



City of Houston  
CONTROLLER'S OFFICE ANNUAL REPORT  
JANUARY-DECEMBER 2012



Ronald C. Green  
Controller

January 2013



Dear fellow Houstonian,

I am pleased to present the City of Houston Controller's Office 2012 Annual Report covering the activities in our office for the calendar year 2012. During my tenure as controller, many of you have told me that this office is "one of the best kept secrets" in City of Houston government, so I am always anxious to talk about our accomplishments and the important role this office plays in our municipal government. The fact is that very few cities have an elected controller, independent of the mayor and City Council. This independence is good for all because it makes the controller an independent "watchdog" over the City's fiscal affairs. In brief, the City's finance department proposes the annual budget, the City Council approves the annual budget, and the Controller's Office does the following:

- manages all payroll and vendor payments;
- conducts audits;
- manages investments and debt;
- prepares accurate and timely financial statements;
- provides leadership on policy issues pertaining to the City's financial health;
- has the independent authority to conduct performance reviews of the City bureaucracy;
- monitors City's Fraud Hotline;
- assesses the City's future financial condition with accurate forecasts of projected revenues and expenses and the area's economic outlook.

All of us in City government—indeed, all Houstonians—were heartened by the recovery Houston experienced following our period of recession, a period of job loss briefer than any other U.S. city. The City's revenue sources—property taxes, sales taxes, franchise fees and other charges for services—are all rebounding, and we continue our efforts to provide citizens with the very best municipal services.

Job growth influences everything—commercial and housing construction, retail sales, airport traffic, property and sales tax revenues, home and truck sales, college and university enrollment. Job growth is infectious, spawning growth in all sectors—medical expansion needing construction, retail and entertainment venues needing service personnel—as well as being the driving force behind our area's population growth. Job growth also equals wage growth: the average annual salary in Houston is now \$9,100 higher than it was in 2009 (some sectors such as manufacturing up nearly \$14,000, but even lower-paid retail and food service wages are up \$2,200). And, of course, this accounts for increased sales tax.

Home sales and home construction are rebounding. Houston is both a seller's and a buyer's market. We have seen 18 straight months of positive home sales, with the average single-family home price jumping 10.5 percent over last year.

While our city is a major manufacturing center, Houston's economy is to a very large extent dependent on the U.S. economy. We are seeing less external stimulus currently, although global growth is—for the time being—positively driving our trade and energy prices.

So, the trends look good. I would like to close with a few cautionary thoughts. Much of the City's infrastructure (our streets and sidewalks, water and sewer lines) is aged, past its useful life span and in many instances needing replacement, not just repair. The City's retirees are enrolled in pension and benefit plans we are obligated to honor. While this office has been successful in the past three years in restructuring a significant amount of debt, we are carrying \$12.495 billion in debt, which equates to a \$353 million annual expenditure in the Governmental Funds. Clearly, the administration and City Council have some challenges ahead of them. I look forward to working with them as we move forward.

We live in a great city, and I am immensely proud to serve as your City Controller. I wish you the very best in 2013!

Sincerely,

  
Ronald C. Green



*Kickoff event for Money Week Houston*

# AUDIT DIVISION

## *Promoting efficiency, quality assurance*

The Audit Division performs the Internal Audit function for the Office of the City Controller. This includes providing independent, objective assurance, attestation, and consulting services designed to add value and improve the City's operations. The Audit Division helps City departments bring a systematic, disciplined approach to evaluate and improve the effectiveness of various processes (i.e. risk management, control, and governance).

The Audit Division is fully compliant with professional auditing standards (Government Auditing Standards and International Standards as issued by the Institute of Internal Auditors). During Fiscal Year 2012, the Audit Division engaged in 38 Audits and Special Projects that produced 12 Audit Reports as posted on the Controller's website. The projects completed during the year 2012 focused on compliance, performance/efficiency, process reviews, ongoing monitoring, consideration of fraud, waste or abuse, and quality assurance. These efforts resulted in over \$6 million dollars in direct cost-savings realized or identified in 2012.

The Audit Division remains committed to its development of a specialized IT Audit Function. This is supported by providing aggressive training and staff development to efficiently analyze data from disparate systems. The current focus of the IT Audit Function includes using technology tools that are integrated with the City's ERP System (SAP) and developing continuous auditing techniques.

### 2012 Highlights

- Houston Airport System Concessionaire Contract
- Houston Public Library Foundation – Performance Review
- Telecom Audit
- A-133/Single Audit Testwork
- Office Depot Audit

# TREASURY DIVISION: DEBT AND INVESTMENT

## *Seizing the moment for re-financing*

The Treasury Division is responsible for managing the City's \$2.4 billion investment portfolio in accordance with state law and the City's investment policy. Fitch has awarded the City's general investment its highest portfolio rating, AAA. The Treasury Division is also responsible for overseeing a debt program of approximately \$13 billion. The City has 15 commercial paper programs totaling \$1.675 billion, seven auction-rate security issues, nine series of variable rate demand obligation bonds, SIFMA indexed notes, and two interest rate swaps with a total notional amount of \$902 million and credit agreements totaling \$ 2.55 billion. The City's general obligation debt is rated Aa2 by Moody's; AA by Standard and Poor's; and AA by Fitch Ratings. In its most recent general obligation ratings report, Moody's cited the City's large tax base, demographic trends and above average economic outlook as strengths. Standard and Poor's affirmed the City's AA rating on its general obligation debt based on the City's "sizable, deep, and diverse economic base."

### 2012 Highlights

- April 5, 2012: >\$500 million refunding airport debt = \$55.6 million savings.
- May 22, 2012: \$370 million bond sale (general obligation) = \$16.5 million in savings.

# FINANCIAL REPORTING DIVISION

## *Pulling together the numbers for public disclosure*

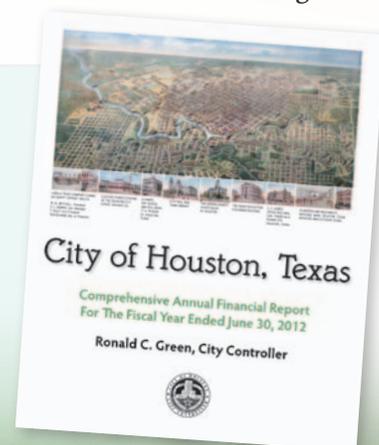
The Financial Reporting Division is ultimately responsible for the preparation of both the Monthly Financial and Operations Report (MFOR) and the Comprehensive Annual Financial Report (CAFR), although every division of the City Controller's Office contributes to the CAFR effort. The CAFR is available on the City Controller's website: [www.houstoncontroller.org](http://www.houstoncontroller.org) and on a CD disc upon request.



*Elucidating City's budget for the public*

### 2012 Highlights

- Issued 2012 Comprehensive Annual Financial Report (CAFR).
- Issued 12 Monthly Operations and Financial Report (MFOR) in conjunction with Finance Department.
- Issued Annual Trends Report for FY2013.
- Certified FY2012 revenues.
- Certified FY2013 budget in compliance with Proposition 1



# OPERATIONS AND TECHNICAL SERVICES DIVISION

## *The “workhorse” of the Controller’s Office*

The Operations and Technical Services Division is responsible for funding certification and reservation for contracts; accounts payable (AP) vendor payments and cash disbursement; bank accounts and travel advances monthly reconciliation, review and approval of City-wide personnel action requests (PAR), payroll payments processing; City wide contract, financial and accounting records retention and imaging retrieval; vendor liaison function; issuing annual tax form 1099 to vendors per IRS rules; escheating unclaimed checks to State Office; testing accounts payable and treasury new system features; the Controller’s Office information technology (IT) operations and related administrations. In the coming year, the division’s goals are to develop AP streamline processing via an on-line vendor invoice interfacing feature in SAP-AP module with the related City wide teams to reduce manual effort, to continue coordinating with City wide users for a paperless invoice approval system workflow procedure, to encourage direct deposit payment by City vendors and employees, and to replace current out of dated document retrieval system with an efficient and sufficient system and a high speed engine for server operation.

### **2012 Highlights**

- Maintained Accounts Payable records through various electronic devices for future reference and audit trail to lower the storage cost of paper documents.
- Enhanced automated Accounts Payable (AP) processing from budget setup, procurement processing, cash flow monitoring, and disbursement via banking services for efficiency and high performance.
- Tested payroll processing facilities at a different safeguard location (HEC) to ensure that the capability of performing payroll and disbursement disaster recovery procedures is well maintained.
- Ensured that all payroll and vendor payments through various payment methods were reconciled by Bank Reconciliation group, and ensured that check issuing, purging and escheating were processed within time frame to meet Texas State and IRS requirements.
- Reviewed SAP financial and accounting-AP system blueprint procedures periodically to ensure that IT-ERP and the Controller’s Office are working as a team for the safeguard of security setup and the efficiency and internal control purposes of AP operations.
- Performed system program runs and reconciliation on the monthly investment interest apportionment and the financial/accounting operations monthly closing.
- Maintained Controller’s Office computer servers/technical program services pertaining to departments and City-wide financial/accounting, information technical and auditing systems.

# EXECUTIVE DIVISION

## *The “voice” of the Controller’s Office*

The Executive Division oversees the initiatives, reports and requests for information that are the responsibility of the Controller’s Office. The division serves as liaison to City Council and the City’s departments. The division continued the Bank on Houston initiative, a City-sponsored program to connect unbanked residents with the financial mainstream.

### **2012 Highlights**

- The Controller’s Office has been called upon—by the National League of Cities, the Governmental Accounting Standards Board (GASB), Bloomberg Cities and Debt Briefing Panel and other professional and governmental organizations—to take a leadership role in the ongoing national forum focusing on U.S. cities’ financial challenges.
- Provided constituents a means to communicate their concerns and requests via the Controller’s website.
- Controller Green spoke to numerous chambers of commerce, civic groups and professional associations about the City’s budget challenges and the area’s economic outlook, including the Greater Houston Partnership, Houston Association of Realtors, Texas Public Finance Conference, Houston Hispanic Chamber of Commerce and the League of Women Voters among others.
- Continued production of the monthly “The Green Report” on HTV, the City’s municipal television station. The half-hour program sees Controller Green interviewing prominent Houstonians about current issues; guests included Mayor Annise Parker, Rice University Prof. Steven Klineberg, and Harris County Precinct One Commissioner El Franco Lee.
- Continued for a third year the Controller’s Office internship program for local college and university students.
- The Controller’s Office was represented at 17 events hosted by various non-profits; 39 events hosted by surrounding high schools, colleges, and universities; and 82 community wide events.



*Young people, the future of our city*



*The Green Report on HTV, with County Commissioner El Franco Lee*

The Controller's web site has hundreds of pages of useful and interesting information, as well as financial archives. On the home page, take a moment and watch Controller Green's welcome. Here is some of what's on the site:

Audit Division Reports, Monthly and Annual Financial Reports, Investment Policy/Reports, Vendor Liaison, History of the Controller's Office, News Releases, Speeches, Glossary of Financial Terms, Photo Gallery, Links to Government, University and Financial Institution Sites, Volunteer Opportunities, E-Vendor Disbursement site.



Students: Your education will be your most valuable possession



### Questions for the Controller?

Please write to: [controllers@houstontx.gov](mailto:controllers@houstontx.gov)

Follow us on Twitter at [COHController](#).

Join our Facebook page at [Office of Houston City Controller](#)

## CITY OF HOUSTON CONTROLLER'S OFFICE HISTORY

On March 20, 1903, the Texas Legislature passed legislation that allowed for the creation of the City of Houston Office of the City Controller.

While most cities have some agent that oversees its finances, few have a popularly elected City Controller and one who has as much independence and authority as does Houston's City Controller. Nor do other similar entities combine politics and professionalism to the extent Houston's Office of the City Controller does.

Recent Controllers have broadened the scope of the office beyond bookkeeping, taking on issues that are more political. Each Controller has worked to control spending and eliminate that which is deemed unwise or unnecessary, even if such elimination has meant extended and difficult battles with the other branches of government.



Appearing on Bloomberg TV

### Recent Controllers:

- |                             |                          |
|-----------------------------|--------------------------|
| Leonel Castillo, 1972-1977  | Sylvia Garcia, 1998-2002 |
| Kathryn Whitmire, 1978-1982 | Judy Gray Johnson, 2003  |
| Lance Lalor, 1982-1988      | Annis Parker, 2004-2009  |
| George Greanias, 1988-1996  | Ronald Green, 2010-      |
| Lloyd Kelly, 1996-1998      |                          |

## Controller versus Comptroller (?)

Because both definitions seem strikingly similar, why have two terms in the first place? Years ago in the 1800's, the term "comptroller" arose from a careless misspelling of the term "controller." From then on, the spelling, along with the duties of a regular controller, stuck and the term "comptroller" became a similar term referring to a financial officer in the government sector.

While in the United States, where capitalism seems to have caused a consolidation of the terms controller versus comptroller, the term "comptroller" has developed a slight difference in the European sector. A comptroller seems to oversee the overall costs that go into the services a company is providing. On the other hand, the "controller" is concerned with the bottom line; more specifically, the costs that are associated with the final product within a company. Because the controller is more concerned with the bottom line at the end of the day, his job seems to carry a little more weight financially.

—WIKI CFO

The term "comptroller" dates back to the 1800s. It comes from the misspelling and misuse of the word "controller," derived from the Latin word, "contrarotulator," which means "keeper of a duplicate roll." People mistakenly linked the title with the French word "computer" and the Latin word "computare," which both mean to count or compute.

Although the label "comptroller" has gained popularity, many argue it is incorrect. Consider an 1896 editorial in *The New York Times* that urged "that the official title Controller, in all laws, public records, and documents, be spelled Controller, that being historically and etymologically the true and right spelling; and that the false and offensive form 'Comptroller,' born of ignorance and continued in darkness, be discarded."

—Cornell University

## Ronald C. Green



Ronald C. Green was elected Houston's City Controller on December 12, 2009, after serving three terms on Houston City Council, At-Large, Position Four. On Council, he chaired the Budget and Fiscal Affairs Committee, overseeing the City's annual budget of nearly \$4 billion. He also served as a member of the Transportation, Infrastructure and Aviation Committee and the Ad-Hoc Committee on Legislative Affairs.

Controller Green was unopposed for his second term as Controller which began January 2012.

As a member of the National League of Cities' 2013 Community and Economic Development Steering Committee, Green will play a key role in shaping NLC's policy positions, while advocating on behalf of America's cities and towns on Capitol Hill, with the Administration, and at home. Green is also a member of the NLC's Finance, Administration and Intergovernmental Relations (FAIR) Policy and Advocacy Committee.

Controller Green was also recently appointed to the Governmental Accounting Standards Advisory Council (GASAC), which is responsible for advising the Governmental Accounting Standards Board (GASB) on technical issues, project priorities, and other matters that affect financial accounting and reporting by state and local governments.

Controller Green earned both a Bachelor of Science and a Master of Business Administration from the University of Houston, as well as a law degree from Texas Southern University's Thurgood Marshall School of Law. He is licensed to practice law in the State of Texas, the District of Columbia, the 5th Circuit Court of Appeals and the United States Supreme Court. He is also a licensed real estate broker.

Ronald is a founding partner of his own law firm and a member of Alpha Phi Alpha Fraternity, Inc., 100 Black Men of America, Inc., UH Alumni Organization, UH Black Alumni Association, Thurgood Marshall School of Law Alumni Association, Government Finance Officers Association, National Association of Bond Lawyers, Houston Lawyers Association, and Leadership Houston Class XXIII. He is married to Judge Hilary Harmon Green, Justice of the Peace, Harris County Precinct Seven, Place 1. They have a son and are active in their community and Windsor Village United Methodist Church.



*Cities and Debt Briefing, Bloomberg LINK*



Bank on Houston is a collaborative effort of the City of Houston Controller's Office, the Federal Deposit Insurance Corporation (FDIC), the National League of Cities, the Federal Reserve Bank, 26 participating banks, credit unions, and numerous nonprofit organizations to bring the city's unbanked individuals into the financial mainstream. There are 65 Bank On programs in the U.S.

The Bank on Houston goals are:

- Raise awareness among unbanked consumers, especially the low to moderate income market, about the benefits of account ownership and spur them to open accounts.
- Make quality money management education more easily available to low-moderate income Houstonians.

In August 2011, Bank on Houston was awarded a grant from the National League of Cities with a focus on "Improving Data Collection in Municipal Bank On Initiatives." Bank on Houston has also received a three-year grant (2013 through 2015) from Wells Fargo and United Way that will enable us to hire a full-time BOH coordinator and greatly enhance efforts at outreach and community education.

[www.bankonhouston.org](http://www.bankonhouston.org)

*"You've worked hard for your money. Protect it!" –Controller Ronald Green*

*The Office of the City Controller is committed to eliminating fraud and waste in City government. If you are aware of fraudulent activities being committed by government employees or officials, citizens, or business entities defrauding the City of Houston, you can help save taxpayer money by furnishing this information to the Office of the City Controller. See "Report Fraud" on the Controller's home page, [www.houstontx.gov/controller](http://www.houstontx.gov/controller)*

