

OFFICE OF THE CITY CONTROLLER



**PUBLIC WORKS AND ENGINEERING DEPARTMENT
CELL PHONE CHARGE REIMBURSEMENTS AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

April 3, 2006

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Public Works and Engineering Department
Cell Phone Charge Reimbursements Audit (Report 05-34)

Dear Mayor White:

The City Controller's Office Audit Division has completed an audit of Cell Phone Charge Reimbursements of the Public Works and Engineering Department (Department). The audit objective was to determine if reimbursements were being collected from individual cell phone users for non-business usage of their city cell phones. If so, the auditors determined whether reimbursements were appropriate, adequately supported, and in compliance with established procedures.

The report, attached for your review, concluded that internal controls related to cell phone reimbursements at the Department are adequate, except for the findings and recommendations presented in the body of the report. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible Department officials as to actions taken or being taken are appended to the report as Exhibit I.

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

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EXECUTIVE SUMMARY

- We selected users with the highest phone bills in each month of the audit period, which resulted in a sample of 12 employees. We examined 111 monthly statements for detailed testing. Forty-five of 111 (41%) were not verifiable due to the minutes reimbursed were not indicated on the monthly statement and 5 of 111 (5%) were not calculated accurately.
- Detailed testing also revealed that 6 employees from 26 monthly statements reviewed did not indicate personal calls were made. Auditors determined there were phone numbers listed on the 26 monthly statements that were not marked as personal and were not reimbursed, however, in prior monthly statements the same numbers were listed, marked as personal and were reimbursed. Therefore, potentially the City maybe owed reimbursement for any personal calls made.
- Our audit disclosed that there is not a written city-wide written policy regarding usage of City cell phones. We recommend that Public Works & Engineering Department (PWE) management request the Mayor to consider developing a city-wide cell phone policy. This policy would serve as guidance for departments when developing their departmental policies, issuing cell phones and overseeing their usage.
- Our survey revealed of the 20 departments that allow personal calls, 13 of the 20 (65%) departments credit reimbursements for personal calls against Object Code 3510, *Telephone*. PWE credits Revenue Code 8825, *Recoveries and Refunds* for cell phone reimbursements. PWE management should request the Mayor to consider developing a city-wide cell phone policy, which if the policy allows personal use, the policy should prescribe the requirements for supervisory review, controls for reimbursement collection, deposit and accounting entries.

SCOPE AND PURPOSE

We have completed an audit of City Cell Phone Charge Reimbursements for the Public Works and Engineering Department (PWE). Our audit objective was to determine if reimbursements were being collected from individual cell phone users for any non-business related usage of their City cell phones.

The scope of this audit included the review of reimbursements associated with non-business related usage of City cell phones for the audit period January 1, 2004 through December 31, 2004. The scope of our work did not constitute an evaluation of the overall internal control structure of the Public Works and Engineering Department. The scope of the audit was limited to determining whether City cell phone reimbursements were appropriate, adequately supported, and in compliance with established procedures. This audit was executed in accordance with Generally Accepted Government Auditing Standards (GAGAS).

PWE management is responsible for establishing and maintaining a system of internal controls to efficiently and effectively perform financial related activities, and to adequately safeguard assets as an integral part of the overall internal control structure. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or theft, and that transactions are executed in accordance with management's authorization and are recorded properly.

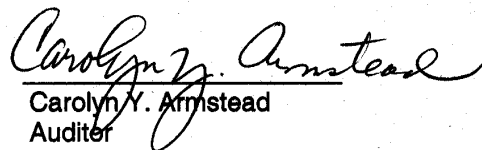
Because of inherent limitations in any system of internal accounting controls, errors or irregularities may occur and not be detected timely. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

CONCLUSION


Based on the results of our audit, we conclude that PWE's internal controls related to cell phone reimbursements are adequate, except for the findings and recommendations presented in the body of the report.



Monika De Los Santos
Auditor



Carolyn Y. Armistead
Auditor



Steve Schoonover
City Auditor

INTRODUCTION

Cell phone service during our audit scope period of January 1, 2004 through December 31, 2004, was provided by Cingular Wireless (Cingular) under contract number C52372. PWE incurred a cost of \$349,406.28 for calendar year 2004. The Information Technology Department (IT) is the City's main contact with Cingular. IT receives monthly billings from Cingular, separates the billing by department, and electronically distributes the billing to each department's cell phone liaison. After the departments have reviewed and approved Cingular's bill, IT prepares a payment voucher to pay Cingular and distribute the expense to the departments.

During 2004, the Mayor's staff evaluated the cost of the Cingular contract and had all department directors justify and assess the number of cell phones needed in their department. On July 1, 2005 Cingular contract number C52372 was replaced by new contracts with Cingular and Verizon Wireless. The new contracts have a two-year term with three one-year options to renew for a total of five years.

AUDIT FINDINGS AND RECOMMENDATIONS

I. PERSONAL USE OF CELL PHONES

FINDING

We selected for testing the users with the highest phone bills in each month for the audit period, which resulted in a sample of 12 employees. Our sample for the 12 months totaled \$19,260, of which \$1,689 was reimbursed for personal use of City owned cell phones. As shown in Exhibit A, 838 employees were issued a City cell phone by PWE and the total cost for cell phone service for calendar year 2004 was \$349,406. We examined 111 monthly statements for detailed testing. Forty-five of 111 (41%) were not verifiable due to the minutes reimbursed were not indicated on the monthly statement and 5 of 111 (5%) were not calculated accurately.

Our detailed testing also revealed that 6 employees from 26 monthly statements reviewed did not indicate personal calls were made. Auditors determined there were phone numbers listed on the 26 monthly statements that were not marked as personal and were not reimbursed, however, in prior monthly statements, the same numbers were listed, marked as personal and were reimbursed. Therefore, potentially the City maybe owed reimbursement for any personal calls made.

RECOMMENDATION

We recommend that management review the monthly statements for personal calls not indicated and any potential reimbursement be obtained from employees.

We also recommend that management require employees to clearly mark all statements timely so that management can more readily review

personal cell phone usage. Further, management should assume a more active role in monitoring cell phone activity. For example, management should review monthly cell phones with significant usage to ensure that calls relate to business or if personal, the calls have been reimbursed by the responsible employee.

II. LACK OF CITY-WIDE POLICY - CELL PHONE USAGE

BACKGROUND

Our audit approach consisted of reviewing City Policies and surveying all City departments regarding their cell phone policies and usage. Additionally, we performed detailed tests of cell phone reimbursements of selected City departments. According to IT, all City departments that issue cell phones require each employee to identify and reimburse the City for their personal calls, which is known as the "honor system". If the employee does not identify on the statement which calls are personal, then calls are considered business related.

FINDING

Our audit disclosed that there is not a written city-wide policy regarding usage of City cell phones. Fourteen of 24 departments have written departmental policies regarding the use and issuance of cellular phones. PWE has a written policy, *Departmental Policy No. 2-3, Cellular Telephone Policy*. Without written city-wide policies, departments will not have adequate guidance in issuing cell phones, overseeing their usage and obtaining reimbursement for personal use. Further, written policies provide employees with guidelines for their usage of cellular phones in a proper manner.

RECOMMENDATION

We recommend that PWE management request the Mayor to consider developing a city-wide cell phone policy. Pursuant to Executive Order 1-1, *Administrative Procedures*, departments are responsible for indicating the need for written administrative procedures. This policy would serve as guidance for departments when developing their departmental policies, issuing cell phones and overseeing their usage. If the policy allows personal use, the policy should prescribe the requirements for supervisory review, controls for reimbursement collection and deposit, and accounting entries.

We also recommend in order to assist the reviewer in ensuring calls are business related, written representations should be obtained from the user certifying all calls identified were for business or personal purposes. Such a procedure would minimize the risk of utilizing City funds for personal purposes.

III. ACCOUNTING ENTRIES FOR CELL PHONE REIMBURSEMENTS

BACKGROUND

After the departments review and approve Cingular's monthly bill, IT prepares a payment voucher to pay Cingular and distributes the expense to the departments. These expenses are charged to Object Code 3510, *Telephone*.

FINDING

Our survey revealed of the 20 departments that allow personal calls, 13 of the 20 departments credit reimbursements for personal calls against Object Code 3510, *Telephone*. While 7 of 20 departments credited various revenue accounts for reimbursements, PWE credits Revenue Code 8825, *Recoveries and Refunds* for cell phone reimbursements. Therefore, there is a lack of consistency in the accounting treatment for recording reimbursements for personal cell phone calls.

RECOMMENDATION

We recommend that PWE management request the Mayor to consider developing a city-wide cell phone policy as indicated in Finding & Recommendation II. This policy would serve as guidance for controls for reimbursement collections, deposits, and accounting entries.

EXHIBIT A

**City of Houston – Cell Phone Services For Calendar Year 2004
Average Annual Cell Phone Cost By Department**

Dept.	Department Name	No. Of Cell Phones	Total Cell Phone Cost For 2004 In \$'s	Avg. Annual Cost Per Cell Phone
05	Municipal Courts – Admin	9	\$6,001.12	\$666.79
07	Municipal Courts – Judicial	4	\$239.50	\$59.88
10	Police	775	\$435,860.31	\$562.40
12	Fire	483	\$56,118.94	\$116.19
15	Houston Emergency Center (HEC)	6	\$8,638.20	\$1,439.70
20	Public Works & Engineering	838	\$349,406.28	\$416.95
21	Solid Waste Management	36	\$12,478.79	\$346.63
25	Building Services	56	\$22,244.88	\$397.23
28	Aviation	243	\$68,559.32	\$282.14
32	Housing & Community Dev.	36	\$6,942.32	\$192.84
34	Library	12	\$8,242.96	\$686.91
36	Parks & Recreation	88	\$27,815.93	\$316.09
38	Health & Human Services	324	\$75,155.48	\$231.96
42	Convention & Entertainment Fac.	33	\$38,170.74	\$1,156.69
50	Mayor's Office	33	\$22,832.73	\$691.90
51	Affirmative Action	6	\$2,946.30	\$491.05
55	City Council	10	\$11,558.23	\$1,155.82
60	City Controller	4	\$1,527.41	\$381.85
65	Finance & Administration	30	\$8,634.69	\$287.82
68	Information Technology	73	\$25,598.48	\$350.66
70	Planning & Development	111	\$120,923.80	\$1,089.40
75	City Secretary	0	N/A	N/A
80	Human Resources	19	\$5,511.05	\$290.06
90	Legal	3	\$2,764.57	\$921.52
99	General Government		\$99.85	
GRAND TOTAL		3,232	\$1,318,271.88	\$407.88

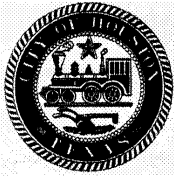
N/A Not Applicable

Note 1: Number of Cell Phones – obtained from a Questionnaire Survey completed by each department except HEC. The Office of Emergency Management replied to their portion of the questionnaire and therefore the numbers provided were used in our schedule.

Note 2: Total Cell Phone Cost for 2004 - obtained from Payment Voucher support for the monthly payment to Cingular.

The above table represents the amount spent by each department and an average annual cost per cell phone.

EXHIBIT I



CITY OF HOUSTON

Public Works and Engineering
Department

Interoffice

Correspondence

To: Annise Parker
City Controller

From: Director

Date: March 24, 2006

Subject: **CELL PHONE CHARGE
REIMBURSEMENTS AUDIT**

We have reviewed your Cell Phone Charge Reimbursement Audit draft report. We appreciate the recommendations made by the auditors. As requested by your memo of March 10, 2006, our management response to the recommendations follow.

PERSONAL USE OF CELL PHONES

Recommendation:

Management should review the monthly statements for personal calls not indicated and any potential reimbursement obtained from employees.

Employees should clearly mark all statements timely so that management can more readily review personal cell phone usage. Further, management should assume a more active role in monitoring cell phone activity.

Response:

PWE Departmental Policy 2-3 "Cellular Telephone Policy" addresses these issues.

1. Section IV (C) 4 states, "It is the responsibility of the employee to review the bill and note each call that is made in the course of conducting City Business."
2. Section IV (C) 5 states, "Each bill will be reviewed by the Division Head, Assistant Director or their designee prior to returning the bills and reimbursement checks for processing."

To further define PWE's position on personal use of the PWE cell phones, PWE Director's letter dated May 6, 2004 presented as DP 2-3, Attachment D, stipulates that any personal usage in excess of \$12.00 in a 30-day period is subject to additional review. If the condition persists for 2 consecutive months, disciplinary action may result.

The department identified certain needs in the policy and took prompt action to better protect PWE assets. A revision has been approved and will be distributed by March 31, 2006. The changes include an improved tracking system for personal use reimbursements and expanded coverage for other wireless communications tools.

*Views of Responsible
Officials*

EXHIBIT I

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LACK OF CITY-WIDE POLICY – CELL PHONE USAGE

Recommendation:

PWE management should request the Mayor to consider developing a city-wide cell phone policy. If personal use is permitted, the policy should prescribe the requirements for supervisory review, controls for reimbursement collection and deposit, and accounting entries.

In order to assist the reviewer in ensuring calls are business related, written representations should be obtained from the user certifying all calls identified were for business or personal purposes. Such a procedure would minimize the risk of utilizing City funds for personal purposes.

Response:

As previously stated, PWE Departmental Policy 2-3 addresses PWE's policies regarding cellular phones. DP 2-3, Attachment C, attached to the monthly statement sent to each phone user provides:

1. Certification that all calls were made to conduct official City business unless otherwise indicated.
2. Directions for routing the payment.
3. Signature approval line for Assistant Director or designee.

ACCOUNTING ENTRIES FOR CELL PHONE REIMBURSEMENTS

Recommendation:

PWE credits revenue account code 8825 for personal cell phone reimbursements while other departments credit object code 3510, Telephone. PWE management should request the Mayor to consider developing a city-wide cell phone policy as indicated in Finding & Recommendation II. This policy would serve as guidance for controls for reimbursement collections, deposits, and accounting entries.

Response:

Effective December 2005, reimbursements are being posted to object code 3510, Telephone.

If you have any questions, please contact Godwin Okoro at (713) 837-0347 or Debra Baldwin at (713) 837-0222.


Michael Marcotte, P.E., DEE

CC: ~~W~~Waynette Chan, Chief of Staff
Susan Bandy, Deputy Director
Paul Valdez, CTO
Jeana Nellons, Deputy Assistant Director
Godwin Okoro, Deputy Assistant Director

*Views of Responsible
Officials*