

OFFICE OF THE CITY CONTROLLER



**SPECIAL REVENUE FUNDS
PERFORMANCE/COMPLIANCE AUDIT**

FOR FUNDS

**ANN YOUNG BARC
PARKING MANAGEMENT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

July 13, 2018

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: REPORT #2019-02 CITY-WIDE SPECIAL REVENUE FUND PERFORMANCE AUDIT –
ADMINISTRATION AND REGULATORY AFFAIRS**

Mayor Turner:

The Office of the City Controller's Audit Division has completed a performance audit of two Special Revenue funds operated by the Administration and Regulatory Affairs Department (ARA); Fund 2426 Ann Young BARC and Fund 8700 Parking Management.

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.

Based on work performed, we concluded that the processes used to establish the special revenue funds under audit were considered sufficient, however, as detailed in our report, those procedures also revealed certain findings regarding the processes used to operate Fund 2426.

Respectfully submitted,

Chris B. Brown
City Controller

cc: City Council Members
Tina Paez, Director, Administration and Regulatory Affairs Department
Valerie Berry, Assistant Director, Administration and Regulatory Affairs Department
Marvalette Hunter, Chief of Staff, Mayor's Office
Tantri Emo, Director, Finance Department
Harry Hayes, Chief Operating Officer, Mayor's Office
Shannan Nobles, Deputy Director, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

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EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division (AD) of the City Controller’s Office has completed a performance audit of two Special Revenue funds operated by the Administration and Regulatory Affairs Department (ARA); Fund 2426 Ann Young BARC and Fund 8700 Parking Management. The audit was included as part of AD’s review of the City-wide Special Revenue Funds as outlined in the Fiscal Year 2018 Annual Audit Plan. 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.

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 the provisions of Section 30 of GASB 54; “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 term *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 the provisions of 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) $\pm 10\%$ 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) Development Drainage Impact Fee	2344

This report is intended to cover the two (2) special revenue funds under the control and oversight of ARA.

DESCRIPTION OF SELECTED FUNDS MANAGED BY ARA

The Administration and Regulatory Affairs (ARA) Department currently administers and provides oversight functions for ARA’s business area in the General Fund, two (2) special revenue funds, and two (2) internal chargeback funds. These funds fall under the direct monitoring and supervision of the



ARA Department, however in order to enhance efficiency in funds management, certain functions like creation of the general ledger for internal reporting and external fund reporting are performed by other City Departments. For our audit, the under listed funds were selected upon application of our risk assessment criteria.

PARKING MANAGEMENT (FUND NO. 8700)

On June 16, 2010, the City Council under City of Houston Texas Ordinance No.2010-476 created the Parking Management Special Revenue Fund. The sum of \$16,407,906 was appropriated out of available cash funds during fiscal year 2011 for this purpose. According to the provisions of Section 6 of the Ordinance, the Parking Management Fund was created to receive “certain City parking-related revenue, including but not limited to transfers arising from the closure of the Parking Management Operating Enterprise Fund, parking citation fines, parking permit and news rack permit sales, boot fees, parking meter charges, and certain surface and contract parking fees”. Expenditures from the Fund were limited to:

- (a) \$7m administrative fee transfer to the General Fund plus any excess of fund balance greater than \$1m, (amended to \$2m in FY 2014) and;
- (b) those expenditures necessary for the operation, maintenance and administration of the parking management Division of the Administration Regulatory Affairs (ARA) Department.

ANN YOUNG BARC (FUND NO. 2426)

In 2007, a citizen, Ann Slemons Young in her final will dated January 13, 2007, acting through the Ann Slemons Foundation (the “Foundation”), a charitable trust created pursuant to the terms of her will, bequeathed to the City property from her residuary estate. According to the terms and conditions contained in the will; “the Foundation shall exist and the properties of the Foundation shall be used, exclusively and solely, for the support of the City of Houston, Bureau of Animal Control (BARC)”. The provisions of the will provides that funds from the proceeds of the estate are to be “contributed towards the construction of two story animal shelter facility which shall include, but not limited to, wellness clinic, illness clinic, cat and dog adoption area, training and lecture space for volunteers, pharmacy, overnight facilities for visiting vets, kitchen facilities and elevator. All necessary funding for the construction of a facility must be secured including engineering drawing within five (5) years following the death of the donor”. Where the City is unable to fulfill the conditions of the will, the trustees are required to give the entire estate to the Humane Society for Waller County. On September 17, 2007, the court admitted the will to probate and approved a Family Settlement Agreement.

In 2008, the Attorney General, the City of Houston and the Waller County Humane Society filed pleas in intervention and a settlement agreement was executed in December 2009 which provided among others that: (a) the City shall hold such assets in a separate account to be called Ann Young Fund, (b)

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No distribution may be made from the fund except to be used solely in construction of the Ann Slemons Young Animal Center in accordance with the City's plan, and (c) the City shall have five years from the date that the Court signs the order closing the estate to raise additional funds it considers necessary for the construction of the Center.

In November 2009, proceeds from the closure of the estate amounting to approximately \$2m was received by the City and a special revenue fund account was created to hold the restricted money. As part of efforts towards fulfilling the conditions contained in the will, the City, in a press release, formally announced the Ann Young Adoption Center in 2009. The City committed a 5.5 acres site in the City's Gragg Park. The City also committed \$1.2 million in capital funds towards the construction of the center.

Subsequently, in a letter dated August 7, 2013, the City considered the terms of the will to be too stringent, rejected the donation, and sought the return of the funds in accordance with the conditions contained in the will. As a result, on December 29, 2014, the Attorney General of Texas filed a petition in court to modify the charitable trust and distributable charitable trust assets.

FINANCIAL PERFORMANCE: PARKING MANAGEMENT

For the purpose of the audit, transactions for the fiscal years ended June 30, 2015, 2016 and 2017 were examined. Table 2 below shows the sources of revenue for Parking Management for the scope period:

TABLE 2				
Parking Management Special Revenue Fund – Revenues for FYs 2015-2017				
Fund No.	Name	2015	2016	2017
8700	Licenses and Permits	502,323.96	514,721.39	493,797.79
8700	Charges for Services	9,596,230.60	10,397,599.39	10,956,778.09
8700	Other Fines and Forfeits	10,240,852.62	11,546,623.55	9,539,160.19
8700	Miscellaneous/Other	17,237.35	100,839.97	12,556.65
8700	Interest	36,944.59	70,107.54	15,262.07
	Total Revenue	20,393,589.12	22,629,891.84	21,017,554.79

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Parking Management Special Revenue fund proceeds were expended for FYs 2015-2017 as shown in Table 3 below:

TABLE 3				
Parking Management Special Revenue Fund Expenditures for FYs 2015-2017				
Fund No.	Name	2015	2016	2017
8700	Personnel Services	4,604,730.17	4,700,176.71	4,766,053.47
8700	Supplies	468,939.41	383,861.41	305,145.06
8700	Other Services & Charges	5,008,921.28	5,177,640.44	4,617,744.75
8700	Debt Service – Other Uses	9,997,472.00	12,361,167.21	11,291,706.89
8700	Non-Capital Purchases	223,299.76	2,612.81	-
8700	Capital Purchases	61,113.00	83,217.80	40,106.00
	Total Revenue	20,364,475.62	22,708,676.38	21,020,756.17

FINANCIAL PERFORMANCE : ANN YOUNG BARC

For the purpose of the audit, transactions for the fiscal years ended June 30, 2015, 2016 and 2017 were examined. The following table lists the revenue receipts for the Ann Young BARC fund for the scope period:

Table 4				
Ann Young Special Revenue Fund or FYs 2015-2017				
Fund No.	Name	2015	2016	2017
2426	Investment Income	<u>6,516.55</u>	<u>(1.49)</u>	=
2426	Other revenue	<u>(1,821,170.84)</u>	=	=
	Total Revenues	<u>(1,814,654.29)</u>	<u>(1.49)</u>	=



Note: Revenue amounts reflect debit balances in revenue accounts. In 2016, following the determination that conditions established by the donor were considered stringent by the City, the money was returned. In addition there were no expenditures recorded in this fund for FYs 2015-2017.

AUDIT SCOPE AND OBJECTIVES

The primary objectives of the audit are to:

- Review the processes used to establish the special revenue fund. (**Objective #1**)
- 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**)

The engagement scope included operations and transactions occurring between 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 where available 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. 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)

Based on work performed, we conclude that the processes used to establish the special revenue funds under audit were considered sufficient. However, with regards to the Parking Management Special Revenue Fund, audit procedures revealed an opportunity for strengthening internal control procedures and management oversight that we consider necessary to bring to management’s attention. Please see details under Finding #1 contained in the Section “Detailed Findings, Recommendations, Management Responses and Assessment of Responses”.

CONCLUSION 2 – (AUDIT OBJECTIVE #2) –

Audit procedures performed revealed certain findings in regards to the 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 as detailed below:

ANN YOUNG BARC FUND 2426

We noted that the funds’ activities (balances and interest earnings) were not reported in the Monthly Financial Report along with other special revenue funds. Additionally, as stated previously in the GASB definition of special revenue funds, the source(s) of restricted/committed revenues should form the foundation for the special revenue fund. Because the donated amount was a one time contribution of \$2 million towards an estimated \$10 million project, the donation would not constitute



a substantial part of the special revenue fund in accordance with the provisions of GASB 54, and would have been more appropriately accounted for in a different manner.

However, because the findings noted above do not constitute exceptions under ARA's management supervision and oversight functions, and the responsibility for the corrective action to address the findings fall under the purview of a different department, the details of the findings will not be included in this report for ARA management's consideration, but rather the findings will be addressed in the report to the appropriate department for a response.

ACKNOWLEDGEMENT AND SIGNATURES

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

Handwritten signature of Mark Estrada in black ink.

Mark Estrada, CPA
Lead Auditor

Handwritten signature of Olaniyi Oyedele in blue ink.

Olaniyi Oyedele, CPA
Audit Manager

Handwritten signature of Courtney E. Smith in blue ink.

Courtney E. Smith, CPA, CIA, CFE
City Auditor



DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

FINDING #1 – MONTHLY RECONCILIATIONS OF REVENUE RECEIPTS ARE NOT PERFORMED BETWEEN THE T2 SYSTEM AND SAP.

BACKGROUND:

The Parking Management Division (PMD) utilizes T2 application software to capture and record transactions related to its operational activities. Such activities include parking meter collections, parking violations fines, certain permits and boot fees. Each transaction is recorded and daily batch summary totals are uploaded into SAP for reporting. There are timing differences that occur due to program limitations between the systems.

For our audit, we selected five monthly revenue receipts for the period under audit scope and performed procedures to ascertain whether information contained in T2 is complete, accurate and in aggregate agrees with the amount recorded in the SAP.

FINDING:

We compared five monthly revenue receipts recorded in T2 with the amounts recorded in SAP. There were differences in each month reviewed, including an instance for the month ended October 31, 2016, where the difference was just over \$1.0m. Other monthly differences contained in the sample selection are presented in the table below:

TABLE 5				
Revenue Comparison between SAP and T2 for Selected Months				
Sample #	Month Ended	Revenue SAP	Revenue T2	Difference
1	4/30/2015	1,975,415.29	2,085,503.65	110,088.36
2	3/31/2016	1,953,488.06	2,048,248.58	94,760.52
3	8/31/2016	1,721,181.19	1,777,399.82	56,218.63
4	10/31/2016	850,159.31	1,850,699.83	1,000,540.52
5	5/31/2017	2,042,595.91	2,073,572.11	30,976.20



RECOMMENDATION:

When two information systems are utilized to capture and report accounting data, a process should be instituted by management that allows for the information contained in those systems be reconciled periodically, typically at least monthly to assure an appropriate accounting of all transactions. Furthermore, a designated member of senior management should review reconciliations as an additional internal control measure to the daily cash reconciliation currently being performed. This is necessary to provide additional internal control and oversight function in ensuring completeness and accuracy of information recorded in the general ledger and serve as a deterrent to fraud and/or financial misstatements.

DEPARTMENT MANAGEMENT

RESPONSE:

The City's SAP is the system of record for accounting, procurement, human resources, and payroll recording, tracking and monitoring. There are several external systems that interface with SAP. ARA Parking Management uses T2 Systems as a tool for its citation collection, data entry, payment processing, DMV interface, appeals process, and citation performance reporting. T2 is also a web application that is used to only collect and record cash transactions at Parking Management. A reconciliation is done daily to tie Parking Management's customer service representatives' cash drawers to T2. Via an interface, T2's daily collection is uploaded into SAP. An ARA Parking Management customer service supervisor performs a daily reconciliation which focuses on Parking Management's money collected and matches the upload file to SAP's text file. An ARA Financial Services' accountant reconciles the bank account monthly with SAP to ensure the transactions tie, including T2's upload to the cash account in SAP.

To tie cash collected in T2 to SAP revenue accounts monthly would require an analyst to manually log entries in addition to the daily cash reconciliation. Since we have been reconciling T2 ensuring that all T2 daily transactions are uploaded to SAP daily, a monthly reconciliation of T2 and SAP would be redundant.

RESPONSIBLE PARTY:

Administration and Regulatory Affairs

ESTIMATED DATE OF COMPLETION: N/A

**ASSESSMENT OF
RESPONSE:**

While we agree that current practice allows for reconciliation of cash receipts recorded in T2 to the bank statements, the differences in revenue noted in our finding arose primarily from items of revenue transactions recorded in SAP that were not recorded in T2. As a result a monthly reconciliation of the amounts recorded within the two systems is considered essential to ascertain that:

- (a) All revenues for the period have been recorded and complete
- (b) All revenues have been recorded in the proper period and instances of timing differences have been addressed
- (c) Proper oversight of revenue is maintained and instances of fraud, theft and improper revenue recognition are easily prevented and/or detected.

However, management has the responsibility to determine whether the benefit of this additional internal control outweighs the cost of its implementation.



EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

ADMINISTRATION AND REGULATORY AFFAIRS DEPARTMENT

Acknowledgement Statement

Date: July 2, 2018

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: CITY-WIDE SPECIAL REVENUE FUNDS REVIEW
ARA – FUND 2426 ANN YOUNG BARC SPECIAL REVENUE FUND
ARA – FUND 8700 PARKING MANAGEMENT SPECIAL REVENUE FUND

ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES

I acknowledge that the management responses contained in the above referenced report are those of the Administration & Regulatory Affairs Department. 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,



Tina Paez, Director
Administration & Regulatory Affairs
Department

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