



City of Houston

Annise D. Parker
City Controller

City-Wide Accounts Receivable and Billings Internal Audit

Parks and Recreation Department

Report No. 04-35



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

October 28, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audit
Parks and Recreation Department (Report No. 04-35)

Dear Mayor White:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed an Accounts Receivable and Billings Internal Audit pertaining to the Parks and Recreation Department (Department). The purpose of the audit was to assist management with an assessment of the adequacy and effectiveness of the internal controls and reporting related to the City's accounts receivable and billing processes. Additionally, the audit determined if the Department has developed and implemented written accounts receivable policies and procedures which address the requirements of Executive Order No. 1-38 (Accounts Receivable Policy).

The report, attached for your review, noted that there is an opportunity to improve monitoring of concession revenue and grant reimbursement collections. Various recommendations were made to formalize policies and procedures as required by Executive Order No. 1-38 and to improve the Department's controls over collections. Draft copies of the matters contained in the report were provided to Department officials. The views of the responsible officials as to actions being taken are appended to the report as Exhibit A.

We appreciate the cooperation extended to the JWI auditors by Department personnel during the course of the engagement.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Joe Turner, Director, Parks and Recreation Department
Judy Gray Johnson, Director, Finance and Administration Department

October 1, 2004

Ms. Annise D. Parker
City Controller
City of Houston
901 Bagby, 8th Floor
Houston, TX 77002

Dear Controller Parker:

We have completed the internal audit of the Accounts Receivable and Billings for the Parks and Recreation Department (Department) as outlined in our engagement letter dated October 10, 2003, under Contract No. 51783. This report documents our final report for the Department. A report summarizing significant issues identified across the departments will be issued at the conclusion of the City-wide engagement when the internal audit procedures have been completed for all City departments.

Our observations and recommendations noted during the performance of the procedures are presented in this report and views of responsible officials are attached as Exhibit A. Our procedures, which accomplished the project objectives, were performed through the date of this report and have not been updated since that date. Our observations included in this report are the only matters that came to our attention, based on the procedures performed.

Jefferson Wells International is pleased to have assisted the City Controller and we appreciate the cooperation received during this engagement from the Parks and Recreation Department as well as your office.

This report is intended solely for the information and use of the City, the Department and the City Controller's Office, and is not intended to be used for any other purpose.





Project Scope & Objectives

Scope:

This internal audit was performed to assist City management with an assessment of the adequacy and effectiveness of the internal controls and reporting related to the City's accounts receivable and billing processes. The scope of this report is the revenues and receivables managed by the Parks and Recreation Department.

Objectives:

- Determine whether all receivables managed by the Department are recorded in the City's financial records.
- Determine whether there are receivables that are not recorded in the City's books.
- Review and evaluate the type of records that are maintained to support the receivables.
- Determine what steps, if any, are being performed to collect the outstanding receivables.
- Determine whether billing systems are in place to bill timely those persons/entities that may owe the City monies.
- Determine whether the Department has developed and implemented written accounts receivable policies and procedures, which address the requirements of Executive Order No. 1-38 (Account Receivable Policy).



Procedures Performed

- Requested and gathered pertinent documents related to the Department's revenue sources, including written accounts receivable procedures applicable to each of its sources of revenue.
- Compiled a preliminary list of revenue sources for the Department.
- Identified and scheduled interviews with key financial personnel for the Department.
- Interviewed key departmental personnel and obtained an understanding of the Department's process, as applicable, related to:
 - Capturing each transaction that results in a source of revenue/receivable;
 - Timing of revenue/receivable recognition;
 - All applicable accounting entries;
 - Billing systems for monies owed the City; and
 - Monitoring and collection of accounts receivable, including supporting documentation.
- As applicable, for each of the Department's revenue/receivable source that involves the generation of a bill for monies owed the City:
 - Traced each receivable source to the City's financial system;
 - Determined whether the applicable billing system had been designed to mitigate the risk of bills not being generated on a timely basis; and
 - Determined whether the described billing system is in-place and operating effectively.



Procedures Performed (continued)

- As applicable, reviewed the Department's written policies and procedures and determined compliance with Executive Order No. 1-38, Accounts Receivable Policy, specific to:
 - Appropriate Authorization;
 - Cost Recovery;
 - Transaction Processing;
 - Physical Safeguards;
 - Substantiation and Evaluation;
 - Determination of net realizable value;
 - Identification of accounts to be recommended to the Mayor and City Council for write-off approval;
 - Determination of appropriate allowance for doubtful accounts;
 - Preparation of accounts receivable aging analysis, aged cash receipts, and cash collections percentage reports; and
 - The use of the reports mentioned above to evaluate collectibility, target accounts requiring more aggressive collection efforts, and target accounts that yield better collections results.



Revenues & Receivables Overview

Background

- The Parks and Recreation Department generates revenue by providing services, programs and facilities to Houston's citizens. Substantially all revenues are collected at the time of service or facility use and as such are recognized on a cash basis.
- Revenues consist of the following:
 - *Golf Recreation Fees*
 - *Concessions*
 - *Facility and Equipment Fees*
 - *Sports and Education Programs*
 - *Operations Management Fees*
 - *Training*
 - *Grant Revenues*
 - *Interest and Other Revenue*
- Revenues are determined and supported by City ordinances or executed agreements with the various customers.

Summary

- The City's financial system indirectly includes accounting for the Department's service receivables.
- Grant receivables and past due concession revenues are not recorded within the City's financial system until received.
- Collection efforts could be improved on outstanding service receivable balances.
- There is an opportunity to improve monitoring of concession revenue and grant reimbursement collections.



Revenues & Receivables Overview

	<u>2004 Annual Budget</u>	<u>Receivables are Generated</u>	<u>Receivables are Recorded</u>	<u>Accounting is in Accordance with GAAP</u>
Revenues/Recoveries:				
▪ Golf Recreation Fees	\$ 3,362,400	no	n/a	X
▪ Concessions	996,800	X		X
▪ Facility and Equipment Fees	699,300	no	n/a	X
▪ Sports and Education Programs	462,200	no	n/a	X
▪ Operations Management Fees	325,200	X	no	X
▪ Training	28,300	no	n/a	X
▪ Grant Reimbursements	819,800	X	no	X
▪ Investment Earnings and Other	283,100	no	X	X

Definition of Terms:

- **X** – Represents a Yes answer related to determining if each identified revenue stream results in a receivable.
- – Receivable is recorded when the final amount is determinable.
- **Receivables** – The resulting asset when revenue has been earned but no payment is made at the point the service or good is provided (normally the result of a bill being generated).



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Appropriate Authorization	<ul style="list-style-type: none"> ▪ The City has established all fees charged by the Department through City Ordinances and/or approving contracts with the customer. ▪ Responsibilities and authorizations for the recording of revenue / receivables is defined, communicated and understood. ▪ The Department does not have formal policies and procedures as required by the Executive Order. 	<ul style="list-style-type: none"> ▪ Recommend, for improved controls and long-term consistency of established procedures, that formal policies and procedures be developed as required by the Executive Order. 	Moderate
Cost Recovery	<ul style="list-style-type: none"> ▪ The Department has cost recovery grants, and as such, generates a receivable as reimbursable grant expenditures are incurred. Grant receivables are recorded as amounts are requested for reimbursement. ▪ The Department's revenue is received in a number of checks from individuals and businesses, which results in checks being returned due to insufficient funds (NSF). Finance and Administration receives the checks, records the receivable and then returns them to the Department for recovery. ▪ NSF receivables are tracked in detail and in total through a general ledger control account. The Department has collection procedures to collect these amounts. 	<ul style="list-style-type: none"> ▪ The Department or City could consider the use of an outside collection agent for long outstanding NSF checks. 	Moderate



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Transaction Processing	<p>Park Events:</p> <ul style="list-style-type: none"> ▪ Cash basis revenues – resulting from the sale of permits at flat fees, unless it is a gated event on which the revenue is a 10% of ticket sales. ▪ Tickets are inventoried at the beginning and end of the event and reconciled with collected cash or checks at that time. ▪ Revenue is recorded as payments are received. <p>Term / Contract-Based Operating Concessions</p> <ul style="list-style-type: none"> ▪ Management contracts are executed that establish revenue terms and payment due dates. Receivables arise when amounts are overdue. ▪ Management companies submit the payment along with documentation and an assertion that the payment complies with the contract. ▪ Revenue is recorded upon receipt of payments. ▪ A checklist is monitored to ensure payment timeliness; collection is conducted as necessary. <p>Vending Concessions - Revenue is recorded as amounts are received and monitoring is informal.</p> <p>Grant Revenues - Schedules and financial reports from the accounting system are used and maintained for grant reimbursable costs. Monthly a report is submitted to Housing for submission of the reimbursement request.</p>	<ul style="list-style-type: none"> ▪ Vending concession receivable monitoring should be scheduled and monitored consistent with the other term operating concessions. ▪ To improve controls over grant receivables, we recommend a receivable be recorded as a reimbursement request is submitted. Collection of an amount other than the receivable could then enable a timely reconciliation /follow-up. 	Moderate



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Physical Safeguards	<ul style="list-style-type: none"> ▪ The Department has procedures over the handling and deposit of cash receipts. ▪ For the largest cash-basis revenue streams at the golf courses, there is a point of sale system which provides additional reconciliation and safeguard controls. ▪ Receivable balances are reconciled monthly. 	<ul style="list-style-type: none"> ▪ Cash collection and revenue recognition is highly distributed throughout the Department's operations, which increases the risk of revenue being misappropriated. ▪ Recommend that the Department conduct periodic audits over the safeguarding of cash and completeness of recorded revenues. 	Moderate
Substantiation and Evaluation	<ul style="list-style-type: none"> ▪ Certain receivables and revenue are substantiated with executed contracts – such as the Management Operations revenue for 3 golf courses, vending machine and other term concession revenues and grants. ▪ Each contract provides for the right to audit. ▪ Other revenues are reviewed and analyzed on a trend basis and in comparison to an annual budget. 	<ul style="list-style-type: none"> ▪ See physical safeguards above. 	Moderate



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Determination of Net Realizable Value <i>(Minimum of Annually)</i>	<ul style="list-style-type: none"> Validation of realizable value is determined only as revenues are collected and recorded, except for NSF receivables which are reviewed at least annually. The Department pursues collection on past-due accounts and checks that have been returned due to insufficient funds. 	<ul style="list-style-type: none"> The Department could consider deploying additional collection efforts on these receivables, including the use of an independent collection agent. 	Moderate
Identification of Accounts to be Written-off / Determination of an Appropriate Allowance for Doubtful Accounts <i>(Minimum Annually)</i>	<ul style="list-style-type: none"> See determination of realizable value. 	<ul style="list-style-type: none"> None noted. 	Low
Preparation of Reports & Analysis	<ul style="list-style-type: none"> Monthly reports are routinely prepared by the Department to monitor grant reimbursable expenditures, completeness of revenue and revenue trends. All reports are reconciled to the general ledger as appropriate and reviewed by the Department's management. 	<ul style="list-style-type: none"> None noted. 	Low



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Use of Reports to Evaluate and Improve Collections	<ul style="list-style-type: none">As noted above, collection efforts are made on NSF receivables supported by use of available reports.	<ul style="list-style-type: none">None noted.	Low

EXHIBIT A



CITY OF HOUSTON Parks and Recreation Department



To: Annise Parker, City Controller

From: Joe Turner, Director

Date: October 13, 2004

Subject: Response to the Jefferson Wells City
Wide Accounts Receivable and Billings
Internal Audit

The following information is provided to the Controller's Office in response to the first draft of the "City-Wide Accounts Receivable and Billings Internal Audit" that was performed by Jefferson Wells International between October 2003 and February 2004.

Compliance Area: Appropriate Authorization

Issue Noted: The department develops formal policies and procedures as required by the Executive Order.

Department's Response: As required by Executive Order 1-38, Section 3.3, the department will submit a departmental accounts receivable policy and procedure to the Finance and Administration Department for approval. This policy will be completed no later than March 1, 2005. In the interim, the department will continue to use Executive Order 1-38 and other policies and procedures to ensure that all revenue is handled appropriately.

Compliance Area: Cost Recovery

Issue Noted: The Department or City could consider the use of an outside collection agent for long-outstanding NSF checks.

Department's Response: The department will investigate engaging an agency to collect insufficient checks.

We agree that the department does have a number of long-outstanding NSF checks, some of which date to 1989. However, collecting on these NSF checks is unlikely, given their age. PARD is not able to clear these checks from accounts receivables because the City Controller's Office does not have a practice of "writing off" this particular type of bad debt. We ask that you assist us in writing off aged insufficient checks.

Compliance Area: Transaction Processing

Issue #1 Noted: Vending concession receivable monitoring should be scheduled and monitored consistent with the other term operation concessions.

Department's Response: The department does not believe that there is any feasible method for monitoring the revenue that is collected in vending machines.

Issue #2 Noted: To improve controls over grant receivables, we recommend a receivable be recorded as a reimbursement request is submitted.

*Views of Responsible
Officials*

EXHIBIT A

Page 2

Department's Response: PARD has a system whereby all grants are tracked from the time they are entered into the City's Advantage financial system to the time the reimbursement is received in full. This tracking system includes: 1) the amount of the grant; 2) how much as been expended; 3) the amount available; 4) the due date; 5) days left until expiration of the grant; and 6) other essential information about the grant. PARD believes that our current tracking system provides adequate safeguards to ensure that all receivables are received timely.

Compliance Area: Physical Safeguards

Issue Noted: Recommend that the Department conduct periodic audits over the safeguarding of cash and completeness of recorded revenues.

Department's Response: The department already conducts these audits which we call "Cash Handling Compliance Audits." Attachment 1 is an example of the working document we use when conducting these audits.



Joe Turner
Director
Parks and Recreation Department

Cy: Maggie Mottesheard
Cheryl Johnson

Attachment

1. "Cash Handling Compliance Audit" worksheet

*Views of Responsible
Officials*

EXHIBIT A

CASH HANDLING COMPLIANCE AUDIT

Name of facility _____

Date of Audit _____

Separation of Duties _____

Supervisory Review:

Overages and shortages _____

Voids and Corrections _____

NSF Check List Available _____

Making Deposits timely (at least weekly) _____

Daily Cash Reconciliation _____

Comments:

*Views of Responsible
Officials*