

OFFICE OF THE CITY CONTROLLER



**CHILD SAFETY FUND
PERFORMANCE AUDIT**

Ronald C. Green, City Controller

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OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

RONALD C. GREEN

November 16, 2015

The Honorable Annise D. Parker, Mayor and Honorable Council Members

**SUBJECT: REPORT #2016-03
CHILD SAFETY FUND PERFORMANCE AUDIT**

Dear Mayor Parker and Council Members:

The Office of the City Controller's Audit Division has completed a limited Performance Audit of the Child Safety Fund (CSF) administered by the Houston Police Department. After conducting our initial research based on ordinances, policies, operating procedures, and interviews with key personnel to gain an understanding of the functions performed by Municipal Courts, HPD, Independent School Districts (ISDs) and Private Schools (Schools), we refined the audit objectives to consider the processes and internal controls related to:

1. Fund expenditures;
2. ISD and School expenditures for Crossing Guard payroll and their recognition of CSF revenues; and
3. The CSF application process.

We concluded that:

- HPD had adequate and/or effective internal controls to ensure that all monies designated for the CSF were disbursed appropriately and timely to valid ISD and School participants;
- ISDs and Schools received and recorded monies from the CSF as revenues to be used for crossing guard programs; and
- CSF funds received by ISDs and Schools were appropriately spent on expenditures related to school crossing guard programs;

In performing our work, we noted the following issues:

- Application information submitted by the ISDs and Schools is not verified; (*See Finding #1*)
- HPD does not provide instructions for application completion (*See Finding #2*).

We appreciate the time and efforts extended to the Audit Division during the course of the project by HPD management and staff.

Respectfully submitted,

Ronald C. Green
City Controller

cc: Charles McClelland , Chief of Police
City Council Members
Joe Fenninger , Deputy Director, Houston Police Department
Shannan Nobles, Chief Deputy City Controller
Christopher Newport, Chief of Staff, Mayor's Office
Kelly Dowe, Chief Business Officer, Mayor's Office
Harry Hayes, Chief Operating Officer, Mayor's Office
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EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division of the City Controller's Office has completed a limited Performance Audit of the Child Safety Fund (CSF) administered by the Houston Police Department (HPD). The audit considered the effectiveness of internal controls related to selected business processes within HPD and the Independent School Districts (ISDs) and private schools (Schools) that participated in using the fund. The audit was included in the City Controller's fiscal year (FY) 2015 Audit Plan and was conducted at HPD's request.

BACKGROUND

In 1991, the Texas Legislature passed legislation (Code of Criminal Procedure, Title 2, Chapter 102, Subchapter A, Article 102.014) that established a process for each municipality to create a Child Safety Fund (CSF). The legislation made separate provisions for municipalities with federal decennial census populations above 850,000 and those with populations below 850,000. While the state legislation clearly states what fees may be assessed to provide monies for the fund as well as what those funds can be used for, it did not impose specific application, allocation, or monitoring processes on municipalities. Each municipality is responsible for developing their own administration, monitoring, and quality assurance processes related to the equitable distribution of CSF monies. A summary of the law can be found at <http://www.findlaw.com/tx>. The City of Houston (City) adopted the law in 1991 and included it in the Code of Ordinances (Code) in Article I, Section 16-8.

The purpose of the CSF is to provide funding for public, parochial, and private school crossing guard programs within City's geographical boundaries. Revenues to the fund come from assessing a "Municipal Court fee of \$5.00 on each parking violation, a \$1.50 fee for each vehicle registration authorized by Harris County, and up to \$25.00 court costs assessed when an offense occurs within a school crossing zone or a parent contributes to school non-attendance" (truancy) as described in the Fiscal Year 2014 Fund Budget. Section 16-8, subsections(c)(2) and subsection (c)(4) of the Code stipulate the fund is available for elementary and secondary school crossing guards with first priority given to elementary schools. Subsection (c)(2) also places the administrative responsibility for CSF with the Chief of Police or the Chief's designee.

There are 17 ISDs located at least in part within the City limits and approximately 90 Schools located in the City. During the 2013 – 2014 School Year (SY), the following ten ISDs which operate more than 240 elementary schools within the City limits and five Schools participated in the City's CSF program and used Fund dollars at the percent indicated in Table 1.

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1	Aldine I.S.D	0.38%
2	Alief I.S.D	6.80%
3	Annunciation Orthodox	0.25%
4	Clear Creek I.S.D	0.38%
5	Fort Bend I.S.D	0.88%
6	Galena Park I.S.D	0.75%
7	Houston I.S.D	80.88%
8	Huffman I.S.D	0.75%
9	John Paul II Catholic School	0.25%
10	Katy I.S.D	0.13%
11	Pasadena I.S.D	3.02%
12	Spring Branch I.S.D	4.65%
13	River Oaks Baptist	0.13%
14	Amigos Por Vida	0.25%
15	Houston Gateway Academy	0.50%

As court fines and fees for the FY14 period reviewed were paid, the Municipal Courts Department (Courts) records the monies collected in their Court View (Court View) system and deposited them in a J P Morgan Chase (Chase) account . An interface with SAP was configured to record the revenues in the appropriate account based on the type of violation. The CSF is Fund 2209 in the City’s accounting records.

Each month Harris County deposits the car registration fees into the Chase account. Courts obtains the amount from the bank activity detail and completes a Cash Receipt (CR) document to record the revenues in SAP. This fee is recorded as Miscellaneous Revenue.

Municipal Courts will also collect parking meter violations fines and fees. The Parking Management Division of Administration and Regulatory Affairs’ (ARA) is responsible for parking meter management and these collections are entered in ARA’s T-2 system, which also has an interface with SAP. The revenue account is Miscellaneous Fines & Forfeitures.

The revenue for Fund 2209 generated by all these sources in FY2014 was approximately \$3,288,000. All of this revenue was timely and accurately distributed to the participating ISDs/Schools on the basis of their proportionate percentage of the total number of crossing guards at intersections assigned to elementary schools. The total crossing guard cost reported by ISDs/Schools for elementary schools participating during the 2013 – 2014 school year (SY) was approximately \$4,820,000. The revenue generated for the fund historically has not been enough to cover the cost of elementary school crossing guard programs.

Based on the total program cost and the number of crossing guards reported by the participating ISDs/Schools, the average annual cost per crossing guard in the 2013 – 2014 SY ranged from \$1,500 to \$16,500. The highest four cost averages were held by private schools, due in a large part



to their use off-duty HPD officers as crossing guards. The off-duty Officers also provide security in hours they are not working the crossings, but the cost of security is not included in the CSF program.

The state legislation allows for the use of part of the CSF for an administrative fee, but City Council decided during implementation of the fund that all of the CSF would be used to support crossing guard programs. If an administrative fee were allowed, HPD could use those funds to offset at least a portion of their cost to administer the program, but that would lower the amount of funds available to help protect elementary school children at school crossings. In light of the limited amount of resources available to HPD the Audit Division plans to add a limited number of crossing observations to future audit activity.

AUDIT SCOPE AND OBJECTIVES

Our original objectives were broadly defined to encompass many aspects of CSF operations, such as applications, revenue recognition and recording, expenditures, and school crossing guard programs. After conducting our initial research on ordinances, policies, operating procedures, and interviews with key personnel to gain an understanding of the functions performed by HPD, Courts and the ISDs/Schools, we refined the audit objectives to consider the processes and internal controls related to:

- Fund expenditures;
- ISDs/School expenditures for Crossing Guard payroll and their recognition of CSF revenues;and
- The application process.

The Audit Division's original engagement scope was operations and transactions occurring during Fiscal Year 2014 and including the 2013 – 2014 SY. The scope was expanded to include the review of applications for the 2014 – 2015 SY.

PROCEDURES PERFORMED

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following steps on a sample of participating Schools/ISDs:

- Reviewed the application process;
- Selected forty percent (40%) of the participating ISDs and sixty percent (60%) of the Schools for audit testing;
- Obtained and examined documentation provided by the ISDs/Schools for the 2013 – 2014 applications and actual expenses;
- Obtained and examined documentation provided by the ISDs/Schools for the 2014 – 2015 applications;
- Obtained and reviewed the fund expenditures recorded in the City's SAP system;
- Interviewed ISD and School administration personnel to document the processes used in their programs;
- Verified CSF disbursements from the City were received by ISDs/School's and recorded as revenue;
- Tested and analyzed supporting documentation including general ledger accounts to substantiate ISDs/School's fund based expenditures; and
- Observed a sample of Crossing Guards on duty



AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. 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.

The scope of our work did not constitute an evaluation of the overall internal control structure of HPD. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each Conclusion is aligned with the related Audit Objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses, see the “**DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES**” section of this report.

CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Consider the processes and internal controls related to CSF expenditures.

- Based on the results of the procedures performed, HPD had adequate and/or effective internal controls to ensure that all monies designated for the FY14 CSF were disbursed appropriately and timely to valid ISD and School participants. However, we did note an opportunity to enhance the accuracy of documentation submitted by ISDs/Schools. (**see Finding #1**)

CONCLUSION 2 – (AUDIT OBJECTIVE #2)

Consider the processes and internal controls related to ISDs/School expenditures for Crossing Guard payroll and their recognition of CSF revenues.

- Based on the results of the procedures performed, we determined the ISDs and Schools appropriately received and recorded the monies distributed from the CSF as revenues to be used for their crossing guard programs.
- We further determined that CSF funds received by the ISDs and Schools were appropriately spent on expenditures related to their school crossing guard programs as reported.

CONCLUSION 3 – (AUDIT OBJECTIVE #3)

Consider the processes and internal controls related to the application process.

- Based on the results of the procedures performed, we noted that HPD has not issued instructions to guide the ISDs/Schools on how to correctly complete the forms required for participation in the program. (**see Finding #2**) Also, the basis of allocation currently used does not align with the basis required in the City Code of Ordinances. (**see Finding #3**)



ACKNOWLEDGEMENT AND SIGNATURES

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

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DETAILED FINDINGS AND RECOMMENDATIONS

FINDING #1 – INFORMATION SUBMITTED BY THE ISD / SCHOOL IS NOT VERIFIED
RISK RATING (IMPACT/MAGNITUDE) = MEDIUM

BACKGROUND:

Procedures in place during our testing period required Independent School Districts (ISDs) and private schools (Schools) to submit a Request for Reimbursement (Request) and an Addendum to Application (Addendum) when applying to participate in the Child Safety Fund (CSF) program. The Request should detail the total crossings within Houston city limits with paid guards and the total expense of the guard program for the School or ISD. The Addendum should detail the guarded crossings and the average number of guards at each crossing. A complete application consists of three forms: the Request with the actual numbers for the previous school year, (Actual Request), and two for the estimated numbers for the upcoming school year, (Estimate Request) and (Estimate Addendum). Data submitted by the ISDs and Schools is used by HPD to equitably allocate available monies to Child Safety Fund program participants.

FINDING:

Historically, ISDs and Schools have not been held accountable for the information submitted in the Request and Addendum forms. The information presented in the Request and Addendum forms is not subjected to any verification by HPD, nor does HPD have the resources available to initiate a 100% validation process. In addition, information on the Estimate Request in the “Total Crossings in Houston with Paid Guards” column is picked up “as-is” and used to allocate CSF dollars. Data on the Estimate Request is not compared to the total of the average number of guards reported in the Addendum.

We reviewed the applications for the 2013–2014 and 2014–2015 school years and noted many issues with the data submitted on the forms (perhaps due to the lack of clear instructions as noted in Finding #2). Issues noted fell into one of the following categories:

Discrepancies in the number of crossing guards reported

Example: In their 2013–2014 application, Houston ISD (HISD) listed 485 intersections with 580 guards on the Estimate Addendum, but showed 643 on the Estimate Request in the “Total Crossings in Houston With Paid Guards” column. We could not determine from the data we received from HISD whether this number represented the number of guards or the number of crossings, but the 643 figure was used in the allocation of FY14 CSF revenue.

Discrepancies in the crossings (with guards) reported

Example: In their 2014–2015 Estimate Addendum, HISD still listed 10 guards for 3 intersections on Boundary that METRO said HISD needed for safety purposes along the North Line (N.L.) light rail near Ketelson Elementary School. The N.L. opened in December 2013 and those intersections were not manned with guards



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once it started running, but the 10 guards were included in the 608 “Total Crossings in Houston With Paid Guards” used in the 2014 - 2015 allocation calculation.

Other issues

Example: Forms submitted by Huffman ISD in August 2013 were titled as the 2012 – 2013 Estimate Addendum, however, assuming this is the correct form, it should have been titled as the 2013–2014 Estimate Addendum.

We observed guarded crossings for a sample of four ISDs and 3 Schools to determine if the number of guards reported by the schools/school districts was accurate and found the following:

TABLE 2 – CROSSING GUARD TEST						
	Total Population		Tested Population			
	Reported Crossings	Reported Guards	Observed Crossings	Reported Guards	Observed Guards	Var
Clear Creek ISD	3	3	3	3	3	0
Spring Branch ISD	33	37	6	8	7	1
Pasadena ISD	22	24	4	6	6	0
Houston ISD	507	718	28	41	26	15
Annunciation Orthodox	2	2	2	2	2	0
River Oaks Baptist	1	2	1	2	2	0
St. John's	2	2	2	2	2	0

These results highlight those issues detailed in the bullet points above.

RECOMMENDATION:

We recommend that HPD implement the following changes:

- Use the previous year’s Actual number of guards as the basis for allocation;
- Require ISDs/Schools to provide a list of the crossing guards identified by the school where they worked the previous school year as part of the application process (the number of guards on the forms should be less than or equal to the number of guards¹ in the application); and
- Require the ISDs/Schools to indicate the period the guard worked to help identify crossings with multiple guards working only part of the school year.

NOTE: FOR HPD MANAGEMENT RESPONSE AND THE AUDIT DIVISION ASSESSMENT OF THE MANAGEMENT RESPONSE, SEE EXHIBIT 1.

¹ Guards – Guards as defined by the HPD application instructions.



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FINDING #2 – HPD DOES NOT PROVIDE INSTRUCTIONS FOR APPLICATION COMPLETION
RISK RATING (IMPACT/MAGNITUDE) = MEDIUM

BACKGROUND:

HPD uses the following two forms in the Child Safety Fund (CSF) application and payment process:

1. Addendum to Application – School Crossing Description (Addendum)
2. Request for Reimbursement (Request)

The Addendum has the following columns of information for elementary and secondary schools for the ***previous school year (Actual) and the upcoming school year (Estimate)***:

- School Crossing
- Average Number of Guards at Crossing Last Fiscal Year
- Description of Intersection/Traffic Level (Justification)
- Street Use
- Expected Student Date
- Related Traffic Safety

The Addendum form does not have totals for the number of crossings or the number of guards. It is included in the contract between the City and the ISD or School as Exhibit A.

The Request form contains the following columns of information for elementary and secondary schools for the ***previous school year (Actual) and the upcoming school year (Estimate)***:

- Total Crossings with Paid Guards
- Total Crossings in Houston with Paid Guards
- Total Expenses of Guard Program
- Total Expenses of Guard Program in Houston

The Request is included in the contract between the City and the ISD or School as Exhibit B.

HPD has electronic versions of these forms and supplies them to Schools or ISDs when requested. The completed forms may be e-mailed, faxed or mailed back to HPD.

We reviewed Estimate and Actual data for both the 2013 – 2014 and 2014 – 2015 school years.

FINDING:

Based on our review, we determined HPD does not provide instructions to Schools or ISDs on how to complete the forms. As a result, there were inconsistencies in how



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the forms were completed and submitted by the ISDs/Schools. The forms were variously hand-written or apparently completed in a spreadsheet.

The forms themselves cause some confusion. The number in the column titled “Total Crossings in Houston with Paid Guards” from the Request has historically been used to show the total average number of guards from the previous fiscal year and should match the total of the “Average Number of Guards at Crossing Last Year” from the Addendum. Most of the ISDs/Schools know to put the total from the Addendum on the Request despite the title, but a few did not have that understanding. For example, Annunciation Orthodox School (AOS) detailed 5 guards in the Addendum, but had 2 on the Request. Our observation showed they have 2 intersections, but more than 2 guards.

RECOMMENDATION:

We recommend that HPD, implement the following steps once any changes to the program are finalized:

- Develop instructions for the application process and post the instructions on their public website;
- Revise the forms to reflect any program changes and to eliminate inconsistencies and conflicts in the forms;
- Develop an Excel workbook which links any information that carries from one spreadsheet to another and consider posting the workbook on their public website;
- Require applicants to use the electronic forms for better tracking and documentation, and to lessen HPD’s administrative effort.

NOTE: FOR HPD MANAGEMENT RESPONSE AND THE AUDIT DIVISION ASSESSMENT OF THE MANAGEMENT RESPONSE, SEE EXHIBIT 1.



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FINDING #3 – BASIS USED TO ALLOCATE THE FUND IS DIFFERENT THAN THE BASIS REQUIRED IN THE CODE OF ORDINANCES
RISK RATING (IMPACT/MAGNITUDE) = LOW

BACKGROUND:

Chapter 16, Article I, Sec. 16-8 of the City of Houston (City) Code of Ordinances (Code) specifies that the Chief of Police or his designee (HPD) will annually:

- Designate a period during which applications to participate in the Child Safety Fund (CSF) program will be received;
- Send a letter to every Independent School District (ISD) and private school (School) located in the City seeking applications for participation in using the monies in the CSF; and
- Post the notice in a newspaper of general circulation.

The Code further specifies ***“to the extent that the monies available in the fund are insufficient to cover the full allowable costs of all elementary school crossing guards for which applications are timely filed and approved, then the available money in the fund shall be apportioned equally on the basis of the total number of elementary school crossings within the city for which a funding application was timely filed and approved.”*** If the money in the fund completely covers the cost of the elementary schools’ programs, then the remainder will be allocated to the secondary schools on the same basis.

Through a review of the contracts with participating ISDs and Schools we determined that Code mandates are reflected in the contract between the ISD or School and the City.

We reviewed applications received for the 2013 – 2014 and the 2014 – 2015 school years to determine if processes and procedures in place at HPD and participating ISDs and Schools are compliant with the Code.

FINDING:

Based on our review, we determined that HPD is using the number of crossing guards as the basis for allocating the CSF rather than the number of school crossings as required in Section 16-8. In addition, HPD did not publish the notice in a newspaper for the 2013 – 2014 school year.

RECOMMENDATION:

In light of these findings we recommend the following:

- HPD propose a change to the Code of Ordinances to use the number of crossing guards required to work the designated intersections as the basis for allocating available CSF monies;
- HPD propose a change to the Code that would eliminate language specifically requiring Notice in the newspaper in favor of posting the Notice on HPD’s public web-site, or other approved media outlet; and
- HPD modify the contracts to reflect these changes.

NOTE: FOR HPD MANAGEMENT RESPONSE AND THE AUDIT DIVISION ASSESSMENT OF THE
MANAGEMENT RESPONSE, SEE EXHIBIT 1.

EXHIBIT 1



HOUSTON POLICE DEPARTMENT - MANAGEMENT RESPONSE TO EXECUTIVE SUMMARY:

As noted in the Executive Summary, HPD is simply the pass-through administrator of the Child Safety Funds. HPD's job is to allocate CSF funds to schools under contract so they in turn can pay their school crossing guards. Each year approximately \$3.2 million passes through the CSF, and 100% of its funds allocated out annually. HPD needed assurances that the funds it disbursed to the participating schools were being used for the purposes intended by the governing city ordinances, state laws and the contracts. Rather than engage an outside auditor for this task, HPD elected to ask the City Controller's Audit team to handle this audit.

HPD is gratified that the auditors have found that the approximately \$3.2 million cash outflow is, in fact, being expended in accordance with the contract, the City's ordinance, and state laws. The entirety of the examination associated with the monies involved is contained in one sentence under Conclusion 2 of the Executive Summary:

"We further determined that CSF funds received by the ISDs and Schools were appropriately spent on expenditures related to their school crossing guard programs as reported."

Nothing other than the above cite is offered with regard to the primary focus of the audit. Although this conclusion does address HPD's objective, HPD thought that more comprehensive information would be provided. NOTE: The auditors have not provided an assessment of the risk associated with the school's management of these funds.

The auditors have, however, provided 9 additional pages on matters unrelated to the \$3.2 million of cash flows -- the primary area of risk. As noted in the Executive Summary, the auditor "observed an opportunity" to enhance the accuracy of the documentation provided to HPD by the schools.

However, these observations were instead documented as "audit findings," not opportunities. For example, "audit finding #1" concludes that because HPD did not verify the information submitted by the participating schools, there is a "medium" risk rating associated with this observation. Further, "audit finding #2" concludes that HPD did not provide instructions to guide the schools to correctly complete the forms required for participation in the program. This "audit finding" was also given a medium risk associated with this observation. HPD completely disagrees with these risk assessments.

Here's why: an audit finding is intended to identify an exception to a policy, a violation of published procedures, missing accounting controls, or a clearly identified area of exposure that has not otherwise been managed or addressed. These audit findings have not identified any such problem areas, and in fact the summary report states that "HPD had adequate and/or effective internal controls to ensure that all monies designated for the FY14 CSF were disbursed appropriately."

Further, there has been no explanation as to any risks inherent in the CSF program, let alone how levels (e.g., "medium") were determined. Without a definition or understanding of risk, determining a level is not possible. Nor was it determined as to who is at risk.



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Since this was not addressed by the auditors, HPD will explain the risks associated with the Child Safety Fund.

If a school makes an error in its request for reimbursement of its payments made to school crossing guards, it is possible that they could overstate or understate their claim.

If a school overstates its reimbursement claim, that means they will receive a slightly larger share of the pool of CSF funds available – and that will disadvantage the other 16 participating schools. Where does risk attach? To the 16 disadvantaged schools. What is the potential exposure? The amount overstated (say \$4,000 for one crossing guard) would be decreased in the pro-rata share among the other 16 participating schools. What is the likelihood of this occurring? Highly unlikely given the dire consequences of the offending school being removed from the CSF program.

However, HPD is gratified that the auditors have independently determined that the funds are being properly utilized, and they have found no material instances of overcharges.

If a school understates its reimbursement claim, the risk is entirely on them as they will not receive what they would have otherwise been entitled to. What is the likelihood that significant errors occur? Not likely at all. This has been borne out by the audit.

Most importantly, there is no risk whatsoever to the Child Safety Fund, the City of Houston or to HPD since 100% of the CSF are being expended in accordance with the terms of the law and the contracts and are used to pay school crossing guards.

FINDING #1 – INFORMATION SUBMITTED BY THE ISD / SCHOOL IS NOT VERIFIED
RISK RATING (IMPACT/MAGNITUDE) = MEDIUM

HOUSTON POLICE DEPARTMENT RESPONSES:

AUDIT FINDING:

Historically, ISDs and Schools have not been held accountable for the information submitted in the Request and Addendum forms. The information presented in the Request and Addendum forms is not subjected to any verification by HPD, nor does HPD have the resources available to initiate a 100% validation process. In addition, information on the Estimate Request in the “Total Crossings in Houston with Paid Guards” column is picked up “as-is” and used to allocate CSF dollars. Data on the Estimate Request is not compared to the total of the average number of guards reported in the Addendum.

We reviewed the applications for the 2013–2014 and 2014–2015 school years and noted many issues with the data submitted on the forms (perhaps due to the lack of clear instructions as noted in Finding #2).

HPD Response: HPD believes that there should be no “Audit Finding #1”. Audit Finding #1 is similar to Audit Finding #2 in that it relates to the forms HPD requires participating schools to submit for reimbursement of their crossing guard program costs. In Audit Finding #2, HPD addresses auditor’s observations and recommendations, and proposes the development and distribution of an Excel workbook for schools to submit. These electronic Excel forms will contain proper control totals that will reconcile and allow HPD to scrutinize the data for any discrepancies.

AUDIT RECOMMENDATION:

We recommend that HPD implement the following changes:

- 1. Use the previous year’s Actual number of guards as the basis for allocation;*
- 2. Require ISDs/Schools to provide a list of the crossing guards identified by the school where they worked the previous school year as part of the application process (the number of guards on the forms should be less than or equal to the number of guards in the application); and*
- 3. Require the ISDs/Schools to indicate the period the guard worked to help identify crossings with multiple guards working only part of the school year.*

HPD Response to Recommendation #1: This is addressed in HPD’s response to Audit Finding #2 under Recommendation #2. HPD will use the “Actual” rather than “Estimate” form as the basis for all quarterly allocations of CSF funds to the participating schools.



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HPD Response to Recommendation #2 and #3: Both of these recommendations are addressed in HPD's responses to Audit Finding #2 under Recommendation #1. HPD will develop electronic forms (in Excel) that will include how schools are to report the number of crossing guards working a school crossing during the school year.

AUDIT RISK RATING OF MEDIUM:

HPD believes that this risk assessment of "Medium" is unwarranted. Auditor fails to explain the consequence of HPD not verifying the schools' data with supplemental documentation (e.g. names and shifts of crossing guards) to make reimbursement distributions to each school. In fact, the Executive Summary concludes that "HPD had adequate and/or effective internal controls to *ensure* that all monies designated for the FY14 CSF were disbursed appropriately and timely to valid ISD and School participants." Because there are no consequences to HPD using the existing data submitted and certified by the participating schools, and none identified in this audit finding, the risk assessment should indicate "No" risk.

This audit finding has no basis in risk, policy exception, control violation or any other semblance of exposure that could adversely affect the CSF, HPD, the City of Houston or the individual schools. Without such, there is no audit finding and this is nothing more than an observation, recommendation or advice. Further, this is redundant with respect to Audit Finding #2.

RESPONSIBLE PARTY: OFFICE OF BUDGET & FINANCE

ESTIMATED DATE OF COMPLETION: SEE AUDIT FINDING #2

**ASSESSMENT OF
RESPONSE:**

The Audit Division agrees with HPD's commitment to use the actual prior year number of guards as the basis of the CSF allocation. Basing allocations on prior year actual data will reduce the effort currently required by ISDs/Schools to submit 2 forms with differing data and should help reduce the administrative effort HPD expends on this process. While this improvement will not subject the information submitted by ISDs/Schools to verification, the simplification of application requirements should reduce data errors submitted by the ISDs/Schools and thus reduce the risk that incorrect data is used to allocate the CSF.



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FINDING #2 – HPD DOES NOT PROVIDE INSTRUCTIONS FOR APPLICATION COMPLETION
RISK RATING (IMPACT/MAGNITUDE) = MEDIUM

HOUSTON POLICE DEPARTMENT RESPONSES:

AUDIT FINDING:

Based on our review, we determined HPD does not provide instructions to Schools or ISDs on how to complete the forms. As a result, there were inconsistencies in how the forms were completed and submitted by the ISDs/Schools.

HPD Response: HPD disagrees with this finding as instructions are provided to all schools under contract. The current contracts in effect as of July 2014 between the City and Schools stipulate how the exhibit Forms are used in the method of payment.

D. Method of Payment

To the extent that funds are available the City shall pay quarterly on the basis of the annual application submitted by the School and approved by the Director itemizing the Actual Service Costs in the form attached as Exhibit “B”, The quarters of the City’s Fiscal Year end on September 30, December 31, March 31 and June 30. The quarterly payments will be made twenty (20) days after the end of each year, except that the final quarterly payment will not be made until 20 days after receipt of proof of the Actual Service Costs.

As illustrated, the current Contract clearly states how HPD will reimburse the Schools. The completed forms submitted, and certified, by the Schools provide all data necessary for HPD to calculate the pro rata distribution of CSF funds.

AUDIT RECOMMENDATIONS:

1. Develop instructions for the application process and post the instructions on their public website.

HPD Response: See HPD response to audit finding above.

2. Revise the forms to reflect any program changes and to eliminate inconsistencies and conflicts in the forms.

HPD Response:

HPD agrees with Auditor’s recommendation and will revise the forms (but not the instructions) to eliminate any possible inconsistencies. HPD currently requests the participating schools to submit the “Estimate Form” for the upcoming school year and “Actual Form” for the previous school year. Going forward, the “Estimate Form” will no longer be requested because HPD will only use data on the “Actual Form” as the basis for the allocation of available funds in CSF. HPD always ensures that reimbursements to participating schools do not exceed their actual costs for crossing guard services incurred for the current school year.



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Included in the revised forms will be verbiage that explains how to report the number of guards used per school crossing. For example:

- 1 guard in the morning & 1 guard in the afternoon = 1 guard at the crossing.
- 2 guards in the morning & 2 guards in the afternoon = 2 guards at the crossing.
- 1 guard in the morning & different guard in the afternoon = 1 guard at the crossing.

3. Develop an Excel workbook which links any information that carries from one spreadsheet to another and consider posting the workbook on their public website.

HPD Response: HPD has developed an Excel workbook that will contain tabs for program summary information and program detail information that will provide control totals. See the attached.

4. Require applicants to use the electronic forms for better tracking and documentation, and to lessen HPD's administrative effort.

HPD Response: See #3. HPD will provide the schools an excel template and establish a dedicated email account for submission of the files.

RISK RATING OF MEDIUM:

HPD Response: This audit finding has no basis in risk, policy exception, control violation or any other semblance of exposure that could adversely affect the CSF, HPD, the City of Houston or the individual schools. Without such, there is no audit finding and this is nothing more than an observation, recommendation or advice.

HPD did indeed provide instructions to the participating schools regarding how the forms were to be used to process reimbursement allocations from the CSF. It is embedded in the current contract and agreed to by the schools.

Risk is the conjunction of consequences of an event and the probability of an event. The auditors have not provided any explanation as to "risk" in the program, let alone how they arrived at a level of such. Without the former, the latter is not possible. HPD will explain the risks here:

First – it is a given that 100% of the CSF funds are distributed to the schools for purposes of paying school crossing guards pursuant to the City's ordinance. The Executive Summary concludes that "HPD had adequate and/or effective internal controls to ensure that all monies designated for the FY14 CSF were disbursed appropriately and timely to valid ISD and School participants."

So, what are the risks? The only risk, if any exists, is to the schools themselves if they incorrectly submit a claim for reimbursement. Only then could it slightly affect the calculations to pro-rate the distribution of the pooled funds to the other schools. Though this could create a minor inequity (and over 25 years has never happened to our knowledge) it still does not create risk with respect to the governing ordinance, HPD, etc.

since all of the funds are being used for the purpose of paying school crossing guards. The audit has demonstrated this point.

If one school claimed more than it should (say, hypothetically, one or two guards) it would still use those funds to pay guards. Likewise, other schools would (again hypothetically) each be disadvantaged by the pro-rata 1/16th amount of the cost of those two guards – but they are still receiving reimbursements from the CSF to pay for school guards. The real risk resides with a school that incorrectly or wrongly claims actual costs it did not incur as it could be removed from the CSF program. Although highly unlikely, HPD identified this as the singular risk event and it prompted this audit.

Most importantly – there is no risk to the Child Safety Fund, to the City of Houston or to HPD.

RESPONSIBLE PARTY: HPD OFFICE OF BUDGET & FINANCE

ESTIMATED DATE OF COMPLETION: BEGINNING NEXT SCHOOL YEAR 2016-2017

**ASSESSMENT OF
RESPONSE:**

The Audit Division agrees with HPD's commitment to improve the form submission process by providing language explaining how to report information on the forms they submit, developing an Excel workbook for program detail information, and establishing a dedicated email account for form submission. These steps will provide clarity to the ISDs/Schools on how the forms should be filled out, reduce errors in the data submitted, and promote greater accountability. Data from the forms submitted by the ISDs/Schools form the basis for the allocation HPD ultimately performs so it is important that ISDs/Schools provide correct information.



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FINDING #3 – BASIS USED TO ALLOCATE THE FUND IS DIFFERENT THAN THE BASIS REQUIRED IN THE CODE OF ORDINANCES
RISK RATING (IMPACT/MAGNITUDE) = LOW

AUDIT FINDINGS:

1. Based on our review, we determined that HPD is using the number of crossing guards as the basis for allocating CSF rather than the number of school crossings as required in Section 16-8.

HPD Response:

HPD acknowledges this comment as an observation that requires follow-up by City Legal to correct a wording flaw in the ordinance. It is not an “audit finding”, and the missing word in the ordinance has no adverse impact on the administration of the CSF.

The auditor has cited a portion of the ordinance where there are clerical omissions. The words “of” and “guards” are both missing in the one sentence in question. In every other instance throughout the entire ordinance, it stipulates “guards.” It is quite clear that the intent of the ordinance is to specify “crossing guards” not “crossings” as the basis of reimbursements. The CSF program calculates the proportional allocation of available CSF funds to each school’s crossing guard program based on the number of guards, not crossings, and it has functioned in this manner for 25 years.

Administration of the CSF is totally in compliance with the processes set forth in Section 16-8 of the City Code, wherein:

- *Section 16-8(c)(1)*. “Provisions for the services of **school crossing guards** shall be the first priority for expenditure of the fund. No monies shall be appropriated from the fund for administrative expenses... unless a surplus of funding exists after **school crossing guard** services have been funded”
- *Section 16-8(c)(4)*. “Monies shall be disbursed from the [Child Safety] fund to reimburse costs of providing paid **school crossing guards** at school. To the extent that the monies available in the fund are insufficient to cover the costs of **school crossing guards** at both elementary schools and secondary schools, then funding shall be first applied to cover the full costs of elementary **school crossing guards**”.

Further, a calculation based on crossings makes no sense. HPD has demonstrated that it would cause an allocation inequity if the number of crossings were used instead of guards. As an example, several participating schools have school crossings that contain multiple lanes of traffic that require more than one crossing guard to safely navigate children across. These schools would be disadvantaged compared to a school that requires only one crossing guard for each of its street crossings.

There is no audit exception here and there is no risk whatsoever. The administration of the Child Safety Fund has complied with the city’s ordinance since its inception in 1991. HPD does agree, as a recommendation, that this typographical error in the ordinance should be corrected, and will bring this housekeeping item to the attention of City Legal for their handling.

2. In addition, HPD did not publish the notice in a newspaper for the 2013 – 2014 school year.



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HPD Response: HPD acknowledges that notice was not published in the newspaper for the 2013-2014 school year. This had no adverse effect whatsoever for schools under contract, and 100% of the CSF funds were distributed to those schools to support their crossing guard programs. Nonetheless, HPD has implemented a procedure to ensure timely publication of the notice going forward.

AUDIT RECOMMENDATIONS:

1. HPD propose a change to the Code of Ordinances to use the number of crossing guards required to work the designated intersections as the basis for allocating available CSF monies.

HPD Response: As already noted above, HPD will bring this to the attention of City Legal so it can be corrected.

2. HPD propose a change to the Code that would eliminate language specifically requiring Notice in the newspaper in favor of posting the Notice on HPD's public web-site, or other approved media outlet.

HPD Response: HPD will consult with City Legal to see if this recommendation comports with existing legal mandates.

3. HPD modify the contracts to reflect these changes.

HPD Response: If and when any material policy/procedure/legal changes are made, they will be reflected in future contracts with the participating schools.

AUDITOR RISK RATING OF LOW:

HPD Response: HPD acknowledges that by failing to publish the availability of Child Safety Funds in 2013-2014 that some schools may have missed an opportunity for funding. However, funds that potentially could have gone to such a school did in fact go to a school under contract and in accordance with the intent of the ordinance to pay for crossing guards. 100% of the funds were distributed in accordance with the ordinance. So the only "risk" here was the potential for a speculative "what could have been." There were no funds lost, misused, misapplied or unaccounted for. There is no risk of any sort to the Child Safety Fund, HPD or the City of Houston. For this reason, HPD believes the risk associated with its failure to publish is somewhere between non-existent to low. There are no other elements of risk associated with the auditor's comments noted above.

RESPONSIBLE PARTY: HPD OFFICE OF BUDGET & FINANCE

ESTIMATED DATE OF COMPLETION: PRIOR TO THE END OF 3RD QUARTER FISCAL YEAR 2016.

**ASSESSMENT OF
RESPONSE:**

Management Responses as presented, sufficiently address the issues identified.

EXHIBIT 2

VIEWS OF RESPONSIBLE OFFICIALS

**FINAL RESPONSE FROM
HOUSTON POLICE DEPARTMENT**

CITY OF HOUSTON

INTER OFFICE CORRESPONDENCE

TO: Courtney Smith, City Auditor
Office of the City Controller

FROM: Charles A. McClelland, Jr., Chief of Police
Houston Police Department

Joseph A. Fenninger, CFO & Deputy Director
Office of Budget & Finance

DATE: November 5, 2015

SUBJECT: **HPD Responses to Child Safety Fund
Audit**

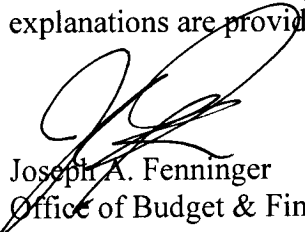
In August 2014 HPD requested the Audit Division of the Office of the City Controller to conduct a contractual audit to determine if participating schools and school districts were in compliance with the Child Safety Fund (CSF) Program. Specifically, HPD wanted to know if schools were properly using the annual \$3.2 million in disbursements from the CSF for reimbursement of costs to operate school crossing guard programs. Fourteen months later, the Controller's office concluded in its report the following sentence:

We further determined that CSF funds received by the ISDs and Schools were appropriately spent on expenditures related to their school crossing guard programs as reported.

The Controller's Report further concluded that "HPD had adequate and/or effective internal controls to ensure that all monies designated for the FY14 CSF were disbursed appropriately and timely to valid ISD and School Participants." The Report does not offer any more information regarding the overall control of the annual expenditure of \$3.2 million from the Child Safety Fund.

HPD is satisfied with the result of the Report and believes the audit objective was met.

However, HPD strongly objects to the "audit findings" referenced in the Controller's Report. HPD believes these are simply *observations* and *opportunities to enhance the accuracy of data submitted by ISD/Schools* as noted in the Controller's Report. These *observations* should not be classified as audit findings with assessed risk against the City/HPD because there are no identified risk consequences to HPD's proper distribution of the CSF funds. Detailed explanations are provided in HPD's responses.


Joseph A. Fenninger
Office of Budget & Finance


Charles A. McClelland, Jr.
Chief of Police

cam:jaf

COP# 15-51923