



CITY OF SAN ANTONIO

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June 9, 2014

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SUBJECT: Audit Report of Transportation and Capital Improvements Right of Way Permit Fees

Mayor and Council Members:

We are pleased to send you the final report of the Audit of Transportation and Capital Improvements Right of Way Fees. This audit began in June 2013 and concluded with an exit meeting with department management in March 2014. Management's verbatim response is included in Appendix B of the report. The Transportation and Capital Improvements Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Kevin W. Barthold".

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Transportation and Capital Improvements
Right of Way Fees

Project No. AU13-015

June 09, 2014

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Transportation and Capital Improvements¹ (TCI) Department's Right of Way (ROW) division. The audit objective, conclusions, and recommendations follow.

Are right of way fees accurate and applied according to City policies?

No, procedures and controls were not sufficient to ensure right of way fees were accurate and applied according to City policies.

The Transportation and Capital Improvements ROW division's project invoicing process lacked proper procedures and controls to ensure that project invoicing is complete and accurate. Additionally, procedures and controls were not adequate to ensure the invoicing and payment of permit fees was timely, complete and accurate. Also, ROW did not adequately manage user access to the permitting system. The Transportation and Capital Improvements ROW division was not in compliance with Administrative Directive 8.1 Cash Handling.

We recommend that the Transportation and Capital Improvements Department Director:

- Implement effective controls to ensure invoices for projects and their associated fees are complete, accurate, and billed timely. In addition, establish controls to ensure payments to the City are timely.
- Ensure ROW management identifies the authority granted to each user role and provide staff with only the necessary access within the permitting system to perform individual job responsibilities. Also, develop policies and procedures that will provide guidance concerning responsibilities on how to grant and manage user access and authority in the permitting system.
- Develop internal controls to properly safeguard and account for the permit stock to be in compliance with Administrative Directive 8.1 Cash Handling.

Transportation and Capital Improvements Management's verbatim responses are included in Appendix B on page 8.

¹ Effective January 2, 2014, this department was created by merging the Public Works and Capital Improvements Management Services departments.

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Background

Right of Way (ROW) is a division within the Transportation and Capital Improvements Department. ROW is responsible for managing construction activity within the City's right-of-way, primarily regulating the activities of utility companies that have a substantial amount of infrastructure in the City's roadways.

Through permitting and coordination, ROW ensures that all construction activities are well coordinated and impacts are mitigated to reduce inconvenience to the public, guarantee appropriate street repair, and ensure all regulations are enforced appropriately.

ROW regulations are made available through the ROW ordinance and the City's Utility Excavation Criteria Manual which contain guidelines for work methods and related safety procedures.

ROW regulates construction activity of contractors by issuing permits. They primarily offer temporary street closure permits related to construction activities. These street closure permits are identified as either a point repair or project permit. A point repair permit is needed for street repairs that are less than 50 feet in length. A project permit is needed for street repairs greater than 50 feet in length.

These types of permits are obtained mostly by utility companies that perform construction activity within city roadways. They must inform ROW management at least seven days prior to street closure to ensure correct street barricading for the safety of pedestrians and vehicular traffic.

The City collected approximately \$1.6 million in revenues for ROW permitting activity in FY 11, \$1.35 million in FY 12 and \$1.7 million in FY 13. ROW recently implemented a new fee structure for projects that last longer than 30 days that they believe is more indicative of the business process.

ROW also offers temporary parking permits throughout the downtown area. This type of permit allows a citizen or company to reserve a parking meter for the day or allows a vehicle to park in a commercial loading zone for a period longer than the posted time limit. Finally, permits are available for closure of streets when scheduling block parties. Total revenue collected for these types of permits was approximately \$413,000 in FY 11, \$410,000 in FY 12 and \$378,000 in FY 13.

Audit Scope and Methodology

The audit scope included a review of the Right of Way (ROW) Division's operations for fiscal years 2012 and 2013. Specifically, we reviewed the controls in place over the construction permits and the block party and parking permit operations.

We interviewed the ROW operations manager, who is responsible for both permitting operations. Additionally, we interviewed the construction permitting supervisors, inspectors and accountants. Finally, we interviewed the block party and parking permit supervisor and staff to obtain an understanding of the processes.

We reviewed cash handling procedures for compliance with AD 8.1 Cash Handling. We also performed a cash control questionnaire to determine if cash handling controls were in place to effectively safeguard cash.

We reviewed relevant information technology AD's (i.e. 7.8.1 Information Security Program, 7.8D Account Access Management and 7.8E User Account Manager) to ensure ROW's compliance with managing user access in the ROW Permitting system. We also obtained a list of all system users and corresponding roles and authority to verify appropriate segregation of duties.

We examined the invoicing and payments for overtime work requested, re-inspection fees assessed and violations incurred by contractors. We selected a judgmental sample of 30 permits that had re-inspection and violation fees assessed to ensure they were accurately invoiced and paid through SAP. Additionally, we judgmentally selected 20 permits that incurred overtime fees to ensure they were accurately invoiced and paid through SAP.

We selected a judgmental sample of permits classified as point repairs and projects to determine if they were accurately invoiced and paid in SAP. We tested the accuracy of invoices by ensuring the fee amounts were correct, recalculating totals and vouching each line item to support documentation.

We relied on computer-processed data in the SAP System, the City's principal accounting system, to validate payments submitted to the City by the various contractors. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing payments recorded in SAP to source documentation provided by ROW such as invoices, revenue statements and project tracking spreadsheets. We do not believe that the absence of testing application and general controls of the SAP system had an effect on the results of our audit.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained

Audit of Transportation and Capital Improvements ROW Fees

provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Invoicing Process

We reviewed the permit invoicing process along with the associated fees such as violations, re-inspections and overtime and determined fees were inaccurate, not complete and not invoiced or paid timely. We noted the following issues with the invoicing process:

A.1 Project Invoicing

The invoicing of projects was not accurate or complete. We tested a judgmental sample of 38 invoices. We identified discrepancies with 17 of the 38 invoices tested. Specifically, 11 invoices were billed inaccurately, which resulted in under billings of approximately \$4,200. The inaccuracies were due to the number of permits invoiced not agreeing to the permit summary detail in the permitting system.

Additionally, two contractors were not invoiced for their permits in the amounts of \$17,690 and \$840. We noted one contractor was invoiced for a point repair and should have been invoiced for a project. Finally, we noted one invoice was recorded to the wrong general ledger account and two invoices were duplicated and left outstanding in SAP.

ROW does not have effective procedures in place to properly identify incurred fees and effective controls to ensure invoices are billed accurately. Without effective procedures and controls, the ROW division is at risk of losing earned revenue by not invoicing completely and accurately.

A.2 Violation Fee

Invoices for violation fees were not billed and/or paid timely. We tested a judgmental sample of 30 invoices for violations totaling approximately \$31,000.

We identified 17 out of the 30 violations were not paid timely. Invoices for the violations have been past due since February through August 2013. Per AD 8.4, collection efforts should begin at 30 days with phone calls and/or dunning letters being sent to the contractor.

Finally, we noted that 3 of the incurred violations were not known to have occurred by a ROW supervisor and therefore had not been invoiced to the contractor. After discussing this with the supervisor, he confirmed the violations were valid and should have been invoiced. This occurred because the process in place was not adhered to and the accountant never received the notice to invoice the contractor.

A.3 Re-inspections Fee

Invoices for re-inspection fees were not billed and/or paid timely. We selected a judgmental sample of 29 permits that incurred re-inspection fees due to a failed initial inspection.

We identified 14 out of 29 failed inspections that were not invoiced for the re-inspection fee and subsequently not paid and 8 additional invoices that were not paid timely. Four out of the 14 were not invoiced due to the current billing process in place at ROW. The process can take months and allows for the contractor to review the monthly invoicing and dispute errors and omissions prior to receiving the actual invoice from ROW. Additionally, seven out of the 14 were not invoiced because ROW staff responsible for generating the invoice did not know that a re-inspection had occurred. Finally, 3 out of the 14 were not invoiced, which was an oversight by ROW staff.

A.4. Overtime Fee

Overtime fees invoiced to contractors were not accurate. We selected a judgmental sample of 20 permits that incurred overtime fees due to ROW staff performing inspections outside their normal workday. We identified seven out of the 20 overtime invoices tested were inaccurate due to ROW staff applying the incorrect overtime rate. In one instance, ROW invoiced a contractor at a \$200 overtime rate, which resulted in an overcharge of \$530. Additionally, four out of the seven invoices showed that the contractor was billed \$80 for overtime work done on Sunday and holidays, instead of the required \$85. Finally, 2 out of the seven invoices showed the contractors were billed at the standard \$50 even though the work was done on a Sunday and/or holiday. Overtime fees for inspections performed outside normal business hours are set at \$50 per hour and \$85 per hour for Sundays and holidays.

ROW management does not have effective procedures in place to properly identify the existence of incurred permit fees. Additionally, ROW management does not have effective controls to ensure invoices are billed accurately, timely and paid within 30 days. Without effective procedures and controls, the ROW division is at risk of losing earned revenue by not invoicing completely and accurately.

Recommendation:

The Transportation and Capital Improvements Director implement effective controls to ensure invoices for projects and their associated fees are complete, accurate, and billed timely. In addition, establish controls to ensure payments to the City are timely.

B. User Access, Roles and Authority

ROW did not adequately manage user access to the permitting system. We identified the following issues:

B.1 ROW staff could not define User authority. We obtained a list of all system users and their assigned roles. However, the authority granted for each user role could not be determined. Therefore, we could not test user access to ensure users had proper segregation of duties. We did conclude that both accountants had conflicting user access since they had all administrative user roles in the permitting system. Finally, while physically observing various users log in to the permitting system, we noticed that they

were able to edit their own account authority without supervisor approval. Without proper segregated access controls, users have the ability to manipulate data beyond the scope of their approved authority.

B.2 ROW management did not have policies and procedures as guidance to grant and manage user access. Per AD 7.8E User Account Management, business system owners should create and document the process they use to grant and manage user access (e.g., user accounts) to systems under their administration.

Recommendations

The Transportation and Capital Improvements Director should:

B.1. Ensure ROW management identifies the authority granted to each user role and provide staff with only the necessary access within the permitting system to perform individual job responsibilities.

B.2. Develop policies and procedures that will provide guidance concerning responsibilities on how to grant and manage user access and authority in the permitting system.

C. Cash Handling and Permit Safeguards

ROW management did not have internal controls in place to ensure the adequate handling and depositing of cash payments. We observed issues related to the ineffective receiving and processing of cash payments. Additionally, we identified a segregation of duty issue related to the issuance of permits, collection of payments and recording of transactions in SAP. Finally, we observed the lack of safeguards and accounting for block party and parking permit stock. ROW did not have proper internal controls in place to ensure the safeguarding of permit stock in compliance with Administrative Directive 8.1.

Besides the lack of safeguards and accounting, ROW management addressed all other cash handling issues by eliminating the cash handling responsibility from ROW staff. The cash handling is now the responsibility of Finance department cashiers located at the Development Services Department One Stop Center.

Recommendation:

The Transportation and Capital Improvements Director should develop internal controls to properly safeguard and account for the permit stock to comply with Administrative Directive 8.1 Cash Handling.

Appendix A – Staff Acknowledgement

Baltazar Vargas, CFE, Audit Manager
Danny Zuniga, CPA, CIA, Auditor in Charge
Cristina Stavley, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

P.O. Box 839966
SAN ANTONIO TEXAS 78283-3966

May 9, 2014

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Transportation and Capital Improvements Right of Way Fees

Management within the City Manager's Office requested the audit of Right of Way fees after the calculation methodology changed in 2013. The Transportation and Capital Improvements Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p>The invoicing of project fees was inaccurate, not complete and not invoiced or paid timely.</p> <p>Recommendation: Implement effective controls to ensure invoices for projects and their associated fees are complete, accurate, and billed timely. In addition, establish controls to ensure payments to the City are timely.</p>	4	Accept	Debbie Sittre, Assistant Director of TCI	<p>Interim Standard Operating Procedures May 1, 2014</p> <p>New Permit System September 30, 2015</p>

Audit of Transportation and Capital Improvements ROW Fees

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p>Action plan: The current permitting system was developed in 2001 to accommodate the fee structure in place at that time. In 2013, a new fee structure was developed for Right of Way (ROW) permitting. Due to limitations in the software, the system requires manual reconciliations. TCI is coordinating with Development Services Department's to include the replacement of the ROW permitting system as a part of the Enterprise Permit System Replacement project. We anticipate this new system to be available to ROW October 2015.</p> <p>In the interim, TCI has developed and implemented Standard Operating Procedures to ensure proper identification and invoicing of fees incurred. The invoicing procedures provide instructions to reconcile the incurred fees as reported by the ROW Permit System. Controls include a two-person review in order to ensure the accuracy of the billing. Fees will be invoiced monthly as required by City Finance Directives. The reviewing of payment status will dictate the necessary actions up to and including account suspension.</p>				
2	<p>ROW did not adequately manage user access to the permitting system.</p> <p>Recommendation: C.1) Ensure ROW management identifies the authority granted to each user role and provide staff with only the necessary access within the permitting system to perform individual job responsibilities.</p>	6	Accept	Debbie Sittre, Assistant Director of TCI	Interim Standard Operating Procedures April 9, 2014 New Permit System September 30, 2015
2	<p>C.2) Develop policies and procedures that will provide guidance concerning responsibilities on how to grant and manage user access and authority in the permitting system.</p>	6	Accept	Debbie Sittre, Assistant Director of TCI	Interim Standard Operating Procedures April 4, 2014 New Permit System September 30, 2015
2	<p>Action plan: TCI has developed and implemented procedures to ensure proper role access is granted to each user within the ROW Permit System to only perform individual job responsibilities. One individual has been assigned the role of "system administrator". As a part of these procedures, the System Administrator must receive a <i>Permit Site Access Authorization Form</i> signed by the Operations Manager prior to the creation of a user's account. The procedures also include the step-by-step process for administrative staff to deactivate Permit Site users.</p>				

Audit of Transportation and Capital Improvements ROW Fees

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
3	<p>ROW management did not have internal controls in place to ensure the adequate handling and depositing of cash payments.</p> <p>Recommendation: Develop internal controls to properly safeguard and account for the permit stock to comply with Administrative Directive 8.1 Cash Handling.</p>	6, 7	Accept	Anthony Chukwudolue, Assistant Director of TCI	<p><i>Cash Handling and Deposits:</i> Completed September 12, 2013</p> <p><i>Safeguard Permit Stock:</i> May 1, 2014</p>
3	<p>Action plan:</p> <p>Prior to the completion of the Audit Review, Right of Way Management implemented the utilization of the Finance Department's Cashiers at the Development Services One-Stop to handle all payments for ROW fees. Develop and implement a Standard Operating Procedure that details the proper safeguarding and accounting for Parking Permit stock in compliance with A.D. 8.1 Cash Handling. All other ROW permits are maintained online.</p>				

Thanks to City Auditor for their thorough review. We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



Mike Frisbie, P.E.
City Engineer / Director
Transportation and Capital Improvements Department

5-9-14

Date



Peter Zanoni
Deputy City Manager
City Manager's Office

5-12-14

Date