



City of Houston

Annise D. Parker
City Controller

City-Wide Accounts Receivable and Billings Internal Audit

City-wide Overview

Report No. 04-44



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

December 21, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audits
City-Wide Overview (Report No. 04-44)

Dear Mayor White:

In accordance with the City's contract with Jefferson Wells International (JWI), JWI has completed Accounts Receivable and Billings Internal Audits pertaining to seventeen departments within the City of Houston. The purpose of these audits 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 audits determined if the departments have developed and implemented written accounts receivable policies and procedures which address the requirements of Executive Order No. 1-38 (Accounts Receivable Policy). Each department received an audit report covering the revenues and receivables managed by that department.

This report, attached for your review, provides a summary of the types of revenue streams managed by the departments; an overview as to the compliance results noted from the individual audits; and areas of opportunities for improvement, control or efficiency that impact multiple City departments for which an improved city-wide or consistent action plan is recommended.

We believe these opportunities can provide long-term and continuing improvements in the accounting and reporting of revenues and accounts receivables city-wide. We appreciate the cooperation extended to the JWI auditors by department personnel during the course of the audits.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Department Directors

October 22, 2004

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

Dear Controller Parker:

We have completed internal audits of the Accounts Receivable and Billings for seventeen departments within the City of Houston (City) as outlined in our engagement letter dated October 10, 2003, under Contract No. 51783. This report summarizes significant issues identified across the departments.

Our observations and recommendations noted during the performance of the procedures are presented in this report. 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 your office.

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





Project Scope & Objectives

Scope:

A series of internal audits were 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. Each Department received an internal audit report covering the revenues and receivables managed by that department which reported on the following objectives.

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 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
 - 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
 - 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

Each City department is responsible for managing their own revenue, receivables and receivable collection with the following exceptions.

- The Office of the City Controller manages interest earned on cash investment portfolios and management activities of cash funds generated City-wide and records all entries related to accrued interest revenue and monitors the collection of such revenue on behalf of all departments.
- The Finance & Administration Department manages the collection of certain departmental revenues and receives all returned checks due to insufficient funds – recording the related receivable before submitting the returned checks to the respective departments for collection.
- The Public Works and Engineering Department bills and collects for certain Solid Waste Management Department revenues through its water bills. Solid Waste is then able to monitor receivables through reports provided by Public Works.
- Certain grant fund reimbursements and receivables are managed by departments other than those overseeing the expenditures and operational grant compliance.

Summary

- Exhibit A summarizes the types of revenue streams managed by each of the Departments.
- Exhibit B provides an overview as to the compliance results noted from the individual internal audits.
- Areas of opportunities for improvement, control or efficiency that impact multiple City departments for which an improved city-wide or consistent action plan is recommended are described in further detail in this report.



Revenues & Receivables Overview

Enhanced IT System Functionality

The lack of a City-wide accounts receivable system has caused departments to develop their own solutions for tracking revenue and receivables. As a result, City management does not have effective information or methods of measuring or monitoring its receivables. Receivable and revenue accounting for several departments is accomplished in various ways within the departments, which include:

- Stand alone systems within a department for higher volume receivables. Such systems are not integrated into the City's financial system and include:
 - Emergency Management System ambulance receivables
 - Court Fines and Fees
 - Library Fines and Fees
 - Convention and Entertainment Rentals
 - Laboratory Revenues
- Various Access™ or other custom developed database applications, which track such items as fire permits, alarm fees, etc. Again, these databases have no interface to the City's financial system.
- Excel™ spreadsheets are used by numerous departments to track miscellaneous revenues and receivables - examples include building rentals, stand-by fire watch, grant receivables, tax rebate receivables, etc. Similarly, these receivables are not accounted for within the City's financial system.

Both top City and departmental management would benefit from enhanced system functionality that would enable detail accounting and maintenance of receivable subsidiary ledgers. Such a system would enable improved monitoring of outstanding receivables across departments, enable measurement of collectibility and cash flow, report on the aging of receivables, facilitate consolidated collection activities, enable integration with the City's financial system and provide application controls over receivable adjustments.



Revenues & Receivables Overview

Allowances and related accounting adjustments

Certain departments have long outstanding receivables and allowances that are not recorded. This creates the risk that management may not be aware of collection issues. In other instances, old uncollectible accounts continue to be carried on the City's financial statements, which does not provide management with a realistic measure of current outstanding accounts or the collection experience of such accounts.

As provided for in the Executive Order 1-38, at least annually each department should assess its receivables and provide either the Finance and Administration Department or the Controller's Office a written recommendation as to receivable accounting and valuation adjustments. Such accounting enables appropriate reporting within the financial statements without forgiving or waiving the actual receivable claim.

Further, this assessment could serve to prioritize or consolidate collection efforts of such long outstanding receivables.

NSF Receivables Collection

An area creating long-standing receivable balances relates to checks which remain receivable pursuant to insufficient funds (NSF). The Finance and Administration Department receives the returned checks for all departments and records the corresponding receivable in the City's financial system. The checks are then forwarded to each respective department for collection. Each department then works to pursue collection of NSF checks on an individual basis and as time permits.

The City could benefit in multiple ways from centralizing the collection of NSF checks as follows:

- improved internal control, since negotiable instruments would not be resubmitted to departments for collection efforts
- potential collection if an internal function immediately pursued collection or such activity was concentrated with an outside agency such that the economies of scale achieved prioritization and favorable contract terms, and



Revenues & Receivables Overview

NSF Receivables Collection, Cont.

- enable the identification of specific customers who attempt to provide insufficient fund checks to multiple City departments.

Alternatively, the City could evaluate the cost / benefit of using check validation and guarantee services such as CheckRite.

Grant receivables

Numerous departments have cost recovery grants which generate receivables as reimbursable grant expenditures are incurred. However, grant receivables are not recorded, and disallowed expenditures could be charged to grants and not be detected for a period of time. To improve controls over grant receivables, we have recommended to these departments that 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.

Vending Machine Commissions

Several departments have vending machine contracts negotiated on an individual department basis. The City could benefit from a single centrally managed vending machine commission contract that could favorably negotiate the economies of scale that would be achieved through the increased volume, and mitigate the risk that commissions are not properly being remitted to the City.



Revenues & Receivables Overview

Polices and Procedures

Overall, most departments do not have formal policies and procedures as required by the Executive Order 1-38. However, several departments have initiated the development of such policies and procedures. The internal audits recommend formal policies and procedures be developed as required by the Executive Order, which should serve to improve controls as well as a long-term consistency in managing receivables pursuant to established procedures. Such policies and procedures could be further enhanced if guidelines were established or a minimum control framework communicated to measure the completeness and design effectiveness of the policies and procedures. In lieu of such guidance, the Finance and Administration Department should review and approve the policies and procedures being developed by the departments.

Exhibit A

City of Houston

Overview of Significant Revenue Streams

	Aviation	Building Services	Controller's	Convention & Entertainment Facilities	Finance & Administration	Fire	Health & Human Services
Signatory Landings, Terminal Space & Facility Rentals	✓						
Rentals	✓	✓		✓		✓	✓
Grants	✓				✓		✓
Concessions	✓	✓		✓			
Parking	✓			✓			
Investment Earnings	✓		✓	✓			
Miscellaneous other	✓			✓	✓	✓	✓
Recoveries & Refunds		✓					
Interfund		✓					
Hotel Occupancy Tax				✓			
Event Fees				✓			
Property, Sales and Other Taxes					✓		
Licenses and Permits					✓	✓	✓
Franchise Fees					✓		
Liens and assessments					✓		
Charges for Services						✓	✓
Loan repayments							
Fines and fees							
Asset Forfeiture							
Contributions of assets							

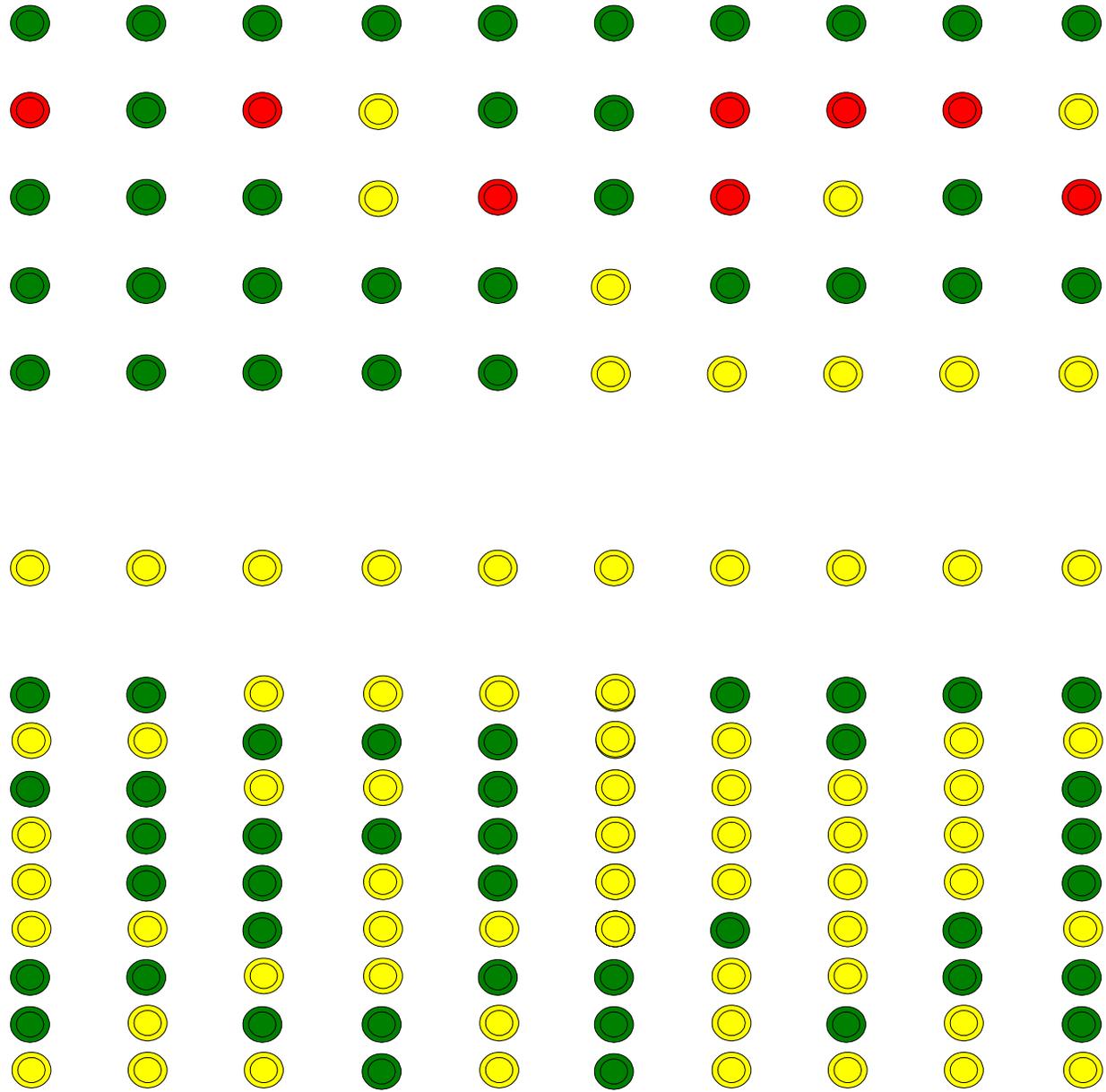
Exhibit B

City of Houston

Overview Results of Accounts Receivable Internal Audits

	Aviation	Building Services	Controller's	Convention & Entertainment Facilities	Finance & Administration	Fire	Health & Human Services
Business and Compliance Objectives:							
All receivables managed by the Office/Department are tracked in detail							
All receivables are recorded in the City's books							
Systems and records are maintained to enable reporting and monitoring of the receivables							
The Department takes steps to collect the outstanding receivables							
Billing systems are in place to bill timely those persons/entities that may owe the City monies							
Determine whether the Office has developed and implemented written accounts receivable policies and procedures, which address the requirements of Executive Order No. 1-38 (Account Receivable Policy)							
Compliance Objectives re: Executive Order No. 1-38							
Appropriate Authorization							
Cost Recovery							
Transaction Processing							
Physical Safeguards							
Substantiation and Evaluation							
Determination of net realizable value							
Write-off approval / Allowance							
Reporting							
Reporting Use and Effectiveness							
					High risk		Moderate risk

Housing & Community Development	Human Resources	Legal	Library	Municipal Courts	Parks	Planning & Development	Police	Public Works & Engineering	Solid Waste Management
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Low risk 