received by the City, and thus proportionately reduces the transfer to DDSRF, which is the 11.8¢ equivalent. Based on the provided Ad Valorem tax schedule, the actual Ad Valorem revenue is provided in the table below where the detailed line item transactions were filtered by the account number "490010 - Transfers from general fund" and the cost center "2000050033 - HPW-Cap Tax for CIP".

Year	Ad Valorem Tax Schedule (Actuals)	Transfers from 1000 to 2310	Difference SAP vs Schedule
2012	9,193,265.59	9,193,266.00	\$0.41
2013	10,896,976.80	10,896,977.00	\$0.20
2014	22,083,659.85	22,083,659.00	(\$0.85)
2015	40,929,883.77	40,931,275.00	\$1,391.23
2016	50,046,000.00	50,046,000.00	\$0.00
2017	34,740,967.17	34,741,000.00	\$32.83
2018	34,399,080.76	34,399,000.00	(\$80.76)
Total:	202,289,833.94	202,291,177.00	\$1,343.06

Table 01: Ad Valorem Analysis

Based on the SAP detailed line item transactions of DDSRF 2310, the analysis reviewed transfers from the General Fund 1000 to DDSRF 2310. SAP transactions related to this process were reviewed and the amount of revenue transferred into DDSRF 2310 was verified without exception (for a negligible difference) for each fiscal year in the review period.



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DRAINAGE UTILITY CHARGES: Drainage charges are one of the four funding sources for DDSRF 2310. Drainage charges are billed to residential, commercial, industrial, and other customers. The drainage charge is comprised of monies billed through periodic billing and as established by the Municipal Drainage Utility System Ordinance 2011 – 254 (Sec. 47 - 841) and customer billing and payment receipt occurs on a periodic basis. Total drainage charges billed can be determined through customer bills sent out by the City. For our analysis, we were provided with 518 bill summaries from July 2016 to June 2018 (FY2017 and FY2018) due to system limitations in which the drainage customer billing system was upgraded in 2015 and prior data was archived in multiple formats (not entirely electronically based). A summary of the drainage charges included in the sampling period are provided in the table below and based on the DDSRF 2310 SAP detailed line item transactions. Specifically, the detailed line item transactions were filtered by the account number 426500 - Drainage Charge Revenue. In addition, interdepartmental drainage is billed once every quarter. These transactions are identified through account number 424190 - Interfund Drainage Charge.

FY	Year Month	Per Line Item (Actuals)	Per Gross Billed	Variance
FY2017	2016 July	\$ 5,879,431.96	\$ 5,879,431.96	\$ -
	2016 August	\$ 17,913,711.87	\$ 17,913,711.87	\$ -
	2016 September	\$ 6,497,425.68	\$ 6,497,425.68	\$ -
	2016 October	\$ 6,500,675.92	\$ 6,500,675.92	\$ -
	2016 November	\$ 15,167,496.65	\$ 15,167,496.65	\$ -
	2016 December	\$ 6,432,400.77	\$ 6,432,400.77	\$ -
	2017 January	\$ 6,718,488.19	\$ 6,718,488.19	\$ -
	2017 February	\$ 15,221,488.31	\$ 15,221,488.31	\$ -
	2017 March	\$ 6,654,056.83	\$ 6,654,056.83	\$ -
	2017 April	\$ 6,563,182.33	\$ 6,563,182.33	\$ -
	2017 May	\$ 15,793,830.98	\$ 15,793,830.98	\$ -
	2017 June	\$ 6,817,206.49	\$ 6,817,206.49	\$ -
FY2018	2017 July	\$ 6,734,952.56	\$ 6,734,952.56	\$ -
	2017 August	\$ 18,204,590.84	\$ 18,204,590.84	\$ -
	2017 September	\$ 6,645,001.76	\$ 6,645,001.76	\$ -
	2017 October	\$ 6,938,921.56	\$ 6,938,921.56	\$ -
	2017 November	\$ 15,421,621.67	\$ 15,421,621.67	\$ -
	2017 December	\$ 6,843,897.80	\$ 6,843,897.80	\$ -
	2018 January	\$ 6,709,602.63	\$ 6,709,602.63	\$ -
	2018 February	\$ 15,543,733.19	\$ 15,543,733.19	\$ -
	2018 March	\$ 7,105,341.47	\$ 7,105,341.47	\$ -
	2018 April	\$ 6,871,305.28	\$ 6,871,305.28	\$ -
	2018 May	\$ 15,576,610.22	\$ 15,576,610.22	\$ -
	2018 June	\$ 6,864,541.93	\$ 6,864,541.93	\$ -
Total:		\$ 235,619,516.89	\$ 235,619,516.89	\$ -

Table 02: Drainage Charges Funding Mechanism Summary

In our analysis, we were able to reconcile the entries in SAP (actuals) to the drainage amounts billed. Actuals are comprised of GL 426500 (Gross Billings and Reversals of Billings) and GL 424190 (Interdepartmental Drainage charge entries) and excluded GL 426505 (drainage adjustments) and GL 455030 (drainage penalties) since they are not considered gross drainage billed.

In discussion with the City Officials it was determined that for each month and year analyzed, the amount that was booked into SAP reconciled to total amounts billed. The zero-dollar variance indicates what was billed and what was transferred into Fund 2310 reconcile.

DEVELOPER IMPACT FEE: Developer impact fees are assessed on new development projects. These fees are intended to recover some of the costs incurred for the expansion of the infrastructure network necessary to serve that new development. The City passed the Developer Drainage Impact Fee Ordinance (Ordinance #2013-281), on April 3, 2014. However, this is an insignificant amount of revenue compared to the total amount of DDSRF Revenue that is collected and can only be used to fund work in that developed community or watershed. Based on our discussion with HPW and documents obtained indicated that the revenue from Developer Impact Fee from Fiscal Year 2014 through 2017 averaged less than \$500,000 per fiscal year and there were no expenses incurred from this fee so further analysis was not conducted on Developer Impact Fee.

METRO REIMBURSEMENT TO DDSRF 2310 AND EXPENSE VALIDITY: METRO reimburses the City of Houston DDSRF 2310 for valid and allowable Operations and Maintenance (O&M) work performed by the City of Houston such as surface refinishing or signal maintenance etc. Through discussions with the City, METRO reimburses the City of Houston based on actual work completed. The City of Houston Public Works compiles invoices for completed work and requests reimbursements from METRO. According to the funding mechanism, METRO revenue would equal what is invoiced to METRO based on the DDSRF 2310 SAP detailed line item transactions. In our analysis, the detailed line item transactions from SAP were filtered by the account number "422150 - Intergov Rev-Metro". The invoicing process is not executed through the SAP system, but is compiled with work completed on a time and material basis (hours and materials used etc.). We selected a sample of 8 invoices to review the billed amount to METRO. The table below provides a summary of comparison for SAP transactions and invoiced amounts. There was no variance observed between the invoiced amounts and the transactions within the system.



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Sample Number	SAP Document Number	SAP Local Currency Amount	Amount Invoiced	Variance
1	101720095	\$ 4,792,143.85	\$ 4,792,143.85	\$ -
2	101720095	\$ 4,385,721.76	\$ 4,385,721.76	\$ -
3	101720095	\$ 1,904,157.20	\$ 1,904,157.20	\$ -
4	101720102	\$ 599,735.50	\$ 599,735.50	\$ -
5	101720102	\$ 234,000.00	\$ 234,000.00	\$ -
6	101720102	\$ 4,702,100.00	\$ 4,702,100.00	\$ -
7	101720102	\$ 808,665.00	\$ 808,665.00	\$ -
8	101745332	\$ 1,522,775.06	\$ 1,522,775.06	\$ -

Table 03: METRO Reimbursements to DDSRF 2310 Summary

In addition, each sampled invoice was evaluated for appropriate use of funds in conjunction with the City Ordinance Manual. Each invoice was summarized for the expense type and reviewed for evidence of work performed. See Table 04 below for a summary of fund used for street improvements, bridge maintenance, traffic control and traffic engineering efforts. Audit testing found that funds for sampled invoices were appropriately used in accordance to the agreement with METRO on allowable expenditures.

Sample Number	Invoice File Name	Work Performed Summary
1	FY18 - Street Reconstruction - Inv # 1.pdf	Asphalt patches applied
2	FY18 - Overlaid - Inv # 1.pdf	Lane overlay
3	FY18 - Bridge Barricade - Inv # 1.pdf	Bridge and barricade maintenance (inspections)
4	FY18 - Sign Maintenance - Inv # 1.pdf	Sign maintenance actions
5	FY18 - Pavement Marking - Inv # 1.pdf	Traffic markings
6	FY18 - Freeway Lighting - Inv # 1.pdf	Traffic signal/freeway lighting actions
7	FY18 - Traffic Signal - Inv # 1.pdf	Traffic engineering actions
8	FY18 - Concrete Street - Inv # 1.pdf	Concrete street repair

Table 04: Evaluation of METRO Invoices Summary

ADOPTED BUDGET

Per Division 4 and Section 47-861 of the Municipal Drainage Utility System Ordinance 2011-254 an oversight committee of nine members (four members to be appointed by the mayor, including the committee chair, and five members) are appointed by the City Council, whose members advise the City on drainage project priorities and process. We noted the existence of committee meeting minutes for Fiscal years 2013, 2014, 2015, 2016 and 2017 for these projects. These meeting minutes contained appropriations for 5-Years of Capital Improvement Plan (CIP). Funds are used for Drainage projects, Street projects, Operation & Maintenance for drainage infrastructure, Street projects, Traffic Signalization, Sidewalk Projects.

CAPITAL FUND

The CIP sets forth proposed capital projects and related expenditures to be incurred in the succeeding fiscal year, and each fiscal year following, over a rolling period of five years. It describes each project, its source(s) of funding and the amounts allocated to the various stages, phases or aspects of the project. This annual process includes both internal steps and external/stakeholder input from Council Members and the public. It culminates in approval of the proposed 5-year Adopted CIP by the City Council. For the Houston ReBuild fund, several types of capital project expenditures are allowed under CIP. Funds are transferred from DDSRF 2310 to CIP Fund 4042/4042A where 4042A is the cash transferred in advance. Moreover, the CIP cost items are categorized into the following three Cost areas:

- Project Contractual Cost
- Project Management Cost
- Land Acquisition Cost

Currently, there are no further appropriations planned for Fund 4042A, current usage of Fund 4042A, hence the fund is excluded from review. However, the previous appropriations have obligations that must be expended until the work is completed. Funds for 4042A are transferred in advance as opposed to Fund 4042 where transfers are equal to the expenses. The majority of the CIP expenses are through Fund 4042.

Transfers from DDSRF 2310 to 4042 are expensed to capital projects; therefore, the expenses and transfers should equal the same amount. To analyze the amount that was transferred from DDSRF 2310 to Fund 4042, we collected the DDSRF 2310 SAP detailed line item transactions and then reviewed the DDSRF 2310 to Fund 4042 transfers. In our analysis, the detailed line item transactions were filtered by the account number “532020 - Transfer to Cap Proj” and cost center “2000050033 - Captured Tax Revenues for CIP (No FTEs)” for Ad Valorem funding sources and cost center “2000050002 - Financial Management (No FTEs)” for drainage charges funding sources. Then DDSRF 2310 expense reports were reviewed for transfers from DDSRF 2310 for variances and Table 05 below presents a summary comparing the DDSRF 2310 transfers in SAP and the Fund 4042 expenses.


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	Drainage Charges		
	FY2015	FY2016	FY2017
SAP Line Item Details Report Total:	\$ 129,728,973.38	\$ 101,705,244.27	\$ 100,445,762.68
Expense Report Total:	\$ 100,000,572.48	\$ 101,487,167.99	\$ 100,317,794.35
Variance:	\$ 29,728,400.90	\$ 218,076.28	\$ 127,968.33

	Ad Valorem		
	FY2015	FY2016	FY2017
SAP Line Item Details Report Total:	\$ 19,868,864.53	\$ 7,721,852.92	\$ 14,015,499.53
Expense Report Total:	\$ 3,143,616.97	\$ 7,884,607.95	\$ 13,982,871.53
Variance:	\$ 16,725,247.56	\$ (162,755.03)	\$ 32,628.00

Table 05: Transfers DDSRF 2310 to Fund 4042 and 4042 Expenses

For a given fiscal year our analysis focused on the Cash Transferred from DDSRF 2310, in which the application that transfers the cash is based on the date that transaction occurred (cash basis: July 1 thru June 30) and the City's financial reporting is on a Modified Accrual basis as there are transactions that occur beyond June 30 that are accrued. These accruals are expenses that are incurred during the accounting period for which no invoices were received till June 30 and are received after June 30. Accruals are for estimated figures since the invoice, when received, have actual expenses for work performed. However, those two methods aren't completely compatible, therefore City Officials provided us with the following reports that reconciles the Cash Transfers to the various elements.

Element	Amount	Comments
FY14 DDSRF Accrual Reversal	-14,487,784.81	Reversal of Accrual
FY15 Cash Transfer to Fund 4042A	47,346,556.00	Cash Transferred in Advance
FY15 DDSRF Accrual Adjustment	16,639,993.14	Accrue Expenditure to correct period
FY14 Expenditure Activity	13,826,157.24	Expenditure Activity after June 30
FY15 Expenditure Activity	86,272,916.34	Expenditure Activity before July 1
Total Cash Transfer	149,597,837.91	

Table 06: FY15 Cash Transferred from DDSRF 2310

Element	Amount	Comments
FY15 DDSRF Accrual Reversal	-16,639,993.14	Reversal of Accrual
FY16 DDSRF Accrual Adjustment	17,189,198.20	Accrue Expenditure to correct period
FY15 Expenditure Activity	16,861,467.31	Expenditure Activity after June 30
FY16 Expenditure Activity	92,016,424.82	Expenditure Activity before July 1
Total Cash Transfer	109,427,097.19	

Table 07: FY16 Cash Transferred from DDSRF 2310

Using the data above, a comparison of the DDSRF 2310 Cash Transfer Expenditures to the Fund 4042 Reconciliation Transfer Expenditures is outlined below:

Element	Amount	Comments
FY15 Expenditure Activity (FY15)	86,272,916.34	FY15 Fund 4042 Expenditures
FY15 Expenditure Activity (FY16)	16,861,467.31	FY15 Fund 4042 Expenditures
Total FY15 Exp. (Cash Transfer)	103,134,383.65	FY15 Cash Transfer
Less: FY15 Exp. Recon Report	-103,144,189.45	FY15 Cash Reconciliation
Difference	-9,805.80	1 Transaction identified thru Recon

Table 08: FY15 Fund 4042 Expenditures

Element	Amount	Comments
FY16 Expenditure Activity (FY16)	92,016,424.82	FY16 Fund 4042 Expenditures
FY16 Expenditure Activity (FY17)	17,192,308.17	FY16 Fund 4042 Expenditures
Total FY16 Exp. (Cash Transfer)	109,208,732.99	FY16 Cash Transfer
Less: FY16 Exp. Recon Report	-109,371,775.94	FY16 Cash Reconciliation
Difference	-163,042.95	2 Transactions identified thru Recon

Table 09: FY16 Fund 4042 Expenditures

Table 06 (*FY15 Cash Transferred from DDSRF 2310*), Table 07 (*FY16 Cash Transferred from DDSRF 2310*) and Table 08 (*FY15 Fund 4042 Expenditures*) reflect the reconciliation of expenditures and fund transfers for FY15 and FY16. The Cash Transfers for Fund 4042A are done in advance from DDSRF 2310 to Fund 4042A, which are similar to the \$47,346,556.00 outlined in the Table 6 above for FY15 Cash Transfer to Fund 4042A cash transfer in FY15 and a detailed report of all the cash transfers to Fund 4042A from DDSRF 2310 was made available for review.

CAPITAL EXPENSE VALIDITY

Only specific capital project expenditures are allowed through the Houston ReBuild Program per the Local Government Code, Title 13. Water and Utilities; Subtitle a. Municipal water and Utilities and Chapter 552. Municipal Utilities. In order to determine and verify the validity of the expenses as allowable by the Houston ReBuild Program, expenses are evaluated for the type of project and services rendered under the ReBuild Program ordinances. Due to the expensing process, detailed information such as completion milestones, percent completion, itemization of services rendered etc. were collected through manual review of information and is not available in its entirety on the SAP system. A selection of CIP expenses was made for further evaluation and based on the detailed expense reports for FY2016, FY2017, and FY2018, eight (8) invoices were selected for evaluation to test the spend associated with Local Government Code Chapter 552 Municipal Utilities for:

- Sec. 552.002 for Public Service Operation, Manufacture



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- Sec. 552.012 for Water Purification and treatment facilities, Reservoirs, Pipelines
- Sec. 552.063 Improvement of Water Works System

These samples were part of progress payments for ongoing project work and included detailed allocation of contracted budget amounts for the entire contract sum among the various portions of the work for each project. The project budgets for the selected sample represented 2.5% of the expenses for FY2016, FY2017, and FY2018. See table 10 for summary of expenses and the determination for valid expenditure.

Sample Number	SAP Document Number	Invoice Amount	Invoice File Name	Ordinance Section	Expense Validity
1	5000609635	\$ 539,052.66	46-7672 E111 KLOTZ.PDF	Sec. 552.063	Valid
2	5000657705	\$ 13,726.26	46-11882 E05 SES HORIZON.PDF	Sec. 552.002	Valid
3	5000633808	\$ 49,068.99	46-12060 E231 TERRACON.PDF	Sec. 552.012	Valid
4	5000713186	\$ 111,932.38	46-13098 E10 PARSON.PDF	Sec. 552.012	Valid
5	5000767906	\$ 1,048.03	46-13286 E07 MAIN LANE.PDF	Sec. 552.063	Valid
6	1900830051	\$ 1,800.00	46-13621 E06 MAIN.PDF	Sec. 552.063	Valid
7	5000778157	\$ 63,113.00	46-13676 E19A COBB.PDF	Sec. 552.063	Valid
8	5000648468	\$ 143,176.61	AY17-254 asset #01.pdf	Sec. 552.063	Valid

Table 10: Summary CIP Expenses and Validity

CONCLUSION

This audit was performed with the objective of evaluating the funding and spend associated with the ReBuild Houston Program. The audit team successfully identified and documented our understanding of valid application of ReBuild Houston funds, documented sources of funding for street and drainage projects, calculated funding received from each source and analyzed the flow of funds from appropriation to commitment. As a result of this review the following conclusions were reached:

- Ad Valorem revenue for July 2016 to June 2018 reconciles with the expected revenue (tax schedule)
- Drainage revenue reconciles with the billed amount and booked amount
- METRO reimbursements to DDSRF 2310 reconcile with the amount invoiced
- Transfers from DDSRF 2310 to Fund 4042 reconcile with the CIP expenses
- CIP expenses are appropriately used as described by City ordinances for eight (8) samples that we reviewed and based on the project documentation that was provided, there were no transactions that were coded to any inconsistent expenditure for the allowed expenses.



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ACKNOWLEDGEMENT AND SIGNATURE

The Audit Team would like to thank the management and staff of HPW for their cooperation, time, and efforts throughout the course of the engagement.



Olaniyi Oyedele, CPA
Audit Manager



Courtney Smith, CPA, CIA, CFE
City Auditor



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EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

HOUSTON PUBLIC WORKS DEPARTMENT

Acknowledgement Statement

Date: April 4, 2019

Chris B. Brown
City Controller
Office of the City Controller

**SUBJECT: REBUILD HOUSTON PERFORMANCE AUDIT REPORT—
MANAGEMENT ACKNOWLEDGEMENT STATEMENT**

I acknowledge that I have received and reviewed the above reference report and agree with the information pertaining to the Houston Public Works Department ReBuild Houston. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



Carol Ellinger Haddock, P.E.
Houston Public Works Department





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