

OFFICE OF THE CITY CONTROLLER



**SPECIAL REVENUE FUNDS
PERFORMANCE/COMPLIANCE AUDIT**

FOR

**BUILDING INSPECTION
DEDICATED DRAINAGE AND STREET RENEWAL AND
DEVELOPER'S DRAINAGE IMPACT FEE**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

October 18, 2019

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: REPORT #2020-04 CITY-WIDE SPECIAL REVENUE FUND PERFORMANCE AUDIT –
HOUSTON PUBLIC WORKS**

Mayor Turner:

The Office of the City Controller's Audit Division has completed a performance audit of three Special Revenue Funds operated by the Houston Public Works Department:

- Building Inspection
- Dedicated Drainage and Street Renewal
- Developer's Drainage Impact Fee.

The purpose of the audit was to review the process used to establish and operate special revenue funds and to evaluate the established funds' compliance with applicable policies, procedures, and regulatory guidance, and include a review and analysis of expenditures.

Based on work performed, we concluded that the processes used to establish the revenue funds as well as those used to evaluate compliance with applicable policies, procedures, and regulatory guidance were considered sufficient.

We would like to express our appreciation to the management and staff of Houston Public Works for their time and effort, responsiveness, and cooperation during this audit.

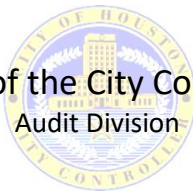
Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Carol Haddock, Director, Houston Public Works
Marvalette Hunter, Chief of Staff, Mayor's Office
Harry Hayes, Chief Operations Officer, Mayor's Office
Roel Garcia, Chief of Staff, Houston Public Works
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

TABLE OF CONTENTS

TRANSMITTAL LETTER.....	i
EXECUTIVE SUMMARY	1-9
INTRODUCTION	1
BACKGROUND	1
SPECIAL REVENUE FUNDS DEFINED	1-2
RISK ASSESSMENT AND THE BASIS OF SELECTION.....	2-4
DESCRIPTION OF SELECTED FUND MANAGED BY HPW	4-5
BUILDING INSPECTION SPECIAL REVENUE FUND (FUND 2301).....	4
DEDICATED DRAINAGE AND STREET RENEWAL (FUND NO. 2310)	4
DEVELOPERS DRAINAGE IMPACT FEE (FUND 2344)	5
AUDIT SCOPE AND OBJECTIVES.....	6-7
PROCEDURES PERFORMED	7
AUDIT METHODOLOGY	7
CONCLUSIONS AND SIGNIFICANT ISSUES.....	8
ACKNOWLEDGEMENT AND SIGNATURES	8
TABLES.....	
TABLE 1 – FUNDS SELECTED.....	3
TABLE 2 – BUILDING INSPECTION SPECIAL REVENUE FUND REVENUES.....	5-6
TABLE 3 – BUILDING INSPECTION SPECIAL REVENUE FUND EXPENDITURES	6
EXHIBITS.....	9-13
EXHIBIT 1 – LIST OF SPECIAL REVENUE FUNDS	9-11
EXHIBIT 2 – ACKNOWLEDGEMENT STATEMENT	12-13



EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division (AD) of the City Controller's Office has completed a performance audit of the following special revenue funds operated by the Houston Public Works Department (HPW); Building Inspection, Dedicated Drainage and Street Renewal Fund (DDSRF) and Developer's Drainage Impact Fee. The purpose of the audit was to review the processes used to establish and operate special revenue funds and to evaluate the established fund's compliance with the applicable policies, procedures, and regulatory guidance, and include a review and analysis of expenditures.

Following the engagement of a third-party consultant to perform an audit of the Rebuild Houston Program, which includes the DDSRF and Developer's Drainage Impact Fee special revenue funds, the audit scope and objective for these funds was consequently limited to the review of processes used to establish the funds.

These audits were included as part of AD's review of the City-wide Special Revenue Funds as outlined in the Fiscal Year 2018 Annual Audit Plan.

BACKGROUND

The City has identified 77 Special Revenue funds which are classified as budgeted or non-budgeted however, not all these funds are active. These funds are aggregated and reported in the Comprehensive Annual Financial Report as Nonmajor Governmental Funds, in the Basic Financial Statements. Grant funds are not considered Special Revenue funds and are not included as part of the 77 identified funds.

The creation and recording of revenue into a Special Revenue fund is dependent upon approval by the City Council, however the process begins when the initiating department completes a Funds Management Master Maintenance Request form including supporting documentation and submits it to the Finance Department for review and approval. The submitted application is also reviewed by the Financial Reporting Section of the Controller's Office, after which the approved application is forwarded to the SAP/ERP team at Houston Information Technology Service (HITS) for set-up in SAP.

We performed a risk assessment process on each of the 77 funds to determine funds to be selected for our audit. The details of the risk assessment procedures performed are presented below under the section "Risk Assessment and Basis of Selection".

SPECIAL REVENUE FUNDS DEFINED

The use and operation of Special Revenue Funds is governed by the Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB 54). Per GASB 54 Section 30, "Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects". "The



phrase “*proceeds of specific revenue sources*” establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.” The Statement further states, “Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.”

Per GASB 54, the conditions upon which resources shall be classified as special revenue is based primarily upon whether they are restricted or committed. Restricted resources are funds that have been provided by creditors (bond sales), grantors, or donors or fund sources allowed through enabling legislation. As a result, restricted funds refer to resources that can be spent towards the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. Committed funds are resources that can be used for the purposes determined by a formal action of the government’s highest level of decision-making authority.

RISK ASSESSMENT AND THE BASIS OF SELECTION

To determine the special revenue funds to be selected for our audit, we performed a risk assessment of all the City’s 77 special revenue funds. The criteria used in the risk assessment are as detailed below:

- (a) Major funds determination: Any fund whose revenues constituted 10% or more of the aggregated total revenues of all special revenue funds was considered a major fund and as a result was considered high risk;
- (b) A 10% Plus or Minus Change in Revenue: A 10% positive or negative change in revenue over that of the prior year was considered as high risk;
- (c) Closed Accounts: Special revenue accounts closed during the period under audit were considered high risk;
- (d) New accounts opened: New special revenue fund accounts opened during the period were considered high risk;
- (e) Recent audit and audit adjustments: Where the funds have been subjected to recent audits either by the internal auditors, external auditors and/or monitoring agencies and there were audit adjustments arising from the audit engagement, the fund(s) were considered high risk;
- (f) Special designation: A fund was considered a high risk if it was designated or established through special provisions of the law, council decision or Mayor’s directive.

Based upon the application of the risk assessment criteria, eight (8) special revenue funds across four (4) City departments were selected as shown in Table 1:

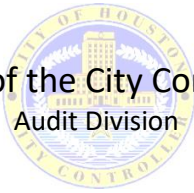


TABLE 1: FUNDS SELECTED

S/N	Department	Fund(s) Selected	Account Number
1	Administration and Regulatory Affairs (ARA)	(a) Parking Management	8700
		(b) Ann Young BARC	2426
2	Finance (FIN)	(a) Houston Foundation	2412
		(b) Regional Participation	2425
3	Planning and Development Department (PD)	(a) Planning and Development Fund	2802
4	Houston Public Works Department (HPW)	(a) Building Inspection	2301
		(b) Dedicated Drainage and Street Renewal	2310
		(c) Developers Drainage Impact Fee	2344

We reviewed the funds' compliance with relevant accounting standards and local regulations for all three funds, but we did not test operational compliance for either the Dedicated Drainage and Street Renewal Fund, No. 2310 or the Developers Drainage Impact Fee, No. 2344. Those funds were



included in an audit of the Rebuild Houston Program which was performed by an independent third-party consultant.¹

DESCRIPTION OF SELECTED FUNDS MANAGED BY HPW

BUILDING INSPECTION SPECIAL REVENUE FUND (No. 2301)

The Building Inspection Special Revenue Fund was created under Ordinance No. 88-1631 (the "Ordinance") passed and adopted on June 15, 1988 to account and budget for building inspection services. The Ordinance was preceded by a Request for Council Action (RCA) dated May 26, 1988 which stated that the purpose for a special revenue relating to building inspection services was to ensure that costs and revenues associated with this activity are properly reflected thereby removing the use of General Fund in subsidizing the operations.

DEDICATED DRAINAGE AND STREET RENEWAL (DDSRF), No. 2310

The Dedicated Drainage and Street Renewal Fund was created under Ordinance No. 2010-879 following an election held on November 2, 2010 which approved the proposition to amend the City Charter to provide for the creation of a dedicated funding source to enhance, improve and renew the City's drainage systems and streets excluding debt service payments. DDSRF was established, applied and funded as follows:

- (a) A dedicated, pay-as-you-go source of funding for the City's drainage and streets
- (b) To ensure the continued availability of DDSRF as a pay-as-you-go source for capital cost of future drainage and street needs of which no more than 25% of each annual appropriation to the Fund may be used for maintenance and operations expenses, except where third party contracts, grants or payment provide otherwise.

Beginning from fiscal year 2012 funding for the DDSRF consisted was as follows:

- (a) All proceeds of developer impact fees, commencing in fiscal year 2012 and continuing thereafter
- (b) All proceeds of the drainage charges commencing in 2012 and continuing thereafter
- (c) An amount equivalent to proceeds from \$0.118 of the City's ad valorem tax levy minus an amount equal to debt service for drainage and streets for any outstanding bonds or notes
 - Issued prior to December 31, 2011, and

¹ See Report No. 2019-09 Houston Public Works Department (HPW) Rebuild Houston Performance Audit

Office of the City Controller



- Bonds or notes issued to refund them

(d) All proceeds from third party contracts, grants or payments of any kind earmarked or dedicated to drainage or streets.

DEVELOPERS’ DRAINAGE IMPACT FEE, (No. 2344)

Pursuant to the adoption of Article XIV to Chapter 47 of the Code of Ordinances to create a municipal drainage system, the Developers’ Drainage Impact Fee was created under the City of Houston, Texas Ordinance No. 2013-281. The creation of the fund is a direct result of the amendment of the City Charter pertaining to the creation of a dedicated funding source to enhance, improve and renew the City’s drainage systems and street. The proposed charter amendment was approved under Proposition 1 on November 2, 2010. Consequently, the City Council finds and determines that:

- (a) The City shall establish a schedule of drainage charges against all real property in the city subject to such charges under this article;
- (b) The city shall provide drainage for all real property in the City on payment of drainage charges unless the property is exempt from such payment as provided herein;
- (c) The City shall offer drainage service on nondiscriminatory, reasonable and equitable terms.

To recover the cost of service to provide drainage, annual drainage charges are imposed on all parcels of real property within the drainage service area using an applicable rate to each square foot of impervious surface of benefitted property and depending whether it is classified as residential or non-residential.

FINANCIAL PERFORMANCE: HPW – BUILDING INSPECTION SPECIAL REVENUE FUND

For the audit, transactions for the fiscal years ended June 30, 2015, 2016 and 2017 were examined. Tables 2 and 3 below reflect revenues and expenditures for the Building Inspection Special Revenue Fund respectively.

TABLE 2				
Building Inspection Special Revenue Fund – Revenues for FYs 2015-2017				
Fund No.	Name	2015	2016	2017
2301	Franchise Fees	408,709.25	416,275.01	439,270.73
2301	Licenses & Permits	79,908,217.03	81,375,041.38	73,883,349.05
2301	Charges for Services	2,117,070.11	1,513,106.35	1,611,164.82
2301	Other Fines & Forfeits	6,744.00	8,040.00	7,200.00

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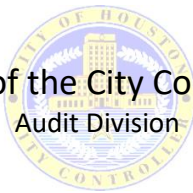


TABLE 2				
Building Inspection Special Revenue Fund – Revenues for FYs 2015-2017				
Fund No.	Name	2015	2016	2017
2301	Interest/Investment Income	304,318.07	560,550.72	130,501.93
2301	Miscellaneous & Other	41,412.90	306,981.64	141,142.98
2301	Non-Operating/Misc. Revenues	409,450.63	532,060.67	500,521.80
2301	Other Operating Revenues	216,419.53	238,011.11	240,371.21
	Total Revenues	83,412,341.52	84,950,066.88	76,953,522.52

TABLE 3				
Building Inspection Special Revenue Fund – Expenditures for FYs 2015-2017				
Fund No.	Name	2015	2016	2017
2301	Personnel Services	47,833,728.98	51,848,510.79	55,416,578.13
2301	Supplies	769,511.21	656,195.40	738,375.39
2301	Other Services and Charges	12,987,968.12	11,983,920.77	13,140,956.62
2301	Debt Service and Other Uses	6,530,323.19	24,509,986.61	3,580,014.04
2301	Non-Capital Purchases	167,003.73	54,244.12	425,998.52
2301	Capital Purchases	1,257,402.37	2,611,163.38	2,377,776.78
2301	Total Expenditures	69,545,937.60	91,664,021.07	75,679,699.48

AUDIT SCOPE AND OBJECTIVES

The primary objectives of the audit are to:

- Review the processes used to establish the special revenue fund (**Objective #1**). This objective applies to all the funds under audit.
- Review processes used to operate the special revenue fund and evaluate the established fund's compliance with the applicable policies, procedures, and regulatory guidance, and



include a review and analysis of expenditures (**Objective #2**). This objective applies only to Building Inspection Special Revenue Fund.

The engagement scope included operations and transactions occurring in Fiscal Years 2015, 2016 and 2017.

PROCEDURES PERFORMED

To obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following steps:

- Reviewed authoritative literature related to special revenue governmental funds;
- Obtained and reviewed enabling legislation (ordinances) that created the fund(s);
- Obtained and reviewed documentation supporting the rationale for the funds' creation where applicable;
- Performed a risk assessment to determine funds to be selected for audit;
- Performed analytical reviews of revenues and expenditures;
- Inquired regarding processes used to create and operate special revenue funds in SAP;
- Obtained payroll data for special revenue funds that support staff;
- Performed testing of transactional detail for revenues, payroll, transfer and other expenditures;
- Reviewed CAFR to determine how special revenue funds were presented for external purposes; and
- Reviewed Monthly Financial Statements as well as selected City Council minutes as a basis for assessing council oversight of funds.

AUDIT METHODOLOGY

We conducted this performance and compliance 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 the City or the Administration and Regulatory Affairs Department. 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. Detailed findings, recommendations, management responses, comments and assessment of responses (if needed), are in the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Based on work performed, we conclude that the processes used in the establishment; including the designation, classification and proper determination as Special Revenue funds are considered adequate with accounting standards and local regulations.

CONCLUSION 2 – (AUDIT OBJECTIVE #2) –

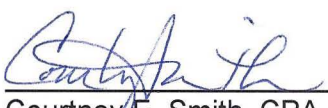
Based on work performed, we conclude that the processes used to operate the special revenue fund and evaluate the fund’s compliance with the applicable policies, procedures, and regulatory guidance including a review and analysis of expenditures are considered adequate.

ACKNOWLEDGEMENT AND SIGNATURES

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



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Audit Manager



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City Auditor

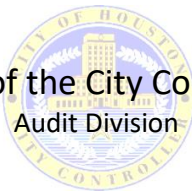


EXHIBIT 1

LIST OF SPECIAL REVENUE FUNDS

I. BUDGETED

Serial No	Fund Account No	Name
1.	2002	Health Special
2.	2008	Laboratory Svcs
3.	2009	Swimming Pool Safety
4.	2010	Essent Pub Hlth Svcs
5.	2100	Park Special Rev.
6.	2104	Parks Golf Special
7.	2106	Bayou Greenway 2020
8.	2200	Auto Dealers
9.	2201	Police Special Svcs
10.	2202	Asset Forfeiture - Treasury
11.	2203	Asset Forfeiture - Justice
12.	2204	Asset Forfeiture - State
13.	2205	Houston Emergency Center
14.	2207	Municipal Court Technology
15.	2209	Child Safety Fund
16.	2210	FTA Special Revenue
17.	2211	Juvenile Case Manager Fee
18.	2301	Building Inspection
19.	2305	Recycling Revenue
20.	2306	Historic Preservation
21.	2308	P&DD Special Revenue
22.	2310	DDSR
23.	2401	Cable Television
24.	2402	Houston Transtar
25.	2409	TIRZ Affordable Housing
26.	2413	John Battaglia Trust
27.	2423	Special Waste
28.	2424	Contractor Responsibility Fund
29.	2428	State Cable TV
30.	8700	Parking Management
31.	8700A	Parking Benefit Dist.
32.	2105	Maintenance and Replacement
33.	2206	Building Security
34.	2213	Forensic Transition
35.	2302	Stormwater Fund
36.	2427	BARC Special Revenue
37.	2429	Tourism Promotion



LIST OF SPECIAL REVENUE FUNDS

II. NON-BUDGETED

Serial No	Fund Account No	Name
1.	2000	Housing Special Revenue
2.	2006	Summer Youth Program
3.	2007	REEP Program
4.	2020	Comm Health & Assmt
5.	2102	MacGregor Parks Endowment
6.	2103	Parks Planting Tree
7.	2208	Helmets Bicycles Safety
8.	2212	Digital Automated Red Light
9.	2214	Nuisance Abatement
10.	2304	Mobility Response
11.	2344	Development Drainage Impact Fee
12.	2400	TIRZ Affordable Housing
13.	2403	MNC Memorial City
14.	2404	Supplementary Environment
15.	2405	Neighborhood Project
16.	2407	Misc. City Trust
17.	2408	Misc. Gift trust
18.	2410	Aff House Uptown 2002B
19.	2411	W.A.T.E.R Fund
20.	2412	Houston Foundation
21.	2416	AffHousMidtownSer201
22.	2417	AffHousUptwnSer2004
23.	2418	AffHousUptwnSer2004D
24.	2419	Disaster Recovery
25.	2420	TIRZ2 AffHousMidtown
26.	2421	Consumer Choice Init
27.	2422	Digital Houston WIFI
28.	2425	Regional Participation
29.	2426	Ann Young BARC Special
30.	2500	Library Special Revenue
31.	2004	HJTPC Self-Insurance
32.	2303	TxDOTSignalMaint



LIST OF SPECIAL REVENUE FUNDS

I. NON-CLASSIFIED WITH ACTIVITY

Serial No	Fund Account No	Name
1.	2101	Operation Gang
2.	2105	M.R.R Fund
3.	2300	Sign Administration
4.	2406	MarchofDimesHealthEd
5.	2414	AAA ContingencyFund
6.	2415	RentalRehabInsurance
7.	2900	LegacyConverAsset
8.	2901	LegacyClosedFund



EXHIBIT 2

ACKNOWLEDGEMENT STATEMENT

HOUSTON PUBLIC WORKS



CITY OF HOUSTON
Houston Public Works

Sylvester Turner

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Acknowledgement Statement

October 11, 2019

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**SUBJECT: SPECIAL REVENUE FUND PERFORMANCE AUDIT REPORT
HPW - FUND 2301: BUILDING INSPECTION
HPW - FUND 2310: DEDICATED DRAINAGE AND STREET RENEWAL
HPW - FUND 2344: DEVELOPERS DRAINAGE IMPACT FEE**

I acknowledge that I have received and reviewed the above reference report and agree with the information pertaining to the Houston Public Works in connection with the Special Revenue Funds performance audit. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,

Carol Ellinger Haddock

Carol Ellinger Haddock, P.E.
Director, Houston Public Works

Council Members: Brenda Stardig Jerry Davis Ellen R. Cohen Dwight A. Boykins Dave Martin Steve Le Greg Travis Karla Cisneros
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Controller: Chris B. Brown

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