



City of Houston

Annise D. Parker
City Controller

City-Wide Accounts Receivable and Billings Internal Audit

Office of the City Controller

Report No. 04-23



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

October 25, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audit
Office of the City Controller (Report No. 04-23)

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 Office of the City Controller (Office). 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 Office 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, did not note any high-risk issues and stated that the City's financial system includes accounting for the Office's receivables and the Office's accounting process for recognizing and collecting receivables enables substantiation and reconciliation of recorded receivables. Draft copies of the matters contained in the report were provided to Office officials. The views of the responsible officials are appended to the report as Exhibit A.

Respectfully submitted,

Annise D. Parker
City Controller

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

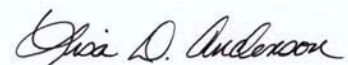
Dear Controller Parker:

We have completed the internal audit of the Accounts Receivable and Billings for the Office of the City Controller (Office) as outlined in our engagement letter dated October 10, 2003, under Contract No. 51783. This report documents our final report for the Office. 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 December 19, 2003 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.

A handwritten signature in cursive script, appearing to read "Erica D. Anderson".



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 Office of the City Controller.

Objectives:

- § Determine whether all receivables managed by the Office 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 Office 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 Office'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 Office.
- § Identified and scheduled interviews with key financial personnel for the Office.
- § Interviewed key personnel and obtained an understanding of the Office'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 Office'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 Office'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 Office of the City Controller itself generates no revenue arising from services and as such has no revenue budget. Instead, the Office's revenue consists solely of interest earned on cash investment portfolios and management activities of cash funds generated by other City departments. Accrued interest from the invested cash generates accounts receivable transactions.
- § The Office's objective is to fully invest the net daily cash receipts, except approximately \$5 million for short-term departmental cash flow needs. In meeting this objective, the Office provides the following general financial services for other City departments:
 - § **Cash Management Activity** - Assessing City-wide cash flows, funds availability to meet operational working capital requirements, and providing returns on available cash deposits;
 - § **Investment Activity** - Pooling and investing/divesting net cash flow while managing investment risk and maintaining portfolio diversification consistent with the City's Investment Policy; and
 - § **Treasury Accounting Services** - Accounting of City-wide cash and interest transactions to the respective City departments.

Summary

- § The City's financial system includes accounting for the Office's receivables.
- § The Office's accounting process for recognizing and collecting receivables enables substantiation and reconciliation of recorded receivables.



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>
Interest Receivable:				
General Pool	\$ 12,069,485	X	X	X
Airport Construction Pool	396,195	X	X	X
Tax Exempt Pool	70,452	X	X	X
Uptown Development Authority	6,100	X	X	X
Affordable Housing Office Pool	None	no	n/a	X
George R. Brown Project Funds Pool	67,474	X	X	X
Convention Center Hotel Projects Funds	314,907	X	X	X
Convention Center Hotel Reserve Funds	115,985	X	X	X

Definition of Terms:

- § **X** – Represents a Yes answer related to determining if each identified revenue stream results in a receivable.
- § **Receivables** – The asset that results 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"> š The City has a written investment policy which has been approved by the City’s Investment Committee. š Responsibilities and authorizations for various transaction levels and recording of receivables is defined, communicated and understood. š The Controller’s Office communicates transaction execution authorizations to their brokers, custodians, and clearing agents. š Trades are confirmed and a daily reconciliation of the Sungard system to the bank activity is performed. 	š None noted.	Low
Cost Recovery	š N/A – The Controller’s Office does not provide a service to generate this revenue, but rather it is earnings from City’s investment pools.	š N/A	N/A



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Transaction Processing	<ul style="list-style-type: none"> § Transactions are processed through a separate system with very limited access. § The Clearing agent provides a daily accounting of all investment activity. § Investment activity is reconciled monthly to the investment accounting system and the daily investment activity reports. § Interest receivables are recorded monthly as a result of this reconciliation. § All entries are evidenced by a manual journal voucher, which evidences review and approval. § Journal vouchers to record the receivables are stamped with a key punch date and are independently "passed in the system" to enable validation of timely revenue recognition. 	<ul style="list-style-type: none"> § None noted. 	Moderate
Physical Safeguards	<ul style="list-style-type: none"> § The computer terminal and application for trading is restricted by customary network security and terminal emulation software. § Authorized traders are communicated in writing with all brokers and the safekeeping bank. § Trades are confirmed and reconciled daily. 	<ul style="list-style-type: none"> § None noted. 	Low



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Substantiation and Evaluation	<ul style="list-style-type: none"> See the controls noted under transaction processing above. Further, based on a review of one month's activity – transactions and recorded receivable amounts were substantiated. 	<ul style="list-style-type: none"> None noted. 	Low
Determination of Net Realizable Value <i>(Minimum of Annually)</i>	<ul style="list-style-type: none"> Validation of realizable value is determined directly from investment reports obtained from the custodial agent. Interest receivables and revenues are reconciled and recorded monthly for each pool and the individual investments held within the pools. Monthly reconciliations are reviewed by someone separate from the preparer, and based on a review of one month's reconciliation and entries – timely completion was noted. 	<ul style="list-style-type: none"> None noted. 	Low
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"> Interest receivables are collected under the terms of the security instruments or applicable commercial law governing debt securities. The City's investment policy prescribes a conservatism that minimizes the risk of loss related to a security or its interest earnings. 	<ul style="list-style-type: none"> None noted. 	Low



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Preparation of Reports & Analysis	<ul style="list-style-type: none"> § Several reports are routinely prepared monthly to enable analysis by both the Office's management and the Investment Committee. § All reports are reconciled to the supporting systems and reviewed by someone independent of the preparation process. 	<ul style="list-style-type: none"> § None noted. 	Low
Use of Reports to Evaluate and Improve Collections	<ul style="list-style-type: none"> § As noted above, collection is a minimal risk for interest receivables, however all reports are used by the Office's management and Investment Committee to evaluate risk management and revenue maximization business objectives. 	<ul style="list-style-type: none"> § None noted. 	Low

EXHIBIT A



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

October 20, 2004

Ms. Lisa Anderson, Managing Director
Jefferson Wells International
1000 Louisiana, Suite 5300
Houston, TX 77002

Dear Ms. Anderson:

We have completed our review of the final report on the Accounts Receivable and Billings Internal Audit pertaining to the Office of the City Controller (Office). As the report indicated, the Office itself generates no revenue arising from services and as such has no revenue budget. Revenues consist solely of interest earned on cash investment portfolios and management activities of cash funds generated by other City departments. Accrued interest from the invested cash generates accounts receivable transactions.

The report did not note any high-risk issues and stated that the City's financial system includes accounting for the Office's receivables and the accounting process for recognizing and collecting receivables enables substantiation and reconciliation of recorded receivables.

Your audit team was very thorough during the audit and we appreciate their high degree of professionalism.

Sincerely,

Annise D. Parker
City Controller

xc: Susan Bandy, Deputy City Controller
MaryAnn Grant, Deputy City Controller
Jim Moncur, Deputy City Controller

*Views of Responsible
Officials*

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