



City of Houston

Annise D. Parker
City Controller

City-Wide Accounts Receivable and Billings Internal Audit

Convention & Entertainment Facilities Department

Report No. 04-34



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

October 28, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audit
Convention and Entertainment Facilities Department (Report No. 04-34)

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 Convention and Entertainment Facilities 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 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 audit.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Dawn Ullrich, Director, Convention and Entertainment Facilities 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 Convention & Entertainment 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 Convention & Entertainment 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.





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 Convention & Entertainment 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 Convention & Entertainment Department generates revenue by providing convention and entertainment facilities and other services to Houston citizens and visitors. The Department records its revenue as the amounts become determinable but generally on an accrual basis, which recognizes receivables when billed or earned.
- Revenues consist of the following:
 - *Hotel Occupancy Tax*
 - *Convention Event Fees*
 - *Parking Revenue*
 - *Concessions*
 - *Building Space Rentals*
 - *Other Service Charges*
 - *Investment Earnings*
- Revenues is 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:				
▪ Hotel Occupancy Tax (HOT)	\$42,250,000	X		X
▪ Event Fees	3,527,000	X	X	X
▪ Parking Revenue	10,485,000	no	n/a	X
▪ Concessions	2,367,000	no	n/a	n/a
▪ Building Space Rentals	1,145,000	X	X	X
▪ Other Service Charges	1,633,000	no	n/a	X
▪ Investment Earnings	1,450,000	X	X	X

Definition of Terms:

- **X** – Represents a Yes answer related to determining if each identified revenue stream results in a receivable.
- – Receivable is recorded when the amount is determinable.
- **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 rates/fees charged by the Department through City Ordinances and/or executed contracts with the customer. ▪ Responsibilities and authorizations for the issuance of credit, billing/recording of receivables and collection is defined, communicated and understood. ▪ The Department has formal policies and procedures as required by the Executive Order. 	<ul style="list-style-type: none"> ▪ None noted. 	Low
Cost Recovery	<ul style="list-style-type: none"> ▪ The Department recovers costs of managing receivables through late payment fines. 	<ul style="list-style-type: none"> ▪ None noted. 	Low
Transaction Processing	<ul style="list-style-type: none"> ▪ HOT are collected and recorded by Finance & Administration (F&A) with unpaid amounts recorded as a receivable. ▪ F&A also works to collect unpaid HOT amounts and provide revenue validation services on a periodic basis. ▪ Event Fees - The Department's Concentrics system is used to book events and compute facility use billings. The Department's accounting team records the receivables/revenue into the City's financial system. 	<ul style="list-style-type: none"> ▪ None noted. 	Low



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Transaction Processing	<ul style="list-style-type: none">▪ Concession Revenues are contractual but vary depending on the actual sales or service provided by the vendor during the month. As such, the revenue is only determinable when the payment is received with the required support. Upon receipt of these revenues they are recorded in the financial system.▪ Building Space Rentals are contractual and are billed monthly with the receivable recorded at the time of billing.▪ Payments of receivables 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. ▪ A significant portion of the Department’s revenue is managed through contracts with outside parties with the Department earning commissions for services provided such as: <ul style="list-style-type: none"> - Telephone concessions - Vending machine concessions - Parking revenues - Food & drink concessions - Audio –visual service concessions - Utility concessions - ATM concessions ▪ Receivable balances are reconciled monthly. 	<ul style="list-style-type: none"> ▪ None noted. 	Low
Substantiation and Evaluation	<ul style="list-style-type: none"> ▪ Receivables are substantiated through a monthly reconciliation between the Concentrix system and the general ledger. ▪ HOT regulations and the Department’s contracts provide the right to audit and F&A conducts regular HOT audits for the Department. ▪ Management reviews outstanding receivable balances monthly. 	<ul style="list-style-type: none"> ▪ Note noted. 	Low



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
<p>Determination of Net Realizable Value</p> <p><i>(Minimum of Annually)</i></p>	<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. ▪ Monthly, receivables are reviewed for collection issues and determination of realizable values and potential allowances for doubtful accounts. 	<ul style="list-style-type: none"> ▪ The Department has been conservative with regard to recognizing a \$1.25 million failure to develop payment due to their assessment that the receivable may not be realizable. ▪ The Department could consider recording the receivable along with an allowance for doubtful account so that the amount continues to be reviewed. 	Low
<p>Identification of Accounts to be Written-off / Determination of an Appropriate Allowance for Doubtful Accounts</p> <p><i>(Minimum Annually)</i></p>	<ul style="list-style-type: none"> ▪ See determination of realizable value. 	<ul style="list-style-type: none"> ▪ None noted. 	Low
<p>Preparation of Reports & Analysis</p>	<ul style="list-style-type: none"> ▪ Monthly reports are routinely prepared 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	<ul style="list-style-type: none">As noted above, collection efforts are made for outstanding receivables supported by use of available reports.	<ul style="list-style-type: none">None noted.	Low

EXHIBIT A



CITY OF HOUSTON

Convention & Entertainment
Facilities Department

Interoffice

Correspondence

To: Annise D. Parker
City Controller

From: Dawn Ullrich, Director

Date: October 8, 2004

Subject: Response to City-Wide
Accounts Receivable and
Billinas Internal Audit

We have received a draft of the above-referenced audit and have reviewed the results contained therein as they relate to the Convention & Entertainment Facilities Department. As the risk for each compliance area tested was deemed to be low, we are in agreement with the conclusions reached by your staff.

However, I would like to respond to the issue noted during the testing of compliance with Executive Order #1-38, specifically determination of net realizable value, even though the risk factor was determined to be low. The report states, "The Department has been conservative with regard to recognizing a \$1.25 million failure to develop payment due to their assessment that the receivable may not be realizable. The Department could consider recording the receivable along with an allowance for doubtful account so that the amount continues to be reviewed." The \$1.25 million was the second of two (2) payments payable to the City by a company who defaulted on its agreement to build a downtown convention center hotel. The first of the two payments was for \$750,000 and was paid when due in December 2001. The second of the two payments (\$1.25 million) was due in December 2003. A check was received by the City as required by the agreement; however, the City held the check in a safe until all releases required under the terms of the agreement had been delivered to the company. At the time of the audit, January/February 2004, my staff informed the auditors that if for any reason the check would not be deposited prior to the end of the fiscal year, we would record the receivable at that point. However, since at the time of the audit the second payment had been tendered, and the prior payment had been paid without issue, it was not deemed necessary to record the receivable or related allowance for doubtful account at that time.

I appreciate the opportunity to review and respond to the audit, and I look forward to working with your staff in the future.

A handwritten signature in cursive script that reads "Dawn Ullrich".

Dawn Ullrich
Director

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CONTROLLER'S

*Views of Responsible
Officials*