

OFFICE OF THE CITY CONTROLLER



**CITY-WIDE DIRECT COSTS AUDIT
FOR THE PERIOD OF JULY 1, 1998
THROUGH JUNE 30, 1999**

Sylvia R. Garcia, City Controller

Judy Gray Johnson, Chief Deputy City Controller

Steve Schoonover, City Auditor



SYLVIA R. GARCIA

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

December 20, 1999

The Honorable Lee P. Brown, Mayor
City of Houston, Texas

SUBJECT: Office of the City Controller
Operations Division – Contract Certification and Payroll Control Process Review
(Report No. 99-09)

Dear Mayor Brown:

In accordance with the City's contract with McConnell, Jones, Lanier, and Murphy (MJLM), MJLM has completed a Contract Certification and Payroll Control Process Review within the Operations Division (Division) of the Office of the City Controller.

MJLM designed the review to include an assessment of the efficiency and effectiveness of Request for Council Action certification procedures, payroll control procedures, related internal controls, processes, staffing, and technological capabilities. Their report, attached for your review, commended the Division for noteworthy practices. However, recommendations were made that should help the Division make incremental improvements in the certification and payroll control processes to improve efficiency and effectiveness, reduce turnaround time, and enhance internal controls. The findings and recommendations are presented in the body of the report and the views of the responsible officials are appended to the report as Exhibit I.

Respectfully submitted,


Sylvia R. Garcia
City Controller

xc: City Council Members
Al Haines, Chief Administrative Officer
Jorge Cruz-Aedo, Director, Finance and Administration Department
Lonnie Vara, Director, Human Resources Department

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McCONNELL JONES LANIER & MURPHY LLP
CONSULTANTS & BUSINESS ADVISORS

May 23, 2000

The Honorable Sylvia R. Garcia
City Controller
City of Houston
901 Bagby, 8th Floor
Houston, Texas 77002

Dear Controller Garcia:

I am pleased to present the final report of McConnell, Jones, Lanier, and Murphy's (MJLM) audit of the City of Houston's (the City) interdepartmental billings and rent charges for 611 Walker. These audits were conducted in accordance with the Engagement Letter between the City and our firm dated January 13, 2000.

The purpose of this audit was to determine whether direct costs charged through interdepartmental billings were reasonable, applicable, and properly supported. In addition, we examined 611 Walker rental charges to determine whether such charges were accurately computed, adequately supported, and properly recorded. Our findings and recommendations are included in the report.

We are grateful for the cooperation of the management team and staff personnel who assisted us during this audit.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Ira Wayne McConnell', written in a cursive style.

Ira Wayne McConnell
Managing Partner

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VIEWS OF RESPONSIBLE OFFICIALS.....EXHIBITS 1 AND 2

1.0 EXECUTIVE SUMMARY

McConnell, Jones, Lanier, & Murphy (MJLM) completed audits of the City of Houston's (the City) interdepartmental billings and rent charges for 611 Walker. These audits were conducted in accordance with the Engagement Letter between the City and MJLM dated January 13, 2000. This report summarizes the results of the audits in the following sections:

- 1.0 Executive Summary
- 2.0 Background
- 3.0 Audit Scope and Objectives
- 4.0 Audit Procedures
- 5.0 Findings and Recommendations

The following is a summary of findings and recommendations included in this report:

611 Walker Rent Charges

FINDING

The rate 611 Walker tenants are being charged is incorrect. The Department of Public Works and Engineering (PWE) is charging \$10.06 per square foot, which is the projected rate for fiscal 1999. It should be charging \$12.50, the rate for fiscal 2000. The difference results in undercharges of \$1.1 million.

Recommendation 1

Adjust the 611 Walker rental rate to \$12.50 per square foot from \$10.06 per square foot, and bill tenants for \$1.1 million in undercharges before the end of fiscal 2000.

FINDING

The review team could not verify the square footage upon which rent calculations are based because no blueprints or space plans supporting the amounts are available. Where two or more departments occupied a single floor, we could not verify the allocation of square footage among those departments.

Recommendation 2

Review 611 Walker square footage to ensure that it is allocated accurately among existing tenants, and maintain documentation to support floor space allocations.

FINDING

PWE does not have a method of reallocating square footage when 611 Walker tenants move or acquire additional space. Since square footage is a key component of the rental rate, it is critical for each tenant's allocation to be tracked and adjusted for changes.

Recommendation 3

Purchase facilities management software to maintain and track changes in tenant floor space.

FINDING

Finance and Administration (F&A) was undercharged \$25,652 for rent in fiscal 1999 due to an error in a spreadsheet formula. The amount that should have been charged was \$637,710; the amount actually charged was \$612,058.

Recommendation 4

Charge Finance and Administration an additional \$25,652 to adjust for a math error made during fiscal 1999.

*Interdepartmental Billings***FINDING**

No reportable exceptions or conditions were noted, except that supporting documentation could not be located for six transactions. Review team members spoke with appropriate department personnel about these exceptions and recommended that they conduct a review of the department's filing system to ensure that it is organized, structured, and well-maintained.

2.0 BACKGROUND*611 Walker Rent Charges*

Houston's Long Range Building Plan, presented in January 1993, recommended that the City acquire rather than continue to lease office space. In 1995, an analysis of existing lease agreements revealed that the City could save an estimated \$836,000 per year by relocating several city departments to a downtown facility. The city-owned facility was expected to generate savings as well as streamline governmental operations, locate city departments in proximity to City Hall, and provide convenient public access to city services.

In September 1995, City Council adopted an ordinance authorizing the purchase of a 27-story high-rise office building and 6-story annex building at 611 Walker in downtown Houston. The facility, also known as the Bob Lanier building, was formerly owned by Prudential Insurance Company of America and was constructed in 1968 as the Houston Lighting and Power Building. Houston Lighting and Power Company, now Reliant Energy, was the last tenant to occupy the building before the City purchased it for \$7.5 million. In addition to the initial purchase price, the City paid approximately \$55 million to renovate the property.

The Department of Public Works and Engineering (PWE) purchased the facility with funds from the Water & Sewer Consolidated Construction Fund. The Building Services Department manages the property, which consists of 597,420 gross square feet of office space and a 218-space parking garage.

In September 1998, three city departments moved into the building after their leases at other facilities expired. Throughout fiscal 1999, other departments moved into the building after their leases expired or after they exercised “opt out” options in their lease agreements. These options allowed for early termination of the lease agreement.

As of February 2000, six city departments occupied space in 611 Walker. **Exhibit 1** provides a summary of tenants and their annual rent amount.

Exhibit 1
611 Walker Tenants

Department	Move-in Date	Square Footage	Annual Rent
Planning and Development	September 1998	59,320	\$596,593
PWE-Construction	September 1998	66,586	\$669,669
PWE-Capital Projects	September 1998	64,129	\$644,958
PWE-Maintenance and Right of Way	October 1998 through February 2000	34,283	\$344,791
Solid Waste Management	December 1998	33,036	\$332,250
Finance & Administration	October 1998 through January 1999	128,127	\$1,288,599
Human Resources	January 1999	53,242	\$535,465
Affirmative Action	January 1999	14,769	\$148,535
*Credit Union	September 1998	2,156	\$21,683
**Public Works-Water and Sewer Fund	August 1998	139,616	\$0
Available Unassigned Space		2,156	\$0
Total		597,420	\$4,560,860

Source: Department of Public Works and Engineering

*The Credit Union is not a city department and has a lease agreement with the City.

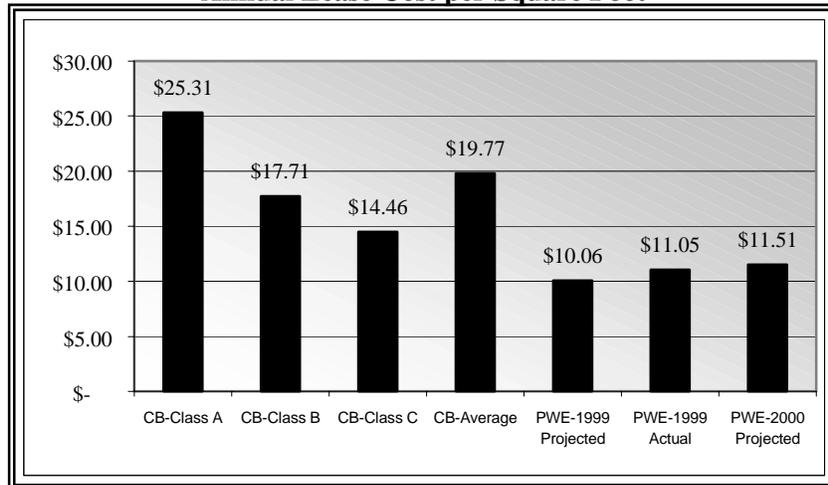
**As property manager, the Water & Sewer Fund does not pay rent.

In 1998, the City contracted with a facilities management consultant to provide square footage calculations for 611 Walker. The consultant relied upon gross square footage amounts provided by an architectural firm that had developed the figures in connection with a 1993 due diligence process. The architect tabulated the gross square footage for each floor. Using these tabulations, the consultant developed space plans for each floor, then calculated square footage for each department from the space plans.

Each month, PWE charges rent to tenants at 611 Walker. The Water & Sewer Operating Fund receives credit for this rental income. Rental amounts are computed based on a standard rate per square foot of gross rental area (GRA). This rate is determined annually based on building operating costs and GRA. The fiscal 1999 rate was \$10.06 per square foot based on projected operating costs and \$11.05 based on actual costs. The projected rate for fiscal 2000, before adjustment for fiscal 1999 actual, is \$11.51.

These rates compare favorably to the average cost of downtown office space. **Exhibit 2** compares 611 Walker’s cost per square foot to the average cost of downtown office space as determined by Coldwell Banker (CB), an international realtor with offices in the Houston area.

Exhibit 2
Comparison of Central Business District
Annual Lease Cost per Square Foot



Source: Coldwell Banker-Outlook 2000 or Department of Public Works and Engineering
 Class A= Newer property, best location, best curb appeal
 Class B= Older property, better location, better curb appeal
 Class C= Oldest property, poorer location, poorer curb appeal

The 611 Walker facility allows the City to provide office space to city departments at an affordable cost since the service is provided internally. Other goods and services are also provided internally. These goods and services are charged to benefiting departments through interdepartmental billings.

Interdepartmental Billings

Interdepartmental billings originate from a variety of sources within the City. Funds, departments, and divisions provide services to each other for which costs are recovered through interdepartmental billings. The Central Services Revolving Fund, for example, purchases goods and services for operating departments and charges them through interdepartmental billings. The Health Benefits and Workers' Compensation internal service funds receive health care and workers' compensation contributions from operating departments. These contributions are made through interdepartmental billings. The General Fund of the Department of Public Works and Engineering (PWE) recovers salaries from the Water and Sewer Construction Fund for engineers assigned to water and sewer projects. These salary recoveries are also made through interdepartmental billings.

Interdepartmental billings are entered into the City's Advantage 2000 financial accounting system through internal vouchers. These vouchers have designated prefixes designed to identify specific types of internal transactions. The following describes the four basic types of internal transactions initiated by city departments:

Quasi-external Transactions

Quasi-external transactions would be considered revenues or expenditures if they were between the City and an external organization. The seller records the transaction as revenue while the buyer records it as an expense.

Reimbursements

Reimbursements are initiated by one city organization to reimburse another city organization for expenditures made on its behalf. The reimbursing organization records the transaction as an expenditure, while the reimbursed organization records it as a reduction of expenditures.

Equity Transfers

Equity Transfers are nonrecurring, nonroutine transfers of equity between funds and are reported as additions to or deductions from the beginning fund balance in governmental funds.

Other Interfund Transfers

These transactions include all other interfund transfers, such as legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

During fiscal 1999, the City processed 170,566 internal vouchers resulting in 347,088 departmental transactions, 333,984 fund transactions, and 1,032,986 lines of accounting entries. Almost 60 percent of these transactions were processed using Payment Vouchers (PV), while the remainder were direct billings for items such as workers' compensation, salary recovery, and retiree health insurance.

Most interdepartmental billings involve PWE, Finance and Administration (F&A), the Human Resources Department (HR), and General Government. For example, during fiscal 1999, 67 percent of internal transactions involved these departments. Most of these involved HR. In fact, 88,501 or 25 percent of fiscal 1999 interdepartmental billings involved HR. Most of the HR activity related to health or workers' compensation insurance contributions. When analyzed by fund, most interdepartmental billing activity is concentrated in General, PWE, and HR-related funds.

Exhibit 3 summarizes internal vouchers by type, **Exhibit 4** by fund, and **Exhibit 5** by department. The number of transactions does not agree because a single transaction typically involves two or more funds or departments.

Exhibit 3
Internal Vouchers by Type

Transaction Code	Description	Number of Transactions	Total Debits	Total Credits
*PV	Payment Voucher	100,558	\$209,788,273	(\$209,788,273)
RI	Retiree Health Insurance	23,728	\$9,397,920	(\$9,397,920)
SR	Salary Recovery	16,696	\$9,313,550	(\$9,313,550)
WC	Workers' Compensation	14,051	\$12,560,191	(\$12,560,191)
IV	Internal Voucher	6,450	\$465,139,331	(\$465,139,331)
BP	Phone Bill	6,137	\$8,535,021	(\$8,535,021)
VM	Vehicle Maintenance	2,522	\$6,819,771	(\$6,819,771)
WH	Warehouse Charges	309	\$42,603,711	(\$42,603,711)
LB	Light Bill	115	\$252,538	(\$252,538)
Total		170,566	\$764,410,306	(\$764,410,306)

Source: Fiscal 1999 General Ledger

Exhibit 4
Internal Vouchers by Fund

Fund	Number of Transactions	Total Debits	Total Credits
General	132,719	\$101,704,446	(\$101,704,446)
Workers' Compensation	58,633	\$43,501,126	(\$43,501,126)
Health	27,692	\$18,319,827	(\$18,319,827)
Central Services	23,883	\$111,762,758	(\$111,762,758)
Water & Sewer Operating	22,349	\$138,935,924	(\$138,935,924)
Water & Sewer Construction	21,396	\$9,769,809	(\$9,769,809)
Street/Bridge	16,429	\$6,239,706	(\$6,239,706)
All Other Funds	30,883	\$334,176,710	(\$334,176,710)
Total	333,984	\$764,410,306	(\$764,410,306)

Source: Fiscal 1999 General Ledger

Exhibit 5
Summary of Internal Transactions by Department

Department	Number of Transactions	Total Debits	Total Credits	Net Transactions
Human Resources	88,501	\$19,758,288	(\$64,102,431)	(\$44,344,143)
PWE	75,987	\$220,880,641	(\$191,685,580)	\$29,195,061
General Government	45,901	\$18,906,922	(\$28,089,250)	(\$9,182,328)
Finance & Administration	22,756	\$81,865,399	(\$106,289,430)	(\$24,424,031)
Police	10,010	\$13,987,553	(\$12,468,751)	\$1,518,802
Parks & Recreation	8,875	\$6,687,987	(\$4,759,196)	\$1,928,791
Fire	8,028	\$7,270,509	(\$6,497,272)	\$773,237
Health & Human Services	5,500	\$6,730,053	(\$5,109,136)	\$1,620,917
Aviation	4,684	\$48,314,800	(\$40,051,889)	\$8,262,911
Solid Waste	2,808	\$2,254,217	(\$1,360,430)	\$893,787
City Council	2,139	\$95,807	(\$51,159)	\$44,648
Legal	2,061	\$2,869,716	(\$5,722,037)	(\$2,852,321)
Civic Center	1,931	\$7,228,405	(\$6,177,268)	\$1,051,137
Planning & Development	1,633	\$1,074,277	(\$682,849)	\$391,428
Library	1,521	\$2,827,227	(\$2,127,584)	\$699,643
Municipal Administration	890	\$593,257	(\$381,207)	\$212,050
Housing & Development	532	\$174,740	(\$86,216)	\$88,524
Controller	386	\$137,059	(\$68,757)	\$68,302
Mayor's Office	337	\$114,240	(\$68,309)	\$45,931
Affirmative Action	265	\$69,248	(\$30,403)	\$38,845
Secretary	216	\$26,108	(\$9,750)	\$16,358
Municipal Justice	19	\$1,633	(\$357)	\$1,276
*Accrued Payroll Liabilities	62,108	\$322,542,220	(\$288,591,045)	\$33,951,175
Total	347,088	\$764,410,306	(\$764,410,306)	\$0

Source: Fiscal 1999 General Ledger

*These transactions were not identified with a department on the general ledger.

Background information for 611 Walker rental charges and interdepartmental billings provided the framework for the development of the audit scope and objectives.

3.0 AUDIT SCOPE AND OBJECTIVES

611 Walker Rent Charges

MJLM examined monthly rental charges from the period of initial occupancy (September 1998) through January 2000. Our audit objectives were to determine whether:

- Rent charges were properly computed based on cost per square foot.
- Rent charges were recorded to the correct account in the proper period.
- Rent charges were reasonable based on the facts and circumstances.
- Rent charges were properly adjusted for changes in square footage.
- Cost per square foot was computed accurately.
- Costs included in the cost per square foot calculation were comprehensive, reasonable, and adequately supported.
- Total square footage used in cost per square foot calculations was accurate and adequately supported.
- Allocation of square footage among the departments was reasonable, accurate, and adequately supported.

Interdepartmental Billings

The scope period for the audit was fiscal 1999 interdepartmental billings. The City's fiscal year runs from July 1 through June 30. The audit objectives were to determine whether interdepartmental billings were:

- Processed using the correct type of internal voucher.
- Properly supported and documented answering the questions who? what? where? when? and why?
- Reasonably and consistently billed or allocated.
- Approved by the appropriate authorities.
- Accurately prepared and consistently recorded in the correct period by all city organizations involved in the transaction.
- Prepared promptly after performance of service or receipt of goods.
- Reasonable and applicable under the circumstances.

4.0 AUDIT PROCEDURES

611 Walker Rent Charges

To accomplish the audit objectives MJLM performed the following procedures:

- Obtained an understanding of the historical background of the city's ownership of and involvement with the 611 Walker building.

- Obtained an understanding of internal controls and the process by which 611 Walker rental charges are calculated and billed.
- Obtained documentation supporting rental charges such as: schedule of monthly rental charges for fiscal 1999 and 2000; general ledger detail of rent revenue and expense; schedule of square footage allocation by department; space plans supporting square footage allocation; cost per square foot calculations; documentation supporting building operating costs such as contracts, invoices, and debt amortization schedule.
- Examined square footage allocations among departments to ensure accuracy, appropriateness, and consistency.
- Recomputed rent charges based on cost per square foot and ensured that charges were coded to the proper account in the proper period.
- Recalculated rent rate per square foot using total square feet and building operating costs.
- Examined support for total square feet to ensure accuracy, appropriateness, and completeness of amount.
- Compared departmental floor space allocations to space plans for reasonableness and accuracy.
- Examined support for building operating costs and reviewed nature of costs to ensure appropriateness and reasonableness of charges.
- Benchmarked cost per square foot and building operating costs to comparable facilities in the private sector to ensure that appropriate cost categories were included in building operating costs.
- Observed departments in their assigned locations to verify space plans and to determine whether departments or divisions had moved since the original allocations had been made.
- Inquired as to the process of reassigning floor space when departments or divisions acquire or relinquish space.

Interdepartmental Billings

MJLM selected a random sample of 150 interdepartmental billings from a population of 170,566 transactions. **Exhibit 6** summarizes the number and types of transactions included in the sample.

Exhibit 6
Summary of Interdepartmental Billing Sample

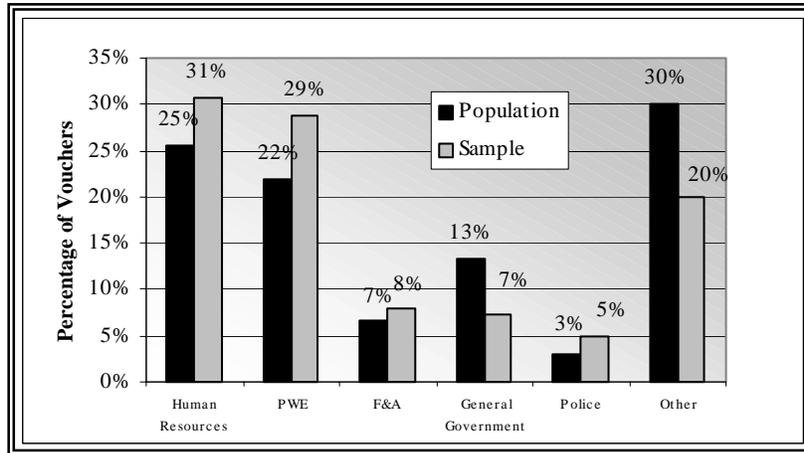
Transaction Code	Description	Total Sample	Percent of Total
*PV	Payment Voucher	83	55%
WC	Workers' Compensation	34	23%
RI	Retiree Health Insurance	11	7%
SR	Salary Recovery	10	7%
IV	Internal Voucher	6	4%
BP	Phone Bill	4	3%
LB	Light Bill	1	1%
VM	Vehicle Maintenance	1	1%
Total		150	100%

Source: MJLM Review Team

* The transaction underlying a payment voucher can be one of the other types even though it has a PV transaction code.

MJLM selected the vouchers using a random number generator to achieve a sample that was reflective of the population. **Exhibit 7** presents the five departments most affected by interdepartmental billings. It shows, by department, interdepartmental billing voucher percentages for both the population and the sample. The exhibit demonstrates that the sample is reflective of the population. For example, 25 percent of vouchers in the population affected Human Resources. In comparison, 31 percent of vouchers in the sample affected Human Resources.

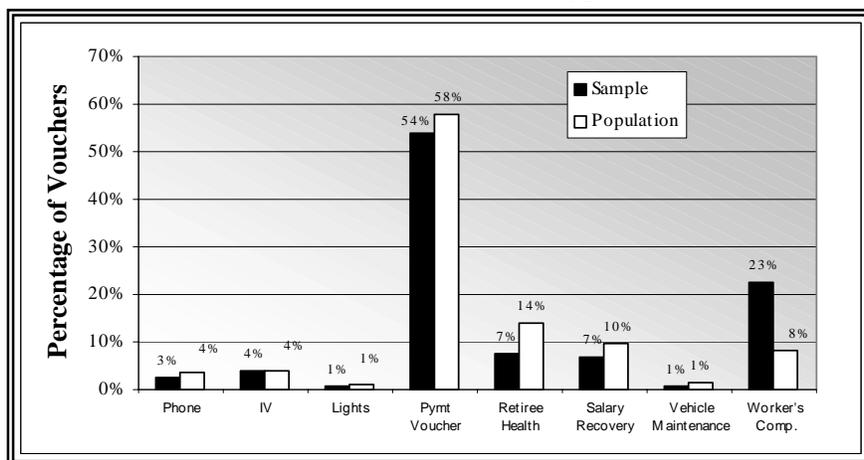
Exhibit 7
Comparison of Population and Sample Composition
Based on Percentage of Vouchers per Department



Source: MJLM Review Team

Exhibit 8 also demonstrates, based on transaction type, that the sample reflects the population. Payment vouchers, retiree health insurance, and workers' compensation vouchers make up 81 percent of the population and 85 percent of the sample.

Exhibit 8
Comparison of Population and Sample Composition
Based on Transaction Type



Source: MJLM Review Team

To accomplish the audit objectives, MJLM performed different procedures depending on the type of transaction tested. Generally, the review team:

- Obtained an understanding of the types and volume of interdepartmental billings in the sample.
- Identified both the department and the individual responsible for processing the interdepartmental billing.
- Obtained an understanding of the department's internal controls and procedures related to interdepartmental billings.
- Obtained copies of each voucher's supporting documentation for review and testing. The nature of the documentation varied depending on the type of transaction reviewed.
- Examined and tested transactions for proper approvals; accuracy of calculations; reasonableness of amounts; allowability, allocability, appropriateness of charges, and timely recording in the proper period.

5.0 FINDINGS AND RECOMMENDATIONS

611 Walker Rent Charges

FINDING

The rate 611 Walker tenants are being charged is incorrect. PWE is charging \$10.06 per square foot, which is the projected rate for fiscal 1999. It should be charging \$12.50, the rate for fiscal 2000. The fiscal 2000 rate includes an adjustment for the difference between fiscal 1999 projected and actual operating costs. **Exhibit 9** demonstrates that PWE is charging the wrong rate resulting in a fiscal 2000 shortfall of \$1.1 million.

Exhibit 9
Calculation of Fiscal 2000 Cost per Square Foot

	Projected Fiscal 1999	Actual Fiscal 1999	Projected Fiscal 2000
Building operating costs	\$6,008,361	\$6,603,451	\$6,875,114
Total square feet	597,420	597,420	597,420
Annual cost per square foot	\$10.06	\$11.05	\$11.51
To Adjust Fiscal 1999 Projected Rate to Actual			\$.99
Rate that should be charged for fiscal 2000			\$12.50
Rate that is being charged for fiscal 2000			\$10.06
Difference			\$2.44
Rented Square Feet per Exhibit 1			455,648
Annual Shortfall			\$1,111,781

Source: MJLM Review Team

The Houston Municipal Employees Credit Federal Credit Union leases 2,156 square feet of space on the fifth floor of the 611 Walker annex building. The Credit Union's rent represents actual cash to the City and is being undercharged. In fact, it owes the City approximately \$3,069 in rental charges through January 2000, determined as follows:

Credit Union Square Footage	2,156
x Rental Rate Increment	\$2.44
Annual Rent Adjustment	\$5,261
x Monthly Factor (July 1999-January 2000)	7/12
Underpayment	\$3,069

Recommendation 1

Adjust the 611 Walker rental rate to \$12.50 per square foot from \$10.06 per square foot, and bill tenants for \$1.1 million in undercharges before the end of fiscal 2000.

FINDING

The review team could not verify square footage upon which rent calculations are based because no blueprints or space plans supporting the amounts are available. In those instances where a department occupied an entire floor, we verified the square footage by examining a schedule showing total square footage by floor. An architectural firm prepared the schedule as part of a 1993 due diligence proceeding. However, where two or more departments occupied a single floor, we could not verify the allocation of square footage among those departments.

In 1998, the City contracted with a facilities management consultant to provide square footage calculations for 611 Walker tenants. The consultant developed space plans but did not measure each individual floor due to the high cost associated with this procedure. Instead, the consultant used the space plans and the architectural firm's figures to calculate each department's square footage allocation.

Personnel in the Building Services Division (BSD) of PWE provided the review team with space plans as support for the departmental allocations. However, the square footage in these plans did not agree with those used in rent calculations. The consultant said the amounts varied because the plans were not the same ones used to make the original allocations. However, neither city personnel nor the consultant could produce the plans used to make the calculations. Therefore, the square footage upon which rent is based could not be verified, except in those instances where a department occupied an entire floor. In such instances, the square footage was verified using the architect's figures.

Recommendation 2

Review 611 Walker square footage to ensure that it is allocated accurately among existing tenants, and maintain documentation to support floor space allocations.

The City should review and update its allocation of floor space at 611 Walker since there is no support for the original allocations and because departments have moved within the building since the original allocations were made.

FINDING

PWE does not have a method of reallocating square footage when 611 Walker tenants move or acquire additional space. Since square footage is a key component of the rental rate, it is critical for each tenant's allocation to be tracked and adjusted for changes.

Property managers in private industry typically use facilities management software to track changes in square foot allocations among tenants. The software allows them to efficiently manage and monitor floor space.

MJLM physically observed departments in their assigned locations to determine whether square footage adjustments had been made for tenants who had moved. At least two departments/divisions had moved since the original space allocations, but no adjustments had been made to their rental amounts. Moreover, at least a dozen moves will occur within the next 12 months, yet there is no process for reassigning floor space and adjusting rental amounts after the moves take place. **Exhibit 10** summarizes floor space discrepancies noted during our physical observation of 11 floors.

Exhibit 10
Discrepancies Noted after
Physical Observation of Eleven 611 Walker Floors

Floor	Department	Nature of Discrepancy
1 st Floor Annex	Divisions of F&A and PWE occupy this floor.	PWE is assigned 14,066 of space on this floor. Based on our observation, the space is much smaller than that of other departments that occupy 14,000 or more square feet of space on other floors.
5 th Floor Annex	Originally divisions of F&A, PWE, and the Credit Union occupied this floor.	In February 1999, Human Resources took over seven offices on the floor, yet no adjustments were made to floor space allocations.
14 th Floor	Originally divisions of PWE occupied the entire floor.	Building services, a new city department, has occupied space on the floor since July 1999, yet no adjustments have been made to floor space allocations.

Source: MJLM Review Team

Recommendation 3

Purchase facilities management software to maintain and track changes in tenant floor space.

Periodic, comprehensive floor space updates would be unnecessary if the City used property management software designed to track and manage floor space on an ongoing basis.

FINDING

F&A was undercharged \$25,652 for rent in fiscal 1999 due to an error in a spreadsheet formula. The amount that should have been charged was \$637,710; the amount actually charged was \$612,058. No adjustment was made to correct the error.

Recommendation 4

Charge Finance and Administration an additional \$25,652 to adjust for a math error made during fiscal 1999.

Interdepartmental Billings

FINDING

No reportable exceptions or conditions were noted, except that supporting documentation could not be located for six transactions. Department personnel told the review team that after searching diligently for the support, it could not be found. Protecting transaction documentation is a critical process in any organization. City departments must be certain that their filing systems enable them to efficiently catalogue and retrieve all transaction documentation. Every filing system must contain sufficient safeguards to ensure that supporting documentation can be located and retrieved when necessary.

Review team members spoke with appropriate department personnel about these exceptions and recommended that they conduct a review of the department's filing system to ensure that it is organized, structured, and well-maintained.

EXHIBIT 1



CITY OF HOUSTON

Post Office Box 1562 Houston, Texas 77251-1562

Lee P. Brown, Mayor

CITY COUNCIL MEMBERS: Bruce Tatro Carol M. Galloway Mark Goldberg Jew Don Boney, Jr. Rob Todd Mark A. Ellis Bert Keller Gabriel Vasquez
John E. Castillo Annise D. Parker Gordon Quan Orlando Sanchez Chris Bell Carroll G. Robinson CITY CONTROLLER: Sylvia R. Garcia

May 30, 2000

Mr. Odysseus Lanier
Managing Partner
McConnell, Jones, Lanier & Murphy, LLP
Summit Tower, 11 Greenway Plaza, Suite 2902
Houston, Texas 77046

Dear Mr. Lanier:

We have reviewed your draft audit report of the City of Houston's interdepartmental billings and rent charges for 611 Walker. Following are our comments on the findings and recommendations that relate to the Department of Public Works and Engineering.

Finding 1

The rate 611 Walker tenants are being charged is incorrect. PW&E is charging \$10.61 per square foot, which was the projected rate for fiscal 1999. It should be charging \$12.50, the rate for fiscal 2000.

Recommendation 1

Adjust the 611 Walker rental rate to \$12.50 per square foot from \$10.06 per square foot and bill tenants for \$1.1 million in undercharges before the end of fiscal 2000.

Response

We recognize that the billing rate used for FY 2000 is the projected FY99 rate. The reason for this is due to timing. By the time the FY 2000 utility cost estimates for the 611 Walker facility were updated, the FY 2000 General Fund targets had already been established. Consequently, we continued using the billing rate used in FY99 and incorporated in the targets, with the intention of recovering the undercharges at the end of FY2000.

Because the FY 2000 General Fund budgets do not include rent funding at the \$12.50 rate, we cannot increase the billing rate to \$12.50. However, We will be discussing alternatives for year

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EXHIBIT 1

end recovery of the underpayment with the Finance and Administration Department, as well as pursue recovery of the Houston Municipal Employees Credit Union underpayment with the Real Estate Group.

Finding 4

Finance and Administration (F&A) was undercharged \$25,652 for rent in fiscal year 1999 due to an error in a spreadsheet formula. The amount that should have been charged was \$637,710; the amount actually charged was \$612,058.

Recommendation

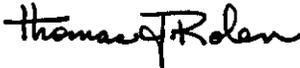
Charge Finance and Administration an additional \$25,652 to adjust for a math error made during fiscal year 1999.

Response

We agree with the recommendation and will discuss the year end billing of this amount with the Finance and Administration Department.

If you have any question or comments regarding this response, please contact Carl Lowery of my staff at (713) 837-0321.

Cordially,



Thomas J. Rolen, P.E.
Acting Director
Department of Public Works and Engineering

xc: Carl Lowery
Gilbert Garcia
Ken Teer, Controller's Office

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Officials*

EXHIBIT 2



CITY OF HOUSTON

Building Services Department

Post Office Box 61189 Houston, Texas 77208-1189 713/247-1957

Lee P. Brown, Mayor

CITY COUNCIL MEMBERS: Bruce Tatro Carol M. Galloway Mark Goldberg Jew Don Boney, Jr. Rob Todd Mark A. Ellis Bert Keller Gabriel Vazquez
John E. Castillo Annise D. Parker Gordon Quan Orlando Sanchez Chris Bell Carroll G. Robinson CITY CONTROLLER: Sylvia R. Garcia

Meaque McGilberta
Director

May 18, 2000

Mr. Odysseus Lanier
McCConnell, Jones, Lanier & Murphy LLP
Summit Tower
11 Greenway Plaza, Suite 2902
Houston, Texas 77046

Dear Mr. Lanier:

I have received a copy of the final report draft of your recent audit of the City of Houston's interdepartmental billings and rent charges for 611 Walker. One of the primary reasons that the Building Services Department was created was to provide quality facility management services for City of Houston owned facilities. The Bob Lanier Public Works Building, located at 611 Walker, is one such facility. Listed below are the responses you requested from the Building Services Department for recommendations two and three in the report.

FINDING

The review team could not verify the square footage upon which rent calculations are based because no blueprints or space plans supporting the amounts are available. Where two or more departments occupied a single floor, we could not verify the allocation of square footage among those departments.

Recommendation 2

Review 611 Walker square footage to ensure that it is allocated accurately among existing tenants, and maintain documentation to support floor space allocations.

Response to Recommendation 2

The Interior Architecture and Planning Section of the Building Services Department is responsible for the management, monitoring, and coordination of space allocations. The section is currently in the process of reviewing and documenting space allocations among the tenants in the 611 Walker facility.

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EXHIBIT 2

Page 2

FINDING

PWE does not have a method of reallocating square footage when 611 Walker tenants move or acquire additional space. Since square footage is a key component of the rental rate, it is critical for each tenant's allocation to be tracked and adjusted for changes.

Recommendation 3

Purchase facilities management software to maintain and track changes in tenant floor space.

Response to Recommendation 3

The Interior Architecture and Planning Section is currently evaluating facility management software to purchase. In the meantime, the section will continue to track and coordinate any and all changes in tenant floor space within the facility.

If you require further information regarding this matter, please contact Mr. Larry Baker of my staff at 713-247-1356.

Sincerely,



Monique McGilbra

MM:LB:vv

cc: Larry Baker
Martin Luchak
Richard Vella

*Views of Responsible
Officials*