



City of Houston

Annise D. Parker
City Controller

City-Wide Accounts Receivable and Billings Internal Audit

Solid Waste Management Department

Report No. 04-33



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

ANNISE D. PARKER

October 25, 2004

The Honorable Bill White, Mayor
City of Houston, Texas

SUBJECT: City-Wide Accounts Receivable and Billings Internal Audit
Solid Waste Management Department (Report No. 04-33)

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 Solid Waste Management 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, noted that the Public Works and Engineering Department is utilized to recognize and collect the Department receivables and provides processes and reports that enable substantiation and reconciliation of recorded receivables. Various recommendations were made to improve the Department's controls over the accounting and reporting of 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 commend the Department for taking immediate steps to address the recommendations. Also, 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
Thomas Buchanan, Director, Solid Waste Management 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 Solid Waste 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 the date of this report 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 Solid Waste 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 Solid Waste 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
 - 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 Solid Waste Department generally provides its services from general tax revenues. However, the Department generates revenue arising from the following revenue streams:
 - *Excess Garbage Can Rental* – Charges for more than one garbage can;
 - *Non-residential Garbage Pick-up* – Charges for solid waste collection from commercial establishments;
 - *Sales of Miscellaneous Assets* – Sale of other assets, which excludes scrap metal and vehicles; and
 - *Special Pick-up* – Service charges for large dead animal collections.
 - *Grant revenue* – Reimbursement and cost recovery revenues for certain grant programs.
- Further, certain revenues related to the Department's operations, such as fines, refunds, and payments by commercial waste haulers is recorded and monitored by the Finance and Administration (F&A) Department. Receivables related to these revenues were included in F&A's report.
- The Department of Public Works and Engineering bills and collects for Add a Can excess and non-residential garbage service revenues through the water bills for the Solid Waste Department. Solid Waste is able to monitor receivables through reports provided by Public Works.

Summary

- The City's financial system indirectly includes accounting for the Department's service receivables.
- Grant receivables are not recorded within the City's financial system until received.
- The Department uses the services of the Department of Public Works to recognize and collect their receivables and providing processes and reports that enable substantiation and reconciliation of recorded receivables.
- Collection efforts could be improved on outstanding service receivable balances.



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:				
▪ Excess garbage charges	\$ 925,000			
▪ Add a can		X	no	no
▪ Tags for bags		no	n/a	X
▪ Non-residential garbage services	210,600	X	no	no
▪ Sale of miscellaneous assets	331,660	no	n/a	X
▪ Special pick-up	4,000	no	n/a	X
▪ Grant revenue	60,000	X	no	no

Definition of Terms:

- **X** – Represents a Yes answer related to determining if each identified revenue stream results in a receivable.
- **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 fees charged by the Department through City Ordinances. The ordinance for excess garbage can charges requires a commitment of one year. ▪ Responsibilities and authorizations for the recording of receivables is defined, communicated and understood. ▪ The Department does not have formal policies and procedures as required by the Executive Order, since they do not process the receivables, rather they rely on the Department of Public Works and Engineering's (PW&E's) policies and procedures. 	<ul style="list-style-type: none"> ▪ None 	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"> ▪ Billings and collections for the Department’s services generating receivables are done by PW&E through the City’s water bills. ▪ PW&E has documented policies, procedures, and supporting IT systems to support recording, processing and reporting of receivables. ▪ Receivable activity is reconciled monthly by PW&E and reports are provided to the Department. ▪ PW&E maintains a receivable balance and contra-account of Due to Solid Waste for the resulting receivable balance. The Department has a corresponding Due from Public Works account. 	<ul style="list-style-type: none"> ▪ The Department’s customer receivables are not really separately recorded within the Department’s fund accounting during the year or at yearend. Consideration should be made as to whether such receivables should be recognized in addition to the inter-fund receivable. ▪ The reports the Department receives related to these receivables does not include an aging report. An aging report would enable better receivable management and assessment of allowances for doubtful accounts. 	Low
Physical Safeguards	<ul style="list-style-type: none"> ▪ The Department has segregation of duties through the use of PW&E related to billing and collection of receivables.. 	<ul style="list-style-type: none"> ▪ None noted 	Low
Substantiation and Evaluation	See the controls noted under transaction processing above. Further, based on a review of one month’s activity – transactions and recorded receivable amounts were substantiated.	<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 only as receivables are collected and revenue recorded. ▪ Neither the Department or PW&E pursues collection on past-due accounts. However, the Department does collect the extra can and cease service after 60 days of non-payment. ▪ Final determination of realizable value is accomplished once an water account is closed, with the Department realizing its receivable only if there is an adequate deposit after satisfying any outstanding water or sewer receivable balance. 	<ul style="list-style-type: none"> ▪ The Department would benefit from an aged receivables report. ▪ The Department should consider deploying collection efforts on these receivables, including the use of an independent collection agency. 	Moderate
<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 – procedures do not include determination of allowances for doubtful accounts and balances are closed out in conjunction with the closing of the related water and sewer account. 	<ul style="list-style-type: none"> ▪ See comments above re: determination of realizable value. 	Low
<p>Preparation of Reports & Analysis</p>	<ul style="list-style-type: none"> ▪ Reports are routinely prepared monthly by PW&E to enable 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"> ▪ Note 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 not made on these receivables.	<ul style="list-style-type: none">As recommended above, the Department would benefit from an aging report of these receivables.	Moderate

EXHIBIT A



CITY OF HOUSTON

Department of Solid Waste
Management

Interoffice

Correspondence

To: Annise Parker
City Controller

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CONTROLLER'S

From: Thomas M. Buchanan, Director
Department of Solid Waste
Management

Date: October 5, 2004

Subject: City-Wide Accounts Receivable and Billings
Internal Audit

The Department of Solid Waste Management has reviewed the audit report prepared by Jefferson Wells International on Accounts Receivable and Billings. We thank you for your comments and we have an open door policy for anyone to come and examine our operations at anytime.

The report details several issues that primarily refer to having access to an aged report of receivables. We concur with the issue noted that we were not receiving an aged report of receivables. Prior to the issuance of this report, we made a request to the Department of Public Works and Engineers to receive a report that aged the receivables. We are currently receiving that report.

There was also an issue regarding our cost recovery grants. We do acknowledge that this is a valid exception; however, implementing this issue will place the City of Houston in violation of certain terms of the contract. The contracts with HGAC stipulate the use of "cash basis" accounting.

We consider all audit as a useful tool to help us improve our operations and we thank you again for your audit comments. I appreciate the opportunity to respond to the audit issues noted. Please don't hesitate to contact Annette Booker at 713-837-9173 if additional information or clarification to any of my comments is required.

Sincerely,

Handwritten signature of Thomas M. Buchanan in cursive.

Thomas M. Buchanan, Director
Department of Solid Waste Management

*Views of Responsible
Officials*