

Fort Worth



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<sup>††</sup> Audit Committee Member

# Revenue Estimates Audit

January 27, 2020



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Department of Internal Audit**

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## Background

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Revenue-generating departments, in conjunction with the Performance and Budget Department, are responsible for reasonably estimating revenue that is included in the City's annual budget. When estimating revenue, assumptions that contribute to a reasonable revenue estimate (based on or impacted by historical trends, current and/or known upcoming projects/events, changes in legislation, changes in City policy, etc.) are to be considered.

Budgeted revenues are determined each year by the departments responsible for collecting revenue, in coordination with the Performance and Budget Department. The Performance and Budget Department reviews the department estimates.

The City's Performance and Budget Department requires revenue-generating departments to provide an explanation for revenue accounts/line items where actuals vary from budget by +/- 10%, which exceed \$10,000.00. Using this standard, Internal Audit considered the departments' estimated revenue reasonable if there was a 10% or less variance between the departments' budget revenue and Internal Audit's estimate. Variances over 10% were considered unreasonable. It should be noted that budgeted revenue amounts are estimates that may or may not be achieved.



## Objective

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The objective of this audit was to conclude as to whether assumptions and revenue estimates seemed reasonable.

## Scope

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The scope of this audit was limited to a review of FY2020 budgets for alcohol beverage permitting, parking meter, monthly parking and surface lot parking revenue.

While these are not major revenue sources, they represented areas with a known potential for error. For example, despite a prior audit finding regarding unbilled alcohol beverage permits, budgeted alcohol beverage permitting revenue remained constant in two-year increments, and neither the budgeted or actual revenue appeared reasonable. Parking revenue was selected because of prior year budget variances and changes in the number of available revenue-generating parking spaces.

## Methodology

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To achieve the audit objective, the Department of Internal Audit performed the following:

- interviewed personnel within revenue-generating departments;
- reviewed prior internal audit reports, recent news articles, etc.;
- reviewed assumptions and revenue calculation methodologies used by revenue-generating departments;
- compared Internal Audit assumptions to revenue-generating departments' assumptions; and,
- traced revenue estimates to the Proposed FY2020 annual operating budget.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for evaluating the internal controls.<sup>1</sup> Those standards require that we plan and perform the audit to obtain sufficient, 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 objective.

We are independent per the generally accepted government auditing standards requirements for internal auditors.

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<sup>1</sup> Government auditing standards require audit organizations to report on internal control. Due to the nature of the audit, we did not consider internal controls to be significant to our audit objective.



# Audit Results

## ALCOHOL BEVERAGE PERMITTING REVENUE

As authorized by the Texas Alcoholic Beverage Code, the City of Fort Worth (CFW) assesses, levies, and collects alcohol beverage fees. Chapter 4 of the City Code specifies that the City assess fees as permitted by the Texas Alcoholic Beverage Code, at the maximum amount permitted by the Legislature of the State of Texas.

The following chart depicts budget-to-actual alcohol beverage permitting revenue from FY2014 through FY2019. The FY2016 revenue spike was the result of the Financial Management Services Department (FMS) collecting alcohol beverage permitting revenue from unbilled businesses, as discussed in the Department of Internal Audit’s Alcoholic Beverage Permits Audit Report that was issued on September 2, 2016.

**Alcohol Beverage Permitting Revenue  
Budget-to-Actual  
FY2014 through FY2019**



Source: MARS and PeopleSoft

The illustration above depicts a pattern where budgeted revenue remains unchanged in two-year increments, from FY2014 through FY2019. Management indicated that its FY2020 budgeted alcohol beverage permitting revenue was based on FY2019 year-to-date revenue, plus estimated revenue for the remaining months of the year, based on expiring permits.

**CONCLUSION:** Since the FY2020 alcohol beverage permitting revenue budget was within 10% of Internal Audit’s revenue estimate, the FY2020 budget was considered reasonable.



<b>Alcohol Beverage Permitting Revenue</b>	
<b>Internal Audit Assumptions</b>	
1.	The number of new CFW alcohol beverage permits will be consistent with TABC’s permit data, averaged over a three-year period (FY2017, FY2018 and FY2019).
2.	100% of Fort Worth businesses, with current alcohol beverage permits that originated in FY2017 but were not required to pay until FY2020 (per TABC guidelines), will begin paying for alcohol beverage permits in FY2020.
3.	The number of expiring CFW alcohol beverage permits will follow TABC’s permit data, averaged over a three-year period (FY2017, FY2018 and FY2019).
4.	Fort Worth businesses with current CFW alcohol beverage permits, but non-payment since FY2016, will be billed and will pay for alcoholic beverage permits in FY2020.

<b>Alcohol Beverage Permitting Revenue</b>	
<b>Internal Audit Calculation Methodology</b>	
Downloaded alcohol beverage permit data from TABC, for businesses within Fort Worth, as of July 31, 2019	
Projected the FY2019 permit count for the remaining two months (August and September) of FY2019	
Estimated revenue from renewal permits, based on TABC permits that expire in FY2020	
Estimated revenue from new business permits, third-year permit revenue due in FY2020 and lost revenue due to business closings, based on historical data	
Estimated revenue recoveries from unbilled businesses from prior years	

Additional Observations

Based on our FY2016 audit results, Internal Audit expected FY2017 and FY2018 alcohol beverage permitting revenue to exceed that collected in FY2015. However, the increases did not appear reasonable. Internal Audit, therefore, analyzed billings subsequent to FY2016. Based on our data analysis, the CFW did not collect from each business as required, subsequent to our FY2016 internal audit. FMS staff detected the oversight and began billing businesses that had not been billed. FY2020 revenue, therefore, includes some revenue that was due since 2017. Internal Audit is of the opinion that unbilled alcohol beverage permits could have been detected if the budget had been based on applicable assumptions.

In FY2017, the FMS transitioned alcohol beverage permit billings from the mainframe to PeopleSoft for more effective revenue management. The FMS also improved its billing procedures to require that Texas Alcoholic Beverage Commission (TABC) records be accessed to identify expiring alcohol beverage permits. The FMS will reportedly coordinate with the City’s Code Enforcement Department and the TABC to enhance the collection of those billings.



## MUNICIPAL PARKING REVENUE

The Parking Services division of the Transportation and Public Works Department (TPW) manages parking services within the city, including City-owned garages, surface lots, and meters throughout the downtown Central Business District, Texas Christian University/Berry Street, West 7<sup>th</sup> Urban Village, and the cultural and hospital districts.

Parking revenues are generated from fees paid by the public and City employees, and are recorded in the Municipal Parking Fund. In addition to monthly revenue and parking meters, parking revenues are also generated from valet service fees, meter rentals, daily parking revenue and other parking revenue sources that were excluded from our audit scope.

We reviewed the following three sources of parking revenue.

- Parking Meter Receipts
- Monthly Parking Revenue
- Surface Lot Parking Revenue

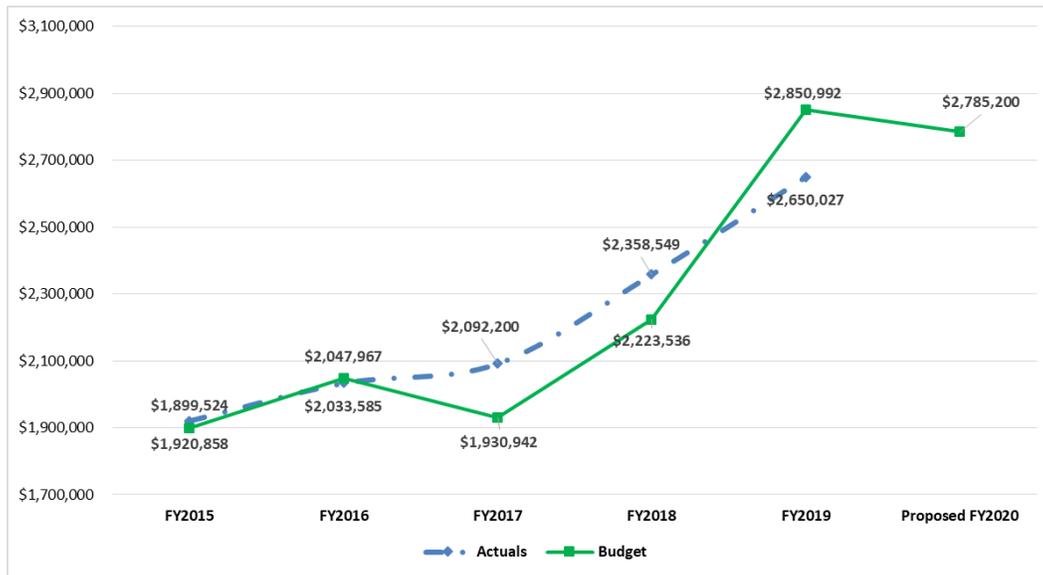


### Parking Meter Receipts

Parking meter receipts are generated from customer parking in hourly-metered spaces and the “citizen lot”. The “citizen lot” is a City-owned parking lot (located across the street from Fort Worth City Hall) with both metered and permitted parking spaces. Metered parking is available to the public, and permitted spaces are reserved for City employees. Payment options for metered spaces include cash, credit card and parking app.

TPW management stated that FY2019 budgeted revenue was initially overestimated because new meters in the West 7<sup>th</sup> Urban Village area did not generate as much revenue as expected. TPW also indicated that once meters were installed in the West 7<sup>th</sup> Urban Village area, more customers relocated from metered parking to garages with validated parking.

### **Parking Meter Revenue Budget-to-Actual FY2015 through FY2019**



Source: PeopleSoft

TPW staff indicated that they used historical data to determine their FY2020 budget amount.

**CONCLUSION:** Since the FY2020 parking meter receipts budget was within 10% of Internal Audit’s revenue estimate, the FY2020 budget was considered reasonable.



<b>Parking Meter Receipts</b>
<b>Internal Audit Assumptions</b>
1. The number of meters will not change in FY2020. The potential for meter installation in the Near Southside Magnolia Street area was unknown, so we did not assume additional meter revenue for the area.
2. Meters will be repaired within 24 hours.
3. Major construction projects or public events that occur during hours of meter operation will not affect the revenue trend.

<b>Parking Meter Receipts</b>
<b>Internal Audit Calculation Methodology</b>
Identified total number of revenue-generating parking meters
Identified FY2019 actual meter collections as of July 31, 2019
Used FYTD actual to arrive at monthly collections
Annualized monthly collections
Deducted sales tax from estimated collections

#### Additional Observations

On December 10, 2019, the Mayor and City Council approved two hours of free metered parking daily (for meters in the West 7<sup>th</sup> Urban Village area), between 10:00 a.m. and 5:00 p.m., within a three-hour tiered rate structure. However, the FY2020 parking meter receipts budget was adopted before the Mayor and City Council authorized this fee structure change. The fee change was not factored into management's or Internal Audit's parking meter receipts estimate.

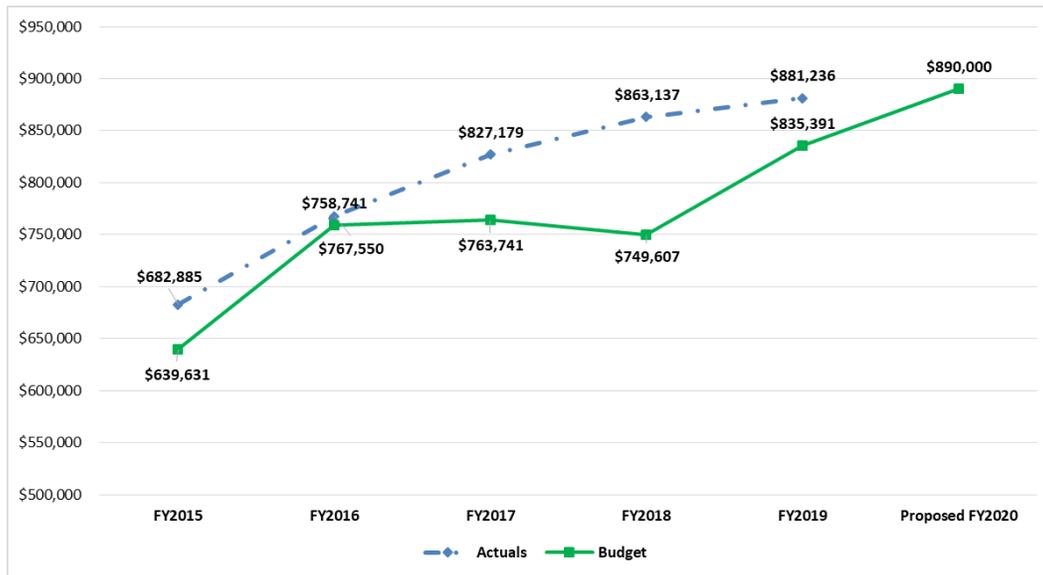
Also, TPW and Internal Audit included revenue generated from parking meter spaces in the "citizen lot" as meter revenue. However, as previously noted, the citizen lot also has non-metered parking spaces. TPW currently records revenue generated from those non-metered parking spaces as permit revenue. Internal Audit, therefore, did not include revenue generated from those non-metered parking spaces in our parking meter receipts calculation.



### Monthly Parking Revenue

Monthly parking revenue is generated from customers parking in the Taylor Street, Houston Street, Commerce Street, 15th Street (Pinnacle) and Will Rogers Memorial Center (WRMC) Garages on a monthly basis. Monthly parking rates vary depending on the parking location and contracted amounts. Payments from City employees are made by payroll deduction. Non-City employees and businesses are invoiced monthly.

### Monthly Parking Revenue Budget-to-Actual FY2015 through FY2019



Source: PeopleSoft

TPW estimated monthly parking at a 97% occupancy rate, and indicated that they utilized an average monthly parking rate for each garage.

**CONCLUSION:** TPW’s budgeted monthly parking revenue exceeded Internal Audit’s revenue estimate by more than 10%, based on parking data provided by TPW. Although the FY2020 budget exceeded our reasonableness threshold, our estimate was not consistent with the revenue trend. We, therefore, concluded that the FY2020 budgeted monthly parking revenue was reasonable.

TPW’s estimate was based on an average parking rate for each garage, although monthly parking rates vary, by customer type. For example, TPW computed an averaged parking rate for the Houston Street Garage for which customers were charged either \$40.00, \$85.00 or \$150.00. Alternatively, Internal Audit used actual rates for each garage floor and took into consideration whether customers were City or non-City employees.



<b>Monthly Parking Revenue</b>
<b>Internal Audit Assumptions</b>
1. New venue tax of 50% of parking charges (excluding sales tax) will be applied to all monthly parking at the WRMC.
2. Available monthly parking spaces will be occupied at 100% for Commerce and Taylor parking garages, since there are waiting lists for both garages.
3. Available monthly parking spaces at Pinnacle Street parking garage will also be occupied at 100%, since 24 of the 25 available spaces were already occupied and there are waiting lists at other City garages.
4. Full occupancy (100%) of parking spaces assigned to City employees at the Houston Garage is expected. There is a waiting list for this garage.
5. The number of non-City employee parking spaces will not change significantly.
6. Employee parking rates will not change in FY2020, as no rate changes have been authorized by the Mayor and City Council.
7. Available parking spaces will not be affected by major construction in FY2020.
8. Monthly parking rates for non-City employees will be charged at rates approved by the Mayor and City Council.
9. Complimentary parking spaces at the Taylor Street and Houston Street Garages will not change in FY2020.

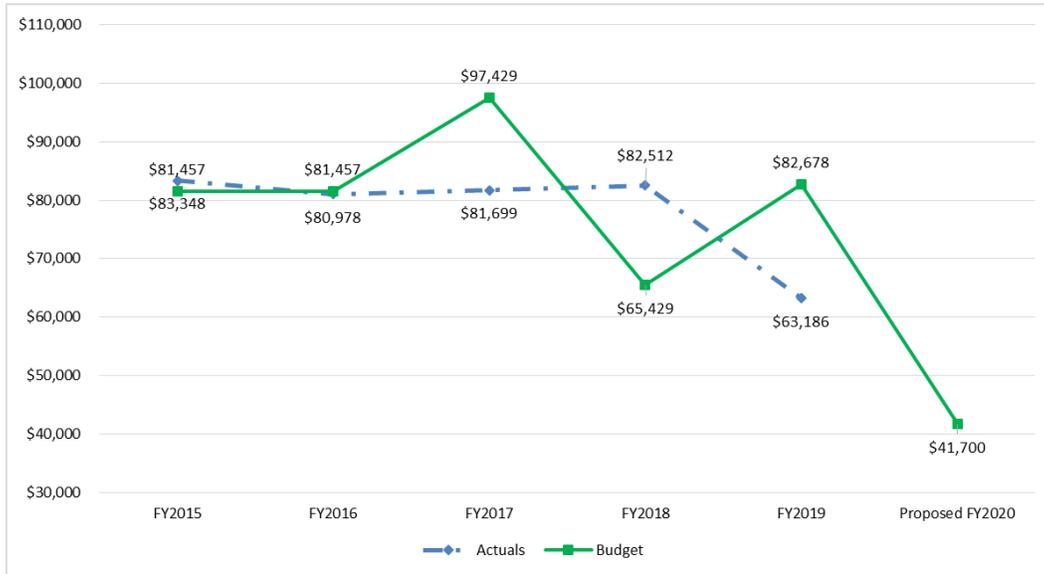
<b>Monthly Parking Revenue</b>
<b>Internal Audit Calculation Methodology</b>
To identify the number of total available parking spaces, we reviewed FY2019 parking assignments, external parking management reports, employee payroll deductions and internal customer waiting lists. We then reduced the total available parking spaces by the number of complimentary spaces. Total revenue-generating spaces were then multiplied by the applicable parking rate, based on garage floor and parking garage.



### Surface Lot Parking Revenue

Surface lot revenue is generated from customers parking on surface lots on a monthly basis. Employee payments are made by payroll deduction. Non-City employees are invoiced monthly.

### Surface Lot Parking Revenue Budget-to-Actual FY2015 through FY2019



Source: PeopleSoft

TPW indicated that they utilized an average monthly parking rate of \$34.41, and assumed that 100% of the total number of available spaces would be utilized. TPW then multiplied the average monthly parking rate by the total number of spaces (101), and then multiplied that number by 12 months. Based on our review of TPW’s calculation, sales tax was erroneously included.

In FY2019, four surface lots (designated for City employees) were closed for apartment construction. City employees who previously parked on these surface lots were offered parking spaces in City parking garages. A total of 78 employees accepted spaces in the Houston, Commerce or Pinnacle Street Garages. Thirty (30) employees chose parking spaces outside of the City’s parking garages. TPW and Internal Audit considered these surface lot changes when estimating revenue.

**CONCLUSION:** Since the FY2020 budget for surface lot parking revenue exceeded Internal Audit’s revenue estimate by more than 10%, TPW’s budgeted surface lot parking revenue was considered unreasonable.

TPW’s use of a \$34.41 averaged monthly rate, which also included sales tax, resulted in a higher projection. The difference between Internal Audit’s revenue estimate (\$34,804.00) and TPW’s proposed budget (\$41,700.00) was \$6,896.00.



<b>Surface Lot Parking Revenue</b>	
<b>Internal Audit Assumptions</b>	
1.	The transfer of additional parking lots will not occur in FY2020, based on information provided by TPW.
2.	The number of complimentary parking spaces will not change.
3.	All non-complimentary parking spaces will be occupied. If customers terminate their parking agreement, we assume a new customer (from current waiting lists, for all four lots) will occupy vacant parking spaces.
4.	Employee parking rates will not increase in FY2020, as no rate changes have been authorized by the Mayor and City Council.

<b>Surface Lot Parking Revenue</b>	
<b>Internal Audit Calculation Methodology</b>	
<p>Around April 2019, the number of available City surface lots decreased from eight to four due to construction, and resulted in a loss of 140 parking spaces and a corresponding decrease in monthly parking revenue. The remaining four parking lots have a total of 101 available spaces.</p> <p>To estimate FY2020 surface lot revenue, Internal Audit reviewed parking assignment reports and employee payroll deduction data for each of the surface lots, and determined how many of the 101 parking spaces were paid and how many were complimentary. Internal Audit then multiplied the number of paid parking spaces by the employee parking rates (net of tax).</p>	

Additional Observation

Although the City owns other surface lots (“citizen lot”, the WRMC, etc.), parking revenue generated from these lots is not recorded as surface lot parking revenue. Revenue generated from these other surface lots is a mix of hourly, daily, metered, permitted or assigned monthly parking. Revenue generated from these sources is recorded to other general ledger revenue accounts. These revenues were, therefore, not considered in Internal Audit’s surface lot parking revenue estimate.



## Acknowledgements

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The Department of Internal Audit would like to thank the Performance and Budget, Financial Management Services, and Transportation and Public Works Departments for their cooperation and assistance during this audit.