

OFFICE OF THE CITY CONTROLLER



**SPECIAL REVENUE FUNDS
PERFORMANCE/COMPLIANCE AUDIT**

**PLANNING AND DEVELOPMENT SPECIAL REVENUE
FUND 2308**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

CHRIS B. BROWN

October 11, 2018

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: REPORT #2019-06 CITY-WIDE SPECIAL REVENUE FUND PERFORMANCE AUDIT –
PLANNING AND DEVELOPMENT**

Mayor Turner:

The Office of the City Controller's Audit Division has completed a performance audit of a Special Revenue fund, Fund 2308 - Planning and Development Special Revenue Fund, operated by the Planning and Development Department.

The purpose of the audit was to review the processes used to establish and operate special revenue funds and to evaluate the established fund's compliance with applicable policies, procedures, and regulatory guidance, and include a review and analysis of expenditures.

Based on the work performed, we concluded that the processes used to establish the special revenue fund under audit were considered sufficient.

We would like to express our appreciation to the management and staff of the Planning and Development Department for their time and effort, responsiveness, and cooperation during this audit.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Patrick Walsh, Director, Planning and Development Department
Marvalette Hunter, Chief of Staff, Mayor's Office
Harry Hayes, Chief Operations Officer, Mayor's Office
Margaret Wallace-Brown, Deputy Director, Planning and Development Department
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

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EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division (AD) of the City Controller’s Office has completed a performance audit of the Planning and Development Department Special Revenue Fund (the “Fund”) operated by the Planning and Development Department (PD). The audit was included as part of AD’s review of the City-wide Special Revenue Funds as outlined in the Fiscal Year 2018 and FY 2019 Annual Audit Plans. The purpose of the audit was to review the processes used to establish and operate the special revenue fund and to evaluate the established fund’s compliance with the applicable policies, procedures, and regulatory guidance, and include a review and analysis of expenditures.

BACKGROUND

The City has identified 77 special revenue funds which are classified as budgeted or non-budgeted however, not all these funds are active. These funds are aggregated and reported in the Comprehensive Annual Financial Report as Nonmajor Governmental Funds, in the Basic Financial Statements. Grant funds are not considered special revenue funds and are not included as part of the 77 identified funds.

The creation and recording of revenue into a special revenue fund is dependent upon approval by the City Council, however the process begins when the initiating department completes a Funds Management Master Maintenance Request form including supporting documentation and submits it to the Finance Department for review and approval. The submitted application is also reviewed by the Financial Reporting Section of the Controller’s Office, after which the approved application is forwarded to the SAP/ERP team at Houston Information Technology Service (HITS) for set-up in SAP.

We performed a risk assessment process on each of the 77 funds to determine funds to be selected for our audit. The details of the risk assessment procedures performed are presented below under the section “Risk Assessment and Basis of Selection”.

SPECIAL REVENUE FUNDS DEFINED

The use and operation of Special Revenue Funds is governed by the Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB 54). Per the provisions of Section 30 of GASB 54; “Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects”. “The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.” The Statement further states, “Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.”



Per the provisions of GASB 54, the conditions upon which resources shall be classified as special revenue is based primarily upon whether they are restricted or committed. Restricted resources are funds that have been provided by creditors (bond sales), grantors, or donors or fund sources allowed through enabling legislation. As a result, restricted funds refer to resources that can be spent towards the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. Committed funds are resources that can be used for the purposes determined by a formal action of the government's highest level of decision making authority.

RISK ASSESSMENT AND THE BASIS OF SELECTION

To determine the special revenue funds to be selected for our audit, we performed a risk assessment of all the City's 77 special revenue funds. The criteria used in the risk assessment are as detailed below:

- (a) Major funds determination: Any fund whose revenues constituted 10% or more of the aggregated total revenues of all special revenue funds was considered a major fund and as a result was considered high risk;
- (b) A 10% Plus or Minus Change in Revenue: A 10% positive or negative change in revenue over that of the prior year was considered as high risk;
- (c) Closed Accounts: Special revenue accounts closed during the period under audit were considered high risk;
- (d) New accounts opened: New special revenue fund accounts opened during the period were considered high risk;
- (e) Recent audit and audit adjustments: Where the funds have been subjected to recent audits either by the internal auditors, external auditors and/or monitoring agencies, and there were audit adjustments arising from the audit engagement, the fund(s) were considered high risk;
- (f) Special designation: A fund was considered a high risk if it was designated or established through special provisions of the law, council decision or Mayor's directive.

Based upon the application of the risk assessment criteria, eight (8) special revenue funds across four (4) City departments were selected as shown in Table 1:



TABLE 1: FUNDS SELECTED

S/N	Department	Fund(s) Selected	Account Number
1	Administration and Regulatory Affairs (ARA)	(a) Parking Management	8700
		(b) Ann Young BARC	2426
2	Finance (FIN)	(a) Houston Foundation	2412
		(b) Regional Participation	2425
3	Planning and Development Department (PD)	(a) Planning and Development Special Revenue Fund	2308
4	Houston Public Works Department (HPW)	(a) Building Inspection	2301
		(b) Dedicated Drainage and Street Renewal	2310
		(c) Development Drainage Impact Fee	2344

This report is intended to cover the Planning and Development Special Revenue Fund which is under the control and oversight of PD.

DESCRIPTION OF SELECTED FUND MANAGED BY PD

PD currently administers and provides oversight functions for PD’s business area in the General Fund and the Planning and Development Special Revenue Fund. These funds fall under the direct



monitoring and supervision of the PD, however to enhance efficiency in funds management, certain functions like creation of the general ledger for internal reporting and external fund reporting are performed by other City Departments. For our audit, the under listed fund was selected upon application of our risk assessment criteria.

PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND (FUND NO. 2308)

On December 29, 2015, the City Council under City of Houston Texas Ordinance No. 2015-1319 created the Planning and Development Special Revenue Fund. The stated purpose of the fund was to align service levels with market development activity. It was passed in conjunction with the adoption of new and increased development-related fees which, according to PD had not been analyzed in ten years and were no longer sufficient to cover the actual cost of services. The Planning and Development Department stated on their agenda item, that applications for development-related activities increased as well as fee revenue, however without a corresponding increase in resources, service levels began to deteriorate. The department further stated that the additional fees and the creation of the special revenue fund would allow them to provide an adequate level of customer service, regardless of market-based fluctuations.

Per the Request for Council Action, RCA #10265, dated 12/14/2015, the Planning and Development Special Revenue Fund would fund:

- Subdivision plat review
- Permit review
- One half of the minimum lot size/minimum building line program.
- Management and support services associated with development-related activities
- Indirect costs associated with P&D's development-related activities.

The fund began operations in January 2016. A web-based application called Plat Tracker processes incoming permit requests from users/developers. Payments are made online and deposited in the bank electronically. The PD staff periodically download the Plat Tracker reports and agree the transactions to bank deposits. The staff then creates a journal entry to record the summarized data in SAP. For the months tested, transactions processed through Plat Tracker comprised 78% of total Planning and Development Special Revenue Fund revenue. The remaining 22% of the Fund revenue includes receipts from offline (walk-in) platting fees, administrative fees, hotel/motel ordinance fees and interest.

For the period under review, approximately 69% of expenditures were for salaries, with 1% for supplies and 30% for other services and charges. Of the remaining 30% for other services and charges, 71%

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were for interdepartmental charges for various expenditures, such as office machine rental, data, voice and application services.

FINANCIAL PERFORMANCE: PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND

For the purpose of the audit, transactions from the inception of the Fund (January 2016) through June 30, 2017 were examined. Table 2 below shows the sources of revenue for Planning and Development Special Revenue Fund for the scope period. Because the fund was created in the middle of the fiscal year, 2016 data represents only half a fiscal year for both revenues and expenditures.

TABLE 2 Planning and Development Special Revenue Fund No. 2308 Revenues for FYs 2016-2017		
Revenue Source	2016	2017
Licenses and Permits	101,730.64	346,659.69
Charges for Services ^(a)	3,099,026.53	6,272,175.46
Miscellaneous/Other	579.77	1,797.59
Interest	3,838.02	5,268.67
Total Revenue	3,205,174.96	6,625,901.41

Procedures performed confirmed that each revenue sources were appropriate or adhered to the sources allowed.

Planning and Development Special Revenue fund proceeds were expended for FYs 2016-2017 as shown in Table 3 below:

TABLE 3 Planning and Development Special Revenue Fund No. 2308 Expenditures for FYs 2016-2017		
Expenditure Type	2016	2017
Personnel Services	1,778,536.02	3,665,209.04
Supplies	10,490.43	28,710.80
Other Services & Charges	996,252.58	1,359,518.35
Total Revenue	2,785,279.03	5,053,438.19

Procedures performed revealed that each expenditure type is a valid use of the funds collected.

(a) Includes Platting Fees of \$3,085,563.49 and \$6,204,700.27 in FY 2016 and FY 2017 respectively.



AUDIT SCOPE AND OBJECTIVES

The primary objectives of the audit are to:

- Review the processes used to establish the special revenue fund. (**Objective #1**)
- Review processes used to operate the special revenue fund and evaluate the established fund's compliance with the applicable policies, procedures, and regulatory guidance, and include a review and analysis of expenditures. (**Objective #2**)

The engagement scope included operations and transactions occurring between Fiscal Years 2016 and 2017.

PROCEDURES PERFORMED

To obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following steps:

- Reviewed authoritative literature related to special revenue governmental funds;
- Obtained and reviewed enabling legislation (ordinances) that created the fund(s);
- Obtained and reviewed documentation supporting the rationale for the funds' creation where applicable;
- Performed a risk assessment to determine funds to be selected for audit;
- Performed analytical reviews of revenues and expenditures;
- Inquired regarding processes used to create and operate special revenue funds in SAP;
- Obtained payroll data for special revenue funds that support staff;
- Performed testing of transactional detail for revenues, payroll, transfer and other expenditures;
- Reviewed CAFR to determine how special revenue funds were presented for external purposes; and
- Reviewed Monthly Financial Statements where available as well as selected City Council minutes as a basis for assessing council oversight of funds.

AUDIT METHODOLOGY

We conducted this performance and compliance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



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Audit Division

The scope of our work did not constitute an evaluation of the overall internal control structure of the City or the Planning and Development Department. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each Conclusion is aligned with the related Audit Objective for consistency and reference.

CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Based on work performed, we conclude that the processes used to establish the special revenue fund under audit were considered sufficient. The creation of the fund was approved by the City Council and the related documentation identified the specific sources and uses of the fund.

CONCLUSION 2 – (AUDIT OBJECTIVE #2)

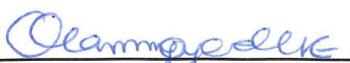
Based on work performed, we conclude that the processes used to operate the fund and evaluate its compliance with applicable policies, procedures and regulatory guidance including a review and analysis of expenditures are considered adequate and sufficient.

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank the management and staff of Planning and Development Department for their cooperation, time and efforts throughout the course of the engagement.



Mark Estrada, CPA
Lead Auditor



Olaniyi Oyedele, CPA
Audit Manager



Courtney E. Smith, CPA, CIA, CFE
City Auditor



EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

PLANNING AND DEVELOPMENT DEPARTMENT

Acknowledgement Statement

Date: September 20, 2018

Chris B. Brown
City Controller
Office of the City Controller

**SUBJECT: PLANNING AND DEVELOPMENT SPECIAL REVENUE FUND PERFORMANCE AUDIT REPORT -
MANAGEMENT ACKNOWLEDGEMENT STATEMENT**

I acknowledge that I have received and reviewed the above reference report and agree with the information pertaining to the Planning and Development Department Special Revenue Fund. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,

A handwritten signature in blue ink, appearing to read "Patrick Walsh for".

Patrick Walsh, P.E., Director
Planning & Development Department

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