

OFFICE OF THE CITY CONTROLLER



PLANNING AND DEVELOPMENT DEPARTMENT

**FOLLOW-UP OF THE ACCOUNTS
RECEIVABLE AND BILLINGS INTERNAL AUDIT**

Annise D. Parker, City Controller

Steve Schoonover, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

May 24, 2006

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: Planning and Development Department
Follow-up of the Accounts Receivable and Billings Internal Audit
(Report No. 06-03)

Dear Mayor White:

The City Controller's Office Audit Division has completed a Follow-Up Review of the findings and recommendations that were presented in the Accounts Receivable and Billings Internal Audit report pertaining to the Planning and Development Department (Department) (Report No. 04-31) issued on October 25, 2004. The purpose of our review was to determine the progress the Department has made towards implementing the recommendations made in the original report.

The report, attached for your review, concludes that the Department has made significant progress implementing the previous recommendations. Draft copies of the matters contained in the report were provided to Department management.

We appreciate the cooperation extended to our auditors by Department personnel during the course of their work.

Respectfully submitted,

Annise D. Parker
City Controller

xc: City Council Members
Anthony Hall, Chief Administrative Officer
Michael Moore, Chief of Staff, Mayor's Office
Marlene Gafrick, Director, Planning and Development Department
Judy Gray Johnson, Director, Finance and Administration Department

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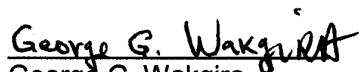
PURPOSE AND SCOPE

We have completed a follow-up review of the findings and recommendations that were presented in the Accounts Receivable and Billings Internal Audit pertaining to the Planning and Development Department (Report No. 04-31) issued on October 25, 2004. The purpose of our review was to determine the progress the Department has made towards implementing the recommendations made in the original report.

The scope of our review included: interviewing department personnel; reviewing relevant documentation related to recommendations implemented; and, applying other appropriate follow-up procedures. A matrix categorizing the status of action taken by management is included.

CONCLUSION

Based on the results of our review, we concluded that the Department has made significant progress in implementing the recommendations detailed in the original report.


George G. Wakgira
Auditor-In-Charge


Richard Martinez
Audit Manager


Steve Schoonover
City Auditor

**PLANNING AND DEVELOPMENT DEPARTMENT
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CONTROLS NOTED		ISSUES NOTED (RECOMMENDATIONS)	P&D UPDATED MANAGEMENT RESPONSES	WORK PERFORMED	ACTION STATUS
Appropriate Authorization					
<p>The City has established all fees charged by the Department through City Ordinances and/or approving contracts with the customer.</p> <p>Responsibilities and authorizations for the recording of revenue / receivables is defined, communicated and understood.</p>	1	<p>The Department does not have formal policies and procedures as required by the Executive Order.</p> <p>Recommend, for improved controls and long-term consistency of established procedures, that formal policies and procedures be developed as required by the Executive Order.</p>	<p>The Department has prepared a draft AR policy to be reviewed by the Director.</p>	<p>We reviewed a draft copy of the Department's Accounts Receivable Policy and it appears to be adequate. However, the policy has not been reviewed and approved by the Finance & Administration (F&A) Department. The Accounting Manager indicated that he would forward the draft to F&A for review and approval and will notify the auditors when that process is completed.</p>	In Progress
Cost Recovery					
<p>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.</p> <p>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.</p> <p>NSF receivables are tracked in detail and in total through a general ledger control account. The Department has collection procedures to collect these amounts.</p>	2	<p>The Department or City could consider the use of an outside collection agent for long outstanding NSF checks.</p>	<p>The Department has reviewed the total amount of currently unpaid NSF checks and it is 1.26% (\$64,100.05) of the FY06 budgeted revenues. The Department will reconcile the account to determine the amount expected to be uncollectible. It is at this point, that the Department and F&A will discuss the benefit or merit of using an outside collection agency.</p>	<p>We determined the action plan proposed by the Department in response to the previous recommendation is acceptable.</p> <p>We also confirmed that the outstanding NSF checks made up only 1.26% of the FY06 budgeted revenues.</p>	In Progress
Transaction Processing					
<p>Permit and Inspection Revenues:</p> <p>Revenue is recorded as provided for in the ordinance with amounts collected for the permits and inspection services at the time issued/earned.</p>	3	<p>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.</p>	<p>The Department has agreed to adhere to this recommendation but has not had any tax abatement defaults since the audit was performed.</p>	<p>We confirmed that there have not been tax delinquent transactions over the past five years. Tax abatement transactions are not recurring events at the Planning and Development Department.</p>	Implemented

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CONTROLS NOTED		ISSUES NOTED (RECOMMENDATIONS)	P&D UPDATED MANAGEMENT RESPONSES	WORK PERFORMED	ACTION STATUS
<p>Amounts are collected in cash, check or credit card – the only receivables generated arise from returned checks due to insufficient funds.</p> <p>Tax Abatement Recoveries – 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>Grant Revenues - 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>		<p>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.</p>	<p>The Department has adhered to the recommendation regarding grant receivables.</p>	<p>This recommendation has been implemented. The auditor reviewed an example of a journal voucher recording grant receivables for reimbursements submitted.</p>	
Physical Safeguards					
<p>Revenue is received in cash, check or credit card and cash handling deposit policies, procedures are documented and followed.</p> <p>Management stays informed regarding revenue variances and reviews financial reports monthly.</p>	4	<p>NSF check receivables should be reconciled and monitored more regularly with duties segregated between cash handling, NSF receivable collection and reconciliation.</p>	<p>The NSF check receivables will be reconciled and monitored by the Sr. Accountant, who has no cash handling or NSF receivable collection duties. The reconciliation will be forwarded to F&A along with a recommendation of which items are expected to be uncollectible and could be written off.</p>	<p>We reviewed an example of a reconciliation that is being performed by a Senior Accountant. The Senior Accountant has neither cash handling nor NSF receivable collection duties.</p>	Implemented
Substantiation and Evaluation					
<p>Tax Abatement Receivables are substantiated with a schedule maintained by Department personnel.</p> <p>Each tax abatement contract enables the City to conduct audits regarding compliance with the contract.</p>	5	<p>NSF Checks balance is not routinely reconciled to the amounts tracked in detail by the Department.</p> <p>The NSF receivable balances should be periodically reconciled with the detail maintained by the Department.</p>	<p>The Department will reconcile the NSF check balances to the amounts tracked. The Department already maintains a log which will be utilized in the process. Receivable balances will be reconciled with the detail maintained by the Department.</p>	<p>The current detail list of the outstanding NSF checks (FY 2003 through FY 2005) adds up to \$18,235.94 while the NSF Checks balance shown on the general ledger is \$64,100.05. The Accounting Manager indicated that he and his staff would continue to</p>	In Progress

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CONTROLS NOTED		ISSUES NOTED (RECOMMENDATIONS)	P&D UPDATED MANAGEMENT RESPONSES	WORK PERFORMED	ACTION STATUS
<p>A receivable balance for insufficient fund returned (NSF) checks is carried in the City's general ledger.</p>		<p>Management should consider whether an outside collection service could enable more collections of outstanding NSF receivables as well as control over the collection activity.</p>	<p>The Department's main source of revenue is platting fees, which are collected before services are rendered, which reduces long outstanding NSF checks. The Department will consult with F&A at year-end to determine the cost of having an outside firm to collect on NSF checks through a citywide contract.</p>	<p>identify the remaining (Prior to FY 2003) outstanding NSF checks.</p> <p>Even though the Department collects platting fees before services are rendered, it will still have some long outstanding NSF checks issues to address.</p>	
<p>Identification of Accounts to be Written-off / Determination of an Appropriate Allowance for Doubtful Accounts (Minimum Annually)</p>					
<p>There have been no write-offs and none are expected. If there were a collectibility issue, the Department would involve the Legal Department.</p> <p>Since receivables are not recorded, no allowance for doubtful accounts would be needed.</p>	6	<p>Receivables and allowances are not recorded creating the risk that management may not be aware of collection issues.</p>	<p>NSF's are recorded in the system by F&A. The Department maintains a log of NSF's and the manager monitors it along with the transactions that affect this account. Department will reconcile the account monthly to determine which, if any amounts should be written off. The reconciliation and the recommendation for write offs will be forwarded to F&A on a monthly basis.</p>	<p>Management can review the Accounts Receivable NSF balance on the general ledger to determine if there are collection issues.</p>	Implemented
<p>Preparation and Use of Reports & Analysis</p>					
<p>Management reviews monthly financial reports.</p>	7	<p>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.</p>	<p>The Department has had no tax abatement recovery receivables. The Department records receivables (NSF's and Grants). The Department will be preparing reconciliation on a monthly basis and forwarding it to F&A. Included will be a listing of items that the Department believes should be written off. At that point the allowance for doubtful accounts will be setup.</p>	<p>The Accounting manager indicated that tax abatement recovery receivables are a rare occurrences and the previous auditors' recommendation was referring to a one-time event in the past. If they do occur in the future, they will be handled based on the newly developed Departmental accounts receivable policy and procedures.</p>	Implemented