



City of Houston

Annise D. Parker
City Controller

City-Wide Accounts Receivable and Billings Internal Audit

Aviation Department

Report No. 04-29



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
Aviation Department (Report No. 04-29)

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 Aviation 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, did not note any high-risk issues and stated that the City's financial system includes accounting for the Department's receivables and the Department'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 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
Richard Vacar, A.A.E., Director, Aviation 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 Aviation 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 February 28, 2004 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 Aviation 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.

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 Aviation 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 Aviation Department generates revenue by providing facilities that enable air transportation services and other services to the customers of those facilities. The Department records its revenue on an accrual basis recognizing receivables as they are billed or the revenue is earned.
- § Revenues consist of the following:
 - § *Signatory Landings*
 - § *Ground Rentals*
 - § *Parking Garage Revenue*
 - § *Retail Concessions*
 - § *Terminal Space and Facility Rentals*
 - § *Grant Revenues*
 - § *Investment Earnings*
 - § *Other Revenue*
- § Revenues are contractually determined and supported by specific executed agreements with the various customers.

Summary

- § The City's financial system includes accounting for the Department's receivables.
- § The Department'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>
Revenues:				
§ Signatory Landings	\$63,627,500	X	X	X
§ Terminal Space & Facility Rentals	82,947,000	X	X	X
§ Ground Rentals	5,646,000	X	X	X
§ FAA Grants	not budgeted	X	X	X
§ Retail Concessions	45,002,000	X	X	X
§ Parking Garage Revenues	49,607,000	no	n/a	X
§ Investment Earnings	12,000,000	X	X	X
§ Other Revenue	3,343,000	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 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 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. 	Low
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. 	<ul style="list-style-type: none"> § None noted. 	Low
Transaction Processing	<ul style="list-style-type: none"> § The Department uses the SBT system to record billings and revenues on an accrual basis. § Since most revenues are contractual, most are determined and recorded at a set time during the month. § Cash receipts are matched and recorded directly against the related receivable. § Receivable activity is reconciled to the general ledger monthly and reviewed for reasonableness. 	<ul style="list-style-type: none"> § None noted. 	Low



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Physical Safeguards	<ul style="list-style-type: none"> § The Department segregated the duties of billing, collection and cash application. § Garage parking revenue is managed by an outside vendor, which earns a management fee. § Receivable balances are reconciled monthly. 	§ None noted.	Low
Substantiation and Evaluation	<ul style="list-style-type: none"> § Receivables are substantiated with executed contracts. § Each contract provides for a revenue audit upon completion of the contract and or requires the vendor to provide the Department an audited revenue statement to enable substantiation of revenue completeness. § Routinely an aged receivable summary is generated and reviewed to work collection of past due amounts. 	§ Note noted.	Low



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 at least annually. § The Department pursues collection on past-due accounts and checks that have been returned due to insufficient funds. § The Department has legal resources, which help with the collection of receivables when necessary. § Monthly an aged receivable listing is generated and reviewed for determination of realizable values and potential allowances for doubtful accounts. 	<ul style="list-style-type: none"> § Amounts have been identified as uncollectible, which could result in a write-off during 2004. § 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"> § Reports are routinely prepared monthly by the Department to monitor total receivables. § 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



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Use of Reports to Evaluate and Improve Collections	š As noted above, collection efforts are made on these receivables supported by use of available reports.	š None noted.	Low

EXHIBIT A



CITY OF HOUSTON

Bill White
Mayor



HOUSTON AIRPORT SYSTEM

George Bush Intercontinental - William P. Hobby - Ellington Field

Richard M. Vaear, A.A.E.
Director of Aviation

October 1, 2004

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

04-OCT-14 11:00:08
CONTROLLER'S

Reference: City-Wide Accounts Receivable and Billings Internal Audit

Dear Controller Parker:

We have reviewed the report submitted by Jefferson Wells International pertaining to the internal audit of the Accounts Receivable and Billings for the Aviation Department. The following response is provided to address the findings and related recommendations presented in the report:

1. **Audit Finding:** The Department does not have formal policies and procedures as required by the Executive Order.

Audit Recommendation: Recommend, for improved controls and long-term consistency of established procedures, that formal policies and procedures be developed as required by the Executive Order.

Management Response: The Department does have formal policies and procedures that are comprehensive and up-to-date but may not have addressed one or two requirements of the Executive Order. We will determine which requirement has not been met and make correction accordingly.

2. **Audit Finding:** The Department pursues collection on past-due accounts and checks that have been returned due to insufficient funds. The Department has legal resources, which help with the collection of receivables when necessary.

Audit Recommendation: Amounts have been identified as uncollectible, which could result in a write-off during 2004. The Department could consider deploying additional collection efforts on these receivables, including the use of an independent collection agent.

Council Members: Toni Lawrence, Carol Mims Galloway, Mark Goldberg, Ada Edwards, Addie Wiseman, M.J. Kahn, Pam Holm, Adrian Garcia, Carol Alvarado, Mark Ellis, Gordon Quan, Shelly Sekula-Gibbs, M.D., Ronald C. Green, Michael Berry, Controller: Annise D. Parker

Richard M. Vaear PO Box 60106, Houston, Texas 77205-0106 ~ 281 233-1877 Fax 281 233-1864
www.houstonairportsystem.org ~ www.cityofhouston.gov

**Views of Responsible
Officials**

EXHIBIT A

Ms. Annise D. Parker
City Controller

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October 1, 2004

Management Response: Amounts identified as uncollectible will be submitted for write-off with complete supporting documentation as scheduled. One FTE was dedicated for the last two years to reduce delinquent accounts. The Department will consider the use of outside resource when cost-wise.

Sincerely,



Richard M. Vacar, A.A.E.

ccd

cc:

Ms. Myrna Warford
Mr. Cesar Dijamco
Central File

**Views of Responsible
Officials**

Council Members: Toni Lawrence, Carol Mims Galloway, Mark Goldberg, Ada Edwards, Addie Wiseman, M.J. Kahn, Pam Holm, Adrian Garcia
Carol Alvarado, Mark Ellis, Gordon Quan, Shelly Sekula-Gibbs, M.D., Ronald C. Green, Michael Berry Controller: Annise D. Parker

Houston Airport System: 16930 John F. Kennedy Blvd. Houston Texas 77072 - PO Box 60106 77265-0106 - 281 233-3000 Fax 281 233-1874
www.houstonairportssystem.org - www.cityofhouston.gov