



# City of Houston

Annise Parker  
City Controller

## City-Wide Accounts Receivable and Billings Internal Audit

Planning and Development Department

Report No. 04-31



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  
Planning and Development Department (Report No. 04-31)

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 Planning and Development 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. However, various recommendations were made to improve the Department's controls over receivables in areas such as grants and tax abatement recoveries. 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 commend the Department for taking immediate steps to implement the recommendations. Also, 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  
Robert Litke, Director, Planning and Development Department  
Judy Gray Johnson, Director, Finance and Administration Department

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October 1, 2004

Ms. Anise Parker  
City Controller  
City of Houston  
901 Bagby, 8<sup>th</sup> Floor  
Houston, TX 77002

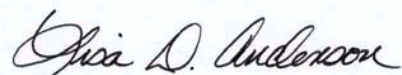
Dear Controller Parker:

We have completed the internal audit of the Accounts Receivable and Billings for the Planning and Development 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 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 January 15, 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 the Department, and we appreciate the cooperation received during this engagement from the City Controller's Office and the Department.

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 Planning and Development 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

§ Planning and Development Department has the following revenue streams within the General Fund and Special Revenue Funds:

- § **Platting Fees** – fees collected for the review and approval of development plats by the Planning Committee
- § **Tax Abatement Recoveries** – recoveries arising from noncompliance with tax abatement contracts
- § **Building Inspections** - various fees for construction, electrical, plumbing, occupancy, elevator, boiler and other building related permits and inspection services
- § **Sign Administration** – various fees for sign construction, installation and operation permits and inspection services
- § **Other Permits and Fees** – various permit fees for building cleanup or security, tower fees, etc.
- § **Grant Revenue** – recoveries of costs reimbursable pursuant to the grant program and award

### Summary

- § The City's financial system includes accounting for the Department's receivables.
- § Grant receivables and tax abatement receivables are not recorded within the City's financial system until received.
- § Reconciling recorded receivable balances arising from insufficient funds could be improved.



## 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>
<b>Planning and Development:</b>				
Platting Fees	\$ 4,542,200	no	n/a	X
Tax Abatement Recoveries	50,000	X		X
Building Inspection Fees	19,108,600	no	n/a	X
Sign Administration Fees	1,649,800	X		X
Other Permits and Fees	24,000	no	n/a	X
Grant Revenue	Not budgeted	X	no	no

### Definition of Terms:

- § **X** – Represents a Yes answer related to determining if each identified revenue stream results in a receivable.
- § – Receivable is not recorded due to the final amount not being determinable until received.
- § **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"> <li>§ The City has established all fees charged by the Department through City Ordinances and/or approving contracts with the customer.</li> <li>§ Responsibilities and authorizations for the recording of revenue / receivables is defined, communicated and understood.</li> <li>§ The Department does not have formal policies and procedures as required by the Executive Order.</li> </ul>	<ul style="list-style-type: none"> <li>§ Recommend, for improved controls and long-term consistency of established procedures, that formal policies and procedures be developed as required by the Executive Order.</li> </ul>	Low
Cost Recovery	<ul style="list-style-type: none"> <li>§ 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.</li> <li>§ 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.</li> <li>§ NSF receivables are tracked in detail and in total through a general ledger control account. The Department has collection procedures to collect these amounts.</li> </ul>	<ul style="list-style-type: none"> <li>§ The Department or City could consider the use of an outside collection agent for long outstanding NSF checks.</li> </ul>	Moderate



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Transaction Processing	<p><i>Permit and Inspection Revenues:</i></p> <ul style="list-style-type: none"> <li>§ Revenue is recorded as provided for in the ordinance with amounts collected for the permits and inspection services at the time issued/earned.</li> <li>§ Amounts are collected in cash, check or credit card – the only receivables generated arise from returned checks due to insufficient funds.</li> </ul> <p><i>Tax Abatement Recoveries</i> – The Department tracks commitments made for each tax abatement and performs compliance audits. In the event of non-compliance the process includes default notification, a 60 day “cure” period, final default letter, and council approval of termination. Amounts due are recorded as collected.</p> <p><i>Grant Revenues</i> - 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"> <li>§ To improve monitoring of tax abatement recovery receivables, consideration should be made of recording recoveries with a contra-account until the actual recovery amount is determined.</li> <li>§ 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.</li> </ul>	Moderate
Physical Safeguards	<ul style="list-style-type: none"> <li>§ Revenue is received in cash, check or credit card and cash handling deposit policies, procedures are documented and followed.</li> <li>§ Management stays informed regarding revenue variances and reviews financial reports monthly.</li> </ul>	<ul style="list-style-type: none"> <li>§ NSF check receivables should be reconciled and monitored more regularly with duties segregated between cash handling, NSF receivable collection and reconciliation.</li> </ul>	Moderate



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Substantiation and Evaluation	<ul style="list-style-type: none"> <li>§ Tax Abatement Receivables are substantiated with a schedule maintained by Department personnel.</li> <li>§ Each tax abatement contract enables the City to conduct audits regarding compliance with the contract.</li> <li>§ A receivable balance for insufficient fund returned (NSF) checks is carried in the City's general ledger, but is not routinely reconciled to the amounts tracked in detail by the Department.</li> </ul>	<ul style="list-style-type: none"> <li>§ The NSF receivable balances should be periodically reconciled with the detail maintained by the Department.</li> <li>§ Management should consider whether an outside collection service could enable more collections of outstanding NSF receivables as well as control over the collection activity.</li> </ul>	Moderate
Determination of Net Realizable Value <i>(Minimum of Annually)</i>	<ul style="list-style-type: none"> <li>§ Validation of realizable value is determined as payments are received.</li> <li>§ Management reviews monthly financial reports.</li> </ul>	<ul style="list-style-type: none"> <li>§ None noted.</li> </ul>	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"> <li>§ There have been no write-offs and none are expected. If there were a collectibility issue, the Department would involve the Legal Department.</li> <li>§ Since receivables are not recorded, no allowance for doubtful accounts would be needed.</li> </ul>	<ul style="list-style-type: none"> <li>§ Receivables and allowances are not recorded creating the risk that management may not be aware of collection issues.</li> </ul>	Moderate



## Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Preparation of Reports & Analysis	<ul style="list-style-type: none"> <li>• Management reviews monthly financial reports.</li> </ul>	<ul style="list-style-type: none"> <li>• At a minimum of monthly, management should be made aware of pending tax abatement recovery receivables and any pattern of NSF receivables. This reporting should be documented for control purposes.</li> </ul>	Moderate
Use of Reports to Evaluate and Improve Collections	<ul style="list-style-type: none"> <li>• Management reviews monthly financial reports.</li> </ul>	<ul style="list-style-type: none"> <li>• See recommendation regarding preparation of reports above.</li> </ul>	Moderate



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**CITY OF HOUSTON**

Planning & Development  
Department

**Interoffice**

Correspondence

To: Annise Parker, City Controller  
Controller's Office

From: Robert M. Litke, Director

Date: October 5, 2004

Subject: **Planning and Development Accounts  
Receivable and Contract Compliance  
Internal Audit Responses**

This letter is in response to the Controller's Office Accounts Receivable and Billings audit of the Planning and Development Department performed by Jefferson Wells International. We have reviewed the report and responses are as follows:

**Issues Noted:**

**Appropriate Authorization:**

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

**Department Response:**

The Department will develop and implement an accounts receivable policy per EO #1-38.

**Issues Noted:**

**Cost Recovery:**

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

**Department Response:**

The City at one time used an outside collection agency for collection of NSF checks. The contract has since been terminated. The department will monitor and reconcile NSF checks on a monthly basis and review with Finance & Administration to determine if it is cost effective to solicit an outside collection agency citywide.

*Views of Responsible  
Officials*

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## Issues Noted:

### Transaction Processing

- To improve monitoring of tax abatement recovery receivables, consideration should be made of recording recoveries with a contra-account until the actual recovery amount is determined.
- 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.

### Department Response:

- The accounting section will review the tax abatement process with the Economic Development Section to develop and set up contra accounts and or receivables to record the expected recoverable funds.
- The department will comply in recording grant reimbursement requests submitted as receivables.

## Issues Noted:

### Physical Safeguards:

- NSF check receivables should be monitored and reconciled more regularly with duties segregated between cash handling, NSF receivable collection and reconciliation.

### Department Response:

The Department will reconcile and monitor NSF checks monthly. The person responsible for reconciliation and monitoring has no cash handling duties.

## Issues Noted:

### Substantiation and Evaluation:

- The NSF receivable balances should be periodically reconciled with the detail maintained by the Department.

*Views of Responsible  
Officials*

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- Management should consider whether an outside collection service could enable more collections of outstanding NSF receivables as well as control over the collection activity.

**Department Response:**

- The department will reconcile monthly all NSF checks and at year-end the NSF receivable balances will be sent to the Controller's Office for review. The Controller's Office can then determine the appropriate action to be taken.
- The department's main source of revenue is plating fees, which are collected before services are rendered, which reduces long outstanding NSF checks. Management will review the NSF reconciliation reports monthly and consult with F & A to make a determination of the efficacy or cost of having an outside firm to collect on NSF checks through a citywide contract.

**Issues Noted:**

**Identification of Accounts to be Written-off/Determination of an Appropriate Allowance for Doubtful Accounts:**

- Receivables and allowances are not recorded creating the risk that management may not be aware of collection issues.

**Department Response:**

Management will work with the Controller's Office to determine whether this step will be taken.

**Preparation of Reports & Analysis:**

- At a minimum of monthly, management should be made aware of pending tax abatement recovery receivables and any pattern of NSF receivables. This reporting should be documented for control purposes.

**Department Response:**

Monthly reports will be prepared to alert management of pending tax abatement recovery receivables and NSF receivables with patterns of occurrences and collections noted.

*Views of Responsible  
Officials*

# EXHIBIT A

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If there are any questions or comments regarding the responses, you may contact Marcia Wilson at 713 837-7732.

RML:MAW:rch

**Views of Responsible  
Officials**