



City of Houston

Annise D. Parker
City Controller

City-Wide Accounts Receivable and Billings Internal Audit

Housing and Community
Development Department

Report No. 04-38



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

December 2, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audit
Housing and Community Development Department (Report No. 04-38)

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 Housing and Community 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 Department has processes and systems that enable substantiation and reconciliation of recorded grants and reimbursement requests/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
Daisy Stiner, Director, Housing and Community Development Department
Judy Gray Johnson, Director, Finance and Administration Department

September 20, 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 Housing and Community 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 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 15, 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 the Housing and Community Development 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 "Gloria D. Anderson".

Gloria 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 Housing and Community 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

- ✍ The Housing and Community Development Department generally is funded by the Federal Department of Housing and Urban Development (HUD) grants and revenues from Tax Increment Reinvestment Zones (TIRZs). However, there is a small allocation of general funds for certain expenditures not covered by HUD. Grant revenues are received for the following programs:
 - ✍ **Community Development Block Grant** – improves the physical, social and economic conditions in low and moderate-income communities;
 - ✍ **Home Investment Partnership Act** – funds development of standard affordable housing and housing organizations that create and manage affordable housing - certain of these grants have loan repayment features resulting in interest and principal receivables and miscellaneous recoveries;
 - ✍ **Emergency Shelter Grant** – funds supportive services for homeless, including operating assistance for shelters serving the homeless; and
 - ✍ **Housing Opportunities for Persons with AIDS** – provides housing assistance for low income persons and their families affected by HIV/AIDS.
- ✍ Generally grant funds are received on a reimbursement basis with outstanding grant receivables collected within 2 to 3 days of the request.

Summary

- ✍ Grant receivables are not recorded within the City's financial system until received.
- ✍ TIRZs receivables are not recorded within the City's financial system until received due to the amount being undeterminable.
- ✍ The Department has processes and systems that enable substantiation and reconciliation of recorded grants and reimbursement requests/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/Receipts:				
✍ Grant Revenues	\$58,026,500	X	No	No
✍ Loan Repayments				
– Principal	611,250	n/a	n/a	X
– Interest	75,000	X	†	No
✍ Day Care revenue	10,000	n/a	n/a	X
✍ Miscellaneous Recoveries	240,000	n/a	n/a	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 policies and procedures related to approving grant applications and agreements. ☞ Responsibilities and authorizations for the execution of a grant agreement is defined, communicated and understood. ☞ The Department has formal policies and procedures as required by HUD, which also achieves compliance with the Executive Order. 	<ul style="list-style-type: none"> ☞ None noted. 	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. However, grant receivables are not recorded, rather revenue is recognized upon receipt of the reimbursement. 	<ul style="list-style-type: none"> ☞ Risks - All receivables are not recorded, and disallowed expenditures could be charged to the grant and not be detected for a period of time. ☞ Recommend, for improved accountability, that 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. 	Moderate



Compliance Analysis Overview - EO #1-38

Compliance Area	Controls Noted	Issues Noted	Risk
Transaction Processing	<ul style="list-style-type: none"> ✍ Grant expenditures are processed through the City's centralized accounts payable process and are coded to the specific grant program. ✍ Grant reimbursements are processed through a separate HUD system, which requires submission of all expenditure detail and performs certain edit checks prior to processing the request. ✍ Grant activity is reconciled from the City's financial system to the HUD system quarterly. ✍ Receivable activity is recorded as the reimbursement is received. Such cash receipts are received via electronic funds transfers generally within 3 days reducing the risk of misappropriation. 	<ul style="list-style-type: none"> ✍ The Department's grant receivables are not recorded within the Department's fund accounting during the year or at year-end. Since HUD's reimbursements are consistently received within 3 days, consideration should be made as to whether such receivables should be recognized. 	Low
Physical Safeguards	<ul style="list-style-type: none"> ✍ The Department has segregation of duties as defined and documented by its policies and procedures and as required by HUD. Further, the use of HUD's system restricts access to only a number of Departmental personnel. 	<ul style="list-style-type: none"> ✍ None noted. 	Low
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 were substantiated and receivables were collected within 3 days. 	<ul style="list-style-type: none"> ✍ None 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 only as receivables are collected and revenue recorded. ✍ Historically, there has been no need to pursue past due accounts, since all reimbursement requests must be supported as part of the HUD submission process. 	<ul style="list-style-type: none"> ✍ There is a risk that an unallowable expenditure could be submitted for reimbursement. This risk is minimized due to the variety of compliance auditing the Department has (re: HUD, Single Audit and Internal Audit). 	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 above. 	<ul style="list-style-type: none"> ✍ See comments above re: determination of realizable value. 	Low
Preparation of Reports & Analysis	<ul style="list-style-type: none"> ✍ Reports are routinely prepared daily, monthly, and quarterly to support the Department's monitoring of total grant expenditures, and reimbursement status. ✍ 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	As As noted above, collection efforts are not made on these receivables due to the speed by which reimbursement requests are processed.	None None noted.	Low

EXHIBIT A



CITY OF HOUSTON
Housing & Community Development
Department



Interoffice

Correspondence

To: Annise D. Parker
Controller

From: Daisy Stiner, Director

Date: October 19, 2004

Subject: Accounts Receivable and Billings
Audit – Management Response

We are in receipt of a draft copy of the "City-Wide Accounts Receivable and Billings Internal Audit" report as it relates to the Housing and Community Development Department, that was performed on your behalf by the Jefferson Wells audit firm. We would like to take this opportunity to respond to the "issues" that were raised in that report.

Grant receivables are not recorded within the City's financial system until received.

Since amounts drawn down from HUD are routinely received within 2-3 days of the internet-based request, it does not make sense to set up a receivable for each of these hundreds of transactions per month. We propose that at key cutoff dates – primarily year end – a receivable amount be posted when it is significant.

There is a risk that unallowable expenditures could be submitted for reimbursement.

The same controls that prevent the unallowable expenditure itself would apply. Also, this risk is effectively minimized due to the variety of compliance audits that the Department has each year; i.e., internal audit, Controller's audits, single audit, as well as HUD monitoring.

*Views of Responsible
Officials*

If you have questions, please call me at 713-868-8305, or Jack Lippincott at 713-868-8443.

Daisy Stiner, Director
Housing & Community Development

DS/jl

Xc: S. Schoonover

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CONTROLLERS