

OFFICE OF THE CITY CONTROLLER



**HOUSTON POLICE DEPARTMENT
AUDIT OF THE SAFE CLEAR PROGRAM**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

June 15, 2005

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Houston Police Department
Audit of the Safe Clear Program (Report No. 05-26)

Dear Mayor White:

At the request of Council Member Shelly Sekula-Gibbs, the City Controller's Audit Division conducted a limited audit of the Safe Clear Program (Safe Clear). The audit's objectives were to verify revenues received and to analyze related expenses in order to determine the cost of the program to the City from January 1, 2005 (inception) through May 31, 2005. Due to the Houston Police Department (HPD) and the Administration's presentation to City Council regarding the Safe Clear budget for Fiscal Year 2006, our scope was expanded to add June 2005, so that we could more closely align our estimates with HPD's estimated costs.

The report, attached for your review, concludes that for the six-months ended June 30, 2005, the City's Safe Clear Program will cost the City approximately \$1,110,000. Further, the auditors estimate the Fiscal Year 2006 expenses not covered by Metro and freeway segment fees will approximate \$878,000 as compared to HPD's estimate of \$600,000, if Safe Clear remains unchanged. Draft copies of the matters contained in the report were provided to HPD officials.

We appreciate the cooperation extended to our auditors by HPD personnel during the course of the audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Harold L. Hurtt, Chief, Police Department
Judy Gray Johnson, Director, Finance and Administration Department
Richard Lewis, Director, Information Technology Department

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CONTENTS

LETTER OF TRANSMITTAL	i
EXECUTIVE SUMMARY	1
SCOPE AND PURPOSE	2
CONCLUSION	3
INTRODUCTION.....	4
ANALYSIS OF HPD'S SAFE CLEAR EXPENSE ESTIMATE.....	4
ANALYSIS OF HPD'S FREE TOW COSTS.....	6
ANALYSIS OF HPD'S PROJECTED FISCAL YEAR 2006 COSTS	7

EXECUTIVE SUMMARY

At the request of Council Member Shelley Sekula-Gibbs, the City Controller's Audit Division has conducted a limited audit of the Safe Clear Program (Safe Clear). A presentation was made by HPD and the Administration to City Council on June 8, 2005 regarding Safe Clear and in that presentation certain cost information was provided to City Council. The presentation provided a schedule outlining total estimated expenditures for the program from January 1 through June 30, 2005. Since HPD's numbers were based on a 6-month time line, our audit scope was expanded to also include the projection of June estimates. Our report compares HPD's and the Audit Division's estimates and explains the differences. The most significant difference is noted below:

- €# HPD estimated \$578,300 for towing costs for the five-month period, but only has \$567,000 available to pay for free tows for the period. This \$567,000 is derived from a contractual monthly cap of \$25,000 (\$125,000 for the five-month period for free tows; February through June 2005), plus Metro's \$442,000 contribution received in May 2005. To date, HPD has forwarded to the Controller's Office \$1,143,000 in Supplemental Allocation Letters, which is \$576,000 in excess of City Council's authorization of \$567,000. Until HPD resolves this matter, the Controller's Office has suspended payments to the Operators.

It is our opinion that HPD's cost estimate should not be used to project future costs because of the following:

- €# HPD's personnel expenses include \$363,000 in overtime expenses, which according to HPD, will decrease to \$175,000 in the future.
- €# In the Contract Administration / Enforcement and Tow Verification detail of the Expense Statement, HPD's personnel expenses were based on five-months rather than 6 months. This assumption was based on the fact that the free tows occurred in only five-months of the six-months presented to City Council (February through June 2005).
- €# HPD's estimate for free towing does not include a full six-months of tows.

Since HPD also provided City Council with a projection of FY 2006 costs, we estimated FY 2006 based on our understanding of the Safe Clear Program.

In conclusion, we believe the estimated expense for FY 2006 not covered by Metro and freeway segment fees to be \$878,000 or \$278,000 greater than HPD's estimate, if the Safe Clear Program remains unchanged. However, in the afternoon of June 14, 2005, we were supplied with a new draft contract between the City and its Tow Truck Operators. The effects of these contracts, if any, on this report have not been determined.

SCOPE AND PURPOSE

We have completed an audit of the Police Department's Safe Clear Program activity regarding revenues and expenses. The audit's objectives were to verify revenues received, and to analyze related expenses in order to determine the cost of the program to the City from January 1, 2005 (inception) through May 31, 2005. Due to HPD's and Administration's presentation to City Council regarding the Safe Clear budget for FY 2006, our scope was expanded to add June, so that we could more closely align our estimates with HPD's estimates. As a result of the expansion of our scope, the auditors analyzed the expenses incurred thus far, and determined if those numbers could be relied upon as an indication of the costs to be expected for budgeting purposes for the next fiscal year, if the Safe Clear Program remains unchanged.


Our examination was designed to audit on a limited basis the revenue and expense activities related to the Safe Clear Program. This was an audit executed in accordance with Generally Accepted Government Auditing Standards.

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


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

CONCLUSION

Based on the results of our audit, we conclude that for the six-months ended June 30, 2005, the City's Safe Clear Program will cost the City approximately \$1,110,000. We have based this conclusion on the analysis performed in Table 1 found on page 5 of this report. Further, we estimate the FY 2006 expenses not covered by Metro and freeway segment fees will approximate \$878,000 as compared to HPD's estimate of \$600,000, if the Safe Clear Program remains unchanged.


Linda McDonald
Auditor-in-Charge


Ken Teer
Audit Manager


Steve Schoonover
City Auditor

INTRODUCTION

Beginning in December 2004, the City entered into agreements with various towing agencies (Operators) to provide "Police-Authorized Tow Services" which grants the Operators the right to provide exclusive non-consent towing and emergency road services on major freeways. The Operators pay the City an annual freeway segment fee that varies depending on the freeway segment under contract. In exchange for that annual fee, the Operator gains the exclusive right to tow within that segment of freeway. The original agreements, effective January 1, 2005, dictated that the stranded motorist was to pay the towing fee, regardless of the situation. That fee was set at \$75.00 plus \$1.50 per mile for each mile after five miles. If the motorist was unable to pay the fee, the vehicle was impounded in a police private storage lot. Impounded vehicles accrued additional daily storage fees.

The original program, as described above, was in existence through February 1, 2005. The agreements were renegotiated and became effective February 2, 2005. These revised agreements stated that under certain circumstances, if a vehicle were on the shoulder of a freeway and not blocking moving traffic, the motorist would not be required to pay the towing fee. Under these circumstances, the City pays to the Operators the "free tow" fee of \$50.00. However, if the motorist is in a moving lane of traffic and becomes disabled, the motorist is responsible for paying the tow fee.

Currently there are 11 Operators covering 29 major freeway segments. The annual fee paid to the City is paid in two payments due on February 1 and July 1. Additionally, Metro has contributed \$442,000 towards the funding of the Safe Clear Project. The revenue received to date from the Operators is \$457,951, with another \$451,951 due July 1, 2005. Total revenue to date, including the Metro contribution and collected freeway segment fees is \$899,951. Total revenue including the freeway segment fees due in July is \$1,351,902.

At this time, the contracts cap the amount the City is allowed to pay to the Operators for the free tows. The City is limited to \$25,000 a month, which equates to an annualized amount of \$300,000. The entire amount Metro has provided, \$442,000, is available for payments towards the free tows.

Analysis of HPD's Safe Clear Expense Estimate

On June 8, 2005, HPD presented to City Council estimated revenues and expenses for the Safe Clear Program for the period from January through June 2005. The revenues reported were based on actual numbers, and the expenses included both actual and estimated amounts. The expenses were broken down between personnel and service costs.

HPD estimated personnel costs by applying certain assumptions to Fiscal Year To Date costs of their Traffic Division and the Auto Dealers Division (Organization codes 1683 and 1665, respectively). The Service costs are based on a combination of actual and estimated numbers. The towing costs are estimated based on data provided via the TranStar database.

Due to the time constraints of this audit, we were unable to verify the reasonableness of all of HPD's assumptions. However, we reviewed and recalculated their estimates using their methodologies and assumptions, noting the following:

- €# HPD estimated \$578,300 for towing costs for the five-month period, but only has \$567,000 available to pay for free tows for the period. This \$567,000 is derived from a contractual monthly cap of \$25,000 (\$125,000 for the five-month period for free tows; February through June 2005), plus Metro's \$442,000 contribution received in May 2005. To date, HPD has forwarded to the Controller's Office \$1,143,000 in Supplemental Allocation Letters, which is \$576,000 in excess of City Council's authorization of \$567,000. Until HPD resolves this matter, the Controller's Office has suspended payments to the Operators.
- €# The vehicle lease amount shown by HPD is an annual number, rather than for a six-month period.

The following table, Table 1, compares HPD's Safe Clear Expense Estimate for January through June 2005 to our estimate of costs for the same period.

TABLE 1 COMPARISON OF EXPENSE STATEMENTS

Houston Police Department			Auditor's Estimates	
Safe Clear Program			Safe Clear Program	
January – June 2005			January – June 2005	
Expense Estimate			Expense Estimate	
Personnel	\$971,227		\$971,227	
Contract Administration / Enforcement		\$257,382		\$257,382
Tow Verification		\$248,184		\$248,184
Dispatching		\$465,661		\$465,661
Services	\$615,540		\$596,620	
Towing Cost		\$578,300	*	\$567,000
Vehicle Lease		\$15,240		\$7,620
Public Service Announcements		\$22,000		\$22,000
Total Estimated Expenditures	\$1,586,767		\$1,567,847	
Revenues	\$457,951		\$457,951	
Tow Companies		\$457,951		\$457,951
Net Expenses	\$1,128,816		\$1,109,896	

* See Table 2

Since the free tow aspect of Safe Clear did not begin until February 2005, the preceding expense estimate in some cases contains five-months worth of costs. Also, HPD anticipates making significant changes to the program in the future; therefore, it should not be used to project future costs.

Analysis of HPD's Free Tow Costs

We verified the total number of tow slips submitted for payment to a TranStar report. Our understanding, based on our review and discussions with HPD staff, indicates the following:

- ## HPD's six-month estimate of towing costs did not include an estimate for January, since the free towing did not begin until February 2005.
- ## The first month of the Free Towing Program, February, is undervalued because a great many of the tow slips were rejected for payment by HPD. The reasons given for this included:
 - ## Many of the rejections were derived from the fact that the Operators did not turn in their slips in the time frame required by HPD;
 - ## Many of the Requests for Payment were illegible;
 - ## The tow requests were for unauthorized tows; and
 - ## There was not enough information provided to verify the authenticity of the tow.
- ## Because the Operators and HPD are gaining knowledge and experience as Safe Clear continues, the number of requests for payment that are rejected will continue to decline. HPD's estimate did not factor this into their five-month estimate. The numbers have decreased from a high of an 18% rejection rate to April's 3% rejection rate, which is the percentage we used in our Table 3 below.

TABLE 2

HPD's Projected Free Tow Expenses for Five-Months

Month	Actual Number of Tow Slips Submitted for Payment	Number of Approved Tows	HPD Estimate	\$50 per Free Tow
January				\$0
February	1,691	1,379		\$68,950
March	2,746	2,433		\$121,650
April	2,477	2,403		\$120,150
May	2,585	1,851		\$92,550
June			3,500	\$175,000
Total		8,066	3,500	\$578,300

TABLE 3

Month	* Auditor's Estimated Free Tow Expenses for Six-Months	
	Number of Approved Tows	\$50 per Free Tow
January	2,573	\$128,650
February	2,324	\$116,200
March	2,573	\$128,650
April	2,490	\$124,500
May	2,573	\$128,650
June	2,490	\$124,500
Total	15,023	\$751,150

*These numbers were derived by using March plus April's number of tow slips submitted for payment, 5,223 (2,746 + 2,477), and dividing by 61 days (31 + 30) for an average number of daily tows (approximately 86 free tows per day). The number of tow slips rejected in April, 74 (2,477 less 2,403) was divided by 2,477, and this percentage, 3% was used as the estimate for the number of tow slips that will be rejected for payment. The 3% was multiplied by 86 free tows per day (2.58), to get the number of approved free tows per day, which is 83 (86 less 2.58 = 83). The 83 tows were then multiplied by the number of days in the month, and that result was multiplied by \$50, to arrive at the auditors' estimates.

Analysis of HPD's Projected Fiscal Year 2006 Costs

As a result of our review of HPD's City Council presentation, we believe that if the data in their presentation were to be used to project future annual costs, those costs would be distorted because of the following:

- ⌘ HPD's personnel expenses include \$363,000 in overtime expenses, which according to HPD, will decrease by \$175,000 in the future.
- ⌘ In the Contract Administration / Enforcement and Tow Verification detail of the Expense Statement, HPD's personnel expenses were based on five-months rather than 6 months. This assumption was based on the fact that the free tows occurred in only five-months of the six-months presented to City Council (February through June 2005).
- ⌘ HPD's estimate for free towing does not include a full six-months of tows (See Table 2).

The following table, Table 4, compares HPD's Safe Clear Expense Estimate for January through June 2005 to our estimate of projected costs for six-months.

**TABLE 4 RESTATEMENT OF AUDITORS EXPENSE ESTIMATE
 FOR PROJECTION PURPOSES**

Houston Police Department			Auditor's Estimates	
Safe Clear Program			Safe Clear Program	
January – June 2005			Six-Months	
Expense Estimate			Cost Estimate	
Personnel	\$971,227		\$863,147	
Contract Administration / Enforcement		\$257,382		\$238,134
Tow Verification		\$248,184		\$159,352
Dispatching		\$465,661		\$465,661
Services	\$615,540		\$780,770	
Towing Cost		\$578,300	*	\$751,150*
Vehicle Lease		\$15,240		\$7,620
Public Service Announcements		\$22,000		\$22,000
Total Estimated Expenditures	\$1,586,767		\$1,643,917	

*See Tables 2 and 3

The HPD and the Administration represented to City Council on June 8, 2005 that FY 2006 estimated expenses would total \$3,000,000 and the expenses not covered by Metro and freeway segment fees would be \$600,000.

We believe the estimated expense not covered by Metro and freeway segment fees to be \$878,000 or \$278,000 greater than HPD's estimate, if the Safe Clear Program remains unchanged.

Table 5 compares the effect of our understanding of the Safe Clear Program to HPD's and the Administration's representation to City Council.

**TABLE 5
 COMPARISON OF PROJECTED FY 2006
 EXPENSES AND REVENUES**

HPD Estimate	\$		Auditor's Estimate	Difference
Expenses	\$3,000,000		\$3,288,000	(\$288,000)
Freeway segment fees	(\$900,000)		(\$910,000)	\$10,000
Metro Funds	(\$1,500,000)		(\$1,500,000)	\$0
Funding Required From Additional Sources	\$600,000		\$878,000	(\$278,000)