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**Responsible Authority
Revenue Audit**

July 2, 2020



**City of Fort Worth
Department of Internal Audit**

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Fort Worth, Texas 76102

Audit Staff

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The Responsible Authority Revenue Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2020 Annual Audit Plan.

Audit Objective

The objective of this audit was to determine whether the City's Revenue Manual appropriately designated and listed departments responsible for specific revenue sources.

Audit Scope

Our audit included a review of revenue for the period October 1, 2018 through September 30, 2019. Activity beyond this period was reviewed as deemed necessary.

Opportunities for Improvement

Resolve City ordinance door-to-door fee inconsistencies

Require a specific general ledger account for revenue that is significant and recurring

Executive Summary

As part of the Fiscal Year 2020 Annual Audit Plan, the Department of Internal Audit conducted a Responsible Authority Revenue Audit.

Internal Audit reviewed the 56 revenue sources that had detailed authorization information (e.g., responsible authority, revenue information and fiscal history) noted within the FY2019 Revenue Manual. Based on our test results, departments/divisions that were designated as being responsible for specific revenue sources appeared to be appropriate. We did, however, identify isolated instances where:

- only one of multiple departments, responsible for a specific revenue account, was listed as being responsible for the revenue;
- an inaccurate job title was listed for the position responsible for one revenue source;
- legal authorizations (e.g., ordinances, state legislation and/or contracts) were incorrect or not specific; and,
- funds, rather than departments, were sometimes designated as having responsible authority.

While reviewing the City's FY2019 Revenue Manual and the City's Code of Ordinances, we noted that one section of the City's Code of Ordinances (related to door-to-door vendor registration certificate fees) authorized a fee, while another section of the City's Code of Ordinances authorized the issuance of door-to-door vendor registration certificates at no charge.

We also noted that the FY2019 Revenue Manual included closure/post-closure trust landfill revenue as miscellaneous, although landfill revenue is recurring, required by contract and does not conform to the intent of the miscellaneous revenue account. In FY2019, landfill closure/post closure revenue exceeded \$700,000.00.

Internal Audit identified 16 secondhand dealer pawn shops permits that were not billed in FY2019. The potential revenue loss was insignificant (e.g., less than \$1,000.00). However, since these non-billings could be indicative that the pawn shop billing process is in need of improvements, this issue will be included within the scope of our Treasury Operations Audit that is included in our FY2020 Annual Audit Plan.

Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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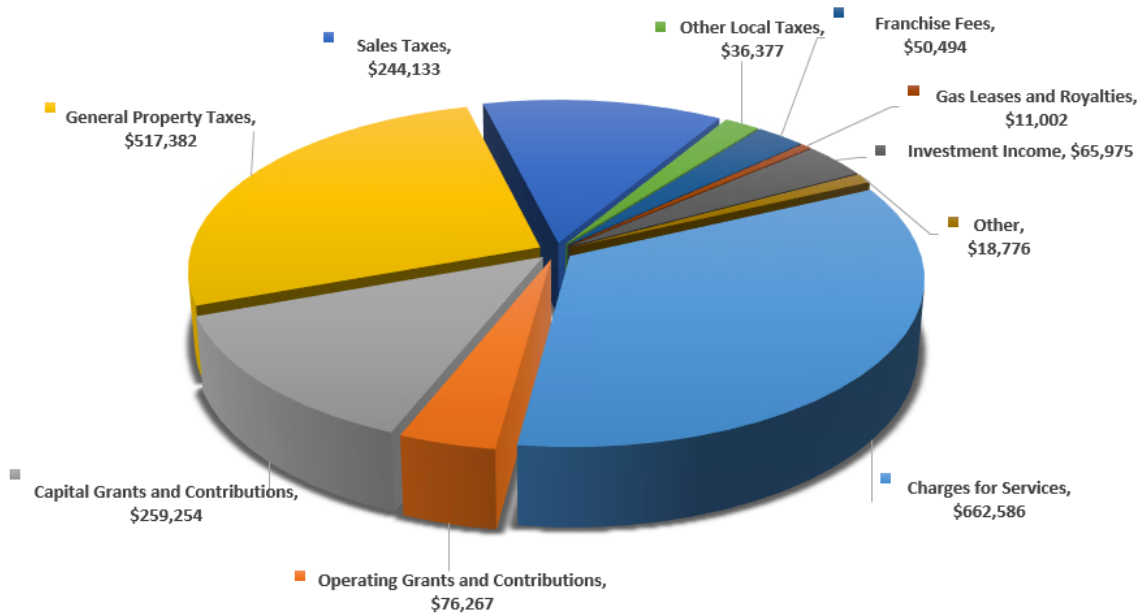
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Background

In FY2019, the City had over 450 revenue accounts, with over \$1.9 billion recorded as revenue.

Fiscal Year 2019 Program Revenues
(000's omitted in chart)



Source: FY2019 Comprehensive Annual Financial Report (CAFR)

A best practice published by the Government Finance Officers Association (GFOA) is that governments adopt a revenue control and management policy over revenues as an integral component of their overall financial policies. The GFOA further states that a formal manual that documents the entity's revenue control and management procedures can facilitate policy implementation, as well as serve as an effective internal control in and of itself.

The City of Fort Worth's Planning and Data Analytics Department (P&DA), formerly known as the Performance and Budget Department, is responsible for updating the City's Revenue Manual and corresponding fee schedules. The P&DA requests and obtains input from City departments when updating the Revenue Manual.

As stated by the GFOA, a revenue control and management policy establishes proper control over all receipts and receivables, and helps ensure sound financial management practices. The GFOA recommends that governments review revenue control and management policies (customized for the size and resources of the government) on an annual basis.



Objective

The objective of this audit was to determine whether the City's Revenue Manual appropriately designated and listed departments responsible for specific revenue sources.

Scope

Our audit included a review of revenue for the period October 1, 2018 through September 30, 2019. Activity beyond this period was reviewed as deemed necessary.

Internal Audit relied on the City of Fort Worth's FY2019 Revenue Manual, which was released on June 5, 2019. The FY2019 Revenue Manual followed the previous release of the FY2016 Revenue Manual.

Methodology

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

- interviewed personnel of the former Performance and Budget Department, which is currently known as the Planning and Data Analytics Department (P&DA);
- reviewed and compared FY2016 and FY2019 Revenue Manuals;
- verified revenue authority by reviewing the City's website, contracts, ordinances, Mayor and Council Communications, and state legislation;
- compared general ledger revenue accounts to revenues included in the Revenue Manual, to ensure that all revenue sources were included in the Revenue Manual;
- compared City of Fort Worth revenue sources to those in other municipalities;
- reviewed miscellaneous revenue transactions and supporting documentation recorded in City systems;
- researched anomalies identified when reviewing City revenue sources; and,
- evaluated internal controls related to responsible authorities for City of Fort Worth revenue.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.



Methodology (continued)

Chapter XXVIII of the Fort Worth City Charter established the City of Fort Worth's Department of Internal Audit independent of management, reporting directly to the Fort Worth City Council. We utilized the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework when evaluating internal controls. The following internal control components and corresponding principles were considered significant to the audit objective. COSO is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

Internal Control Component	Principles
Control Environment	Managerial oversight, integrity, ethics and responsibility; established organizational structure to achieve objectives; staff recruitment, development, retention, performance and accountability
Risk Assessment	Clearly-defined objectives to identify risks, define risk tolerances and respond to significant changes
Control Activities	Designed control activities, information systems and policies to achieve objectives and mitigate risks
Information and Communication	Communication of necessary quality information
Monitoring	Monitoring and evaluating the effectiveness of internal controls



Audit Results

Based on our test results, the City's FY2019 Revenue Manual contains approximately 90% of the City's non-interfund revenue. Internal Audit identified and informed the Performance and Budget Department of revenue sources (e.g., hotel occupancy tax and public education and governmental funds) that were not included in the FY2019 Revenue Manual. Internal Audit noted that hotel occupancy tax and public education and governmental fund revenue, inadvertently omitted from the FY2019 Revenue Manual, were added to the Revenue Manual that was issued on April 1, 2020. At the beginning of our audit, Performance and Budget Department management indicated that the Revenue Manual was a work-in-process, and that City departments were asked to provide information to be included in the Manual.

We reviewed each of the 56 revenue sources that were included in the FY2019 Revenue Manual with detailed authorizing source information such as responsible authority, revenue information and fiscal history. Based on our test results, the City's Revenue Manual appropriately designated and listed departments/divisions responsible for specific revenue sources. However, we did identify some anomalies.

- While multiple departments are sometimes responsible for different revenues with the same account title, in one instance, the Revenue Manual only listed one department as being responsible. The Code Compliance Department and the Transportation and Public Works Department (TPW) are responsible for plan review fees. However, the Revenue Manual only listed the Code Compliance Department as the responsible department.
- The Revenue Manual included an incorrect job title for one position responsible for a specific revenue source. Sales Manager was noted as being responsible for daily parking revenue. However, the Parking Manager within TPW is responsible for daily parking revenue.
- Authorization (e.g., City ordinance, contracts, state legislation, etc.) for specific revenue sources was not always specified within the Revenue Manual. Three of the 56 revenue sources only included general references. For example, the Revenue Manual may have noted the Texas Tax Code as the authorizing source, without citing a specific section of the Code. In three other instances, the referenced authorization was inaccurate. For example, the Plan Review Fee referenced an ordinance related to the City's participation in projects (in accordance with the Installation of Community Facilities Policy), and a traffic ordinance as the authorizing source.
- Also, the Revenue Manual sometimes referenced a certain fund as the responsible authority (e.g., Environmental Protection Fund) instead of a particular department/division.

When reviewing the FY2019 Revenue Manual for the appropriateness of responsible authorities, we identified contradictory guidance related to door-to-door solicitor permits. The contradictory information was noted in different sections of the City ordinance. One section of the ordinance authorized a \$50.00 fee, while the other section specified no charge/fee. Based on feedback obtained during our audit, the City ceased collecting door-to-door solicitor permit fees in July 2016. As a result, the City did not bill for 1,972 door-to-door permits that were issued from July 15, 2016 through September 30, 2019. Based on a \$50.00 authorized fee, the 1,972 door-to-door permits would equate to \$98,600.00 in City revenue.

In reference to miscellaneous revenue, the purpose of a miscellaneous revenue account is typically to post transactions that are small, infrequent dollar amounts that are not designated to be recorded in a specific general ledger account. However, we identified recurring, monthly revenue (exceeding \$100,000.00 in total, per year and per revenue source) recorded in the Miscellaneous Revenue general ledger account.



When comparing City of Fort Worth revenue sources to those of other municipalities, we identified some permits and fees charged by other cities that were not assessed by the City of Fort Worth. Examples of those revenue sources included shopping cart permits and permits to own or manage a long-term care facility. Due to Internal Audit's inability to verify the composition of the other cities' non-major revenue sources, we were unable to identify the monetary significance of these revenues.

We concluded that 16 of 35 secondhand dealer pawn shop permits were not billed in FY2019. Since the collection of pawn shop revenue is a function outside of the P&DA and was beyond the scope of this audit, secondhand dealer pawn shop permit billings and revenue will be researched further during our Treasury Operations Audit.



Overall Risk Evaluation

High	Medium	Low
<u>Inconsistent guidance within City ordinances</u>		
	<u>Significant, recurring revenue considered miscellaneous</u>	

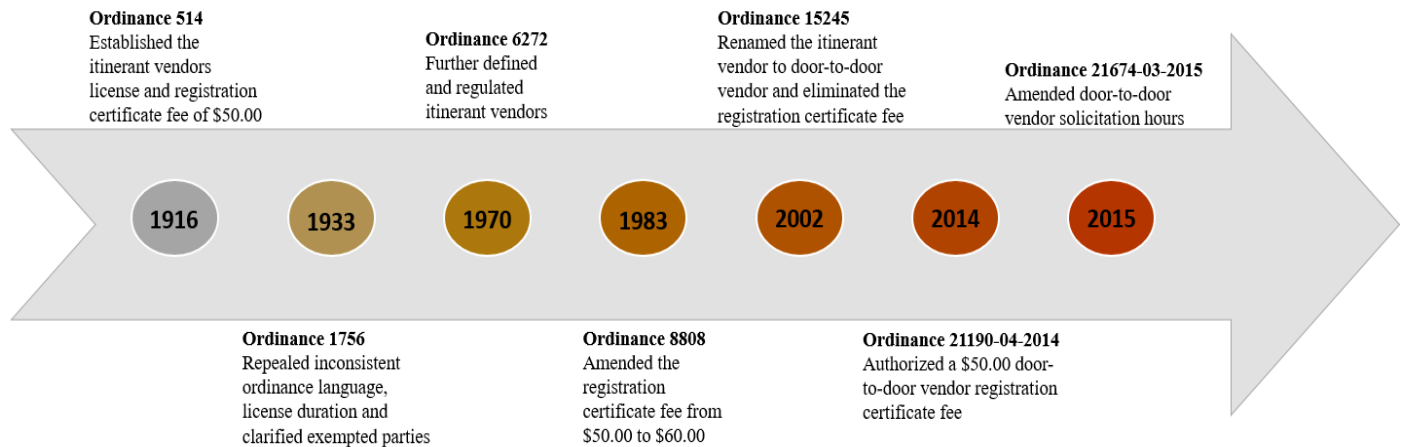
Detailed Audit Findings

1. The City's Code of Ordinances is contradictory regarding door-to-door vendor registration certificate fees.

Based on our review, one City ordinance specifies no charge for door-to-door vendor registration certificate fees, while another ordinance specifies a \$50.00 fee. Both ordinances appear within different sections of the City Code.

According to the Development Services Department (formerly known as the Planning and Development Department) staff, the City Attorney's Office advised that door-to-door registration certificate fees not be charged.

- Ordinance 15245 (adopted on September 17, 2002 and within Section 20-143 of the City Code) authorizes the issuance of door-to-door vendor registration certificates at no charge.
- Ordinance 21190-04-2014 (adopted April 1, 2014 and within Section 2-321 of the City Code) authorizes a \$50.00 fee for door-to-door vendor registration certificates.

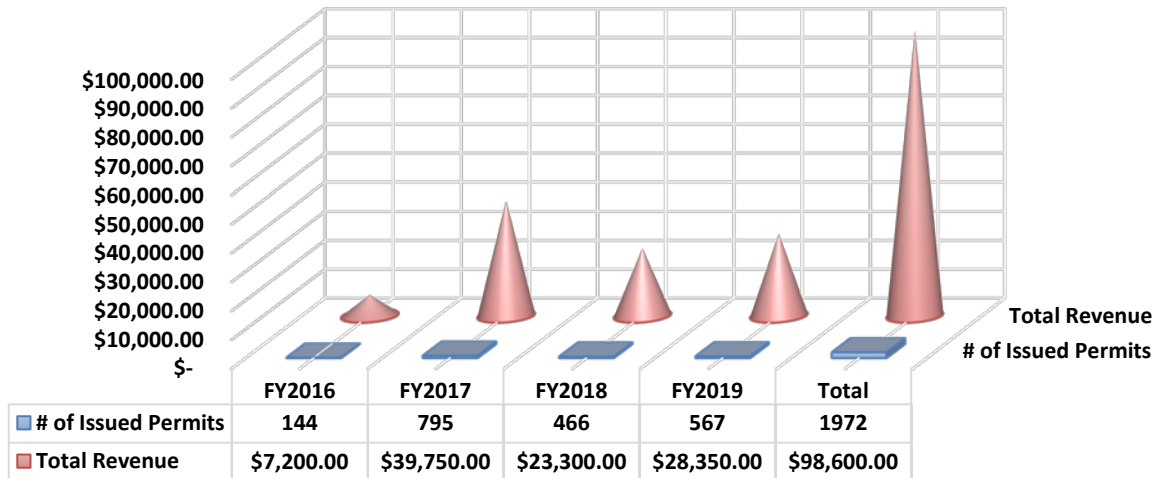


Source: City of Fort Worth records

The City of Fort Worth recorded \$52,950.00 in door-to-door vendor registration certificate revenue (in \$50.00 increments) between July 2, 2014 and July 14, 2016. Development Services Department permitting software (Accela) indicated that a total of 1,972 permits were issued from July 15, 2016 through September 30, 2019. However, no registration certificate fees were recorded/collected, resulting in \$98,600.00 in foregone potential revenue.



Collection of Door-to-Door Vendor Registration Certificate Fees May Have Resulted in Approximately \$98K of Forgone Potential Revenue from July 15, 2016 through September 30, 2019



Source: Accela Software

The City Code defines a door-to-door vendor as a person who travels by foot or vehicle, from door-to-door, house-to-house, building-to-building or place-to-place, within the city, for the purpose of offering for sale, or soliciting orders for future delivery of food, goods, services or merchandise. The door-to-door vendor ordinance is intended to provide for the general health, public safety and welfare, comfort, convenience and protection of the city and its residents.

Although the City of Fort Worth elected to eliminate door-to-door vendor registration certificate fees, we did note that solicitor permits at other municipalities were comparable to those previously assessed by the City of Fort Worth.

City	Door-to-Door Permitting Revenue Source
City of Arlington, TX	<ul style="list-style-type: none"> \$10.00 permit \$11.00 fingerprint cards
City of Dallas, TX	<ul style="list-style-type: none"> \$50.00 permit
City of Fort Worth, TX	<ul style="list-style-type: none"> \$50.00 permit (no longer charged)
City of Irving, TX	<ul style="list-style-type: none"> \$50.00 permit \$10.00 per each individual listed on the application
City of Plano, TX	<ul style="list-style-type: none"> \$20.00 permit
City of San Antonio, TX	<ul style="list-style-type: none"> \$120.00 permit

Source: Municipality Websites and Revenue Manuals



The GFOA specifies that governments can support collection activities through the passage of legislation that specifies the actions that are to be taken.

Effective guidance facilitates day-to-day business processes and removes ambiguity. However, inconsistent guidance could result in inconsistencies and/or loss or the erroneous collection of revenue.

***Recommendation 1:** The Development Services Director, in conjunction with the City Attorney, should resolve inconsistencies within the City Code related to door-to-door vendor registration certificate fees.*

Auditee's Response: Concur. The recommendation of the Development Services Department is that we eliminate the fee via Council with an August 11th M&C (and ordinance). This should allow us to implement the necessary changes by the start of FY2021. Allison Gray, Assistant Director of Development Services will be responsible to lead the team effort with help from our legal and budget office alliance partners.

Target Implementation Date: October 1, 2020

Responsibility: Allison Gray, Assistant Director of Development Services

Applicable Department Head: D. J. Harrell, Development Services Director

Applicable Assistant City Manager: Dana Burghdoff

2. Recurring revenue was recorded as miscellaneous revenue.

We identified FY2019 recurring payment transactions that resulted in revenue that could be recorded in accounts specified for those revenue sources. For example, we identified FY2019 monthly landfill closure/post closure trust payments that were required by contract and totaled more than \$700,000.00. We also noted that 10-day Auto Pound notification charges were recurring, and exceeded \$100,000.00 for the year.

A miscellaneous revenue account is typically used to post transactions that are small, infrequent dollar amounts that are not designated to be recorded in a specific general ledger account. The FY2019 Revenue Manual describes miscellaneous revenue as all revenue that is not defined by a different account(s).

A fee schedule, included within the index of the FY2019 Revenue Manual, lists specific revenue sources (e.g., duplicate health cards and permits, scrap metal/battery sales, donations and booth rentals) as miscellaneous revenue. Payments recorded as miscellaneous revenue, during FY2019, totaled \$14,231,294.51.

Internal Audit was informed that revenues were posted to the miscellaneous revenue account primarily due to historical use and a lack of specific accounts established for recurring payments. Financial Management Services Department Accounting staff indicated that miscellaneous account activity is reviewed on a monthly basis to ensure that transactions that should be posted to a specific account are not posted to miscellaneous revenue.

GFOA recommends that governments adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget. Revenue sources may have both non-



recurring and recurring components, but require finance officials' judgment when determining how much of the source is truly recurring.

Recurring payments that are not allocated to a specific account are not budgeted. Without regular, comprehensive monitoring of the budget, it is more difficult for governments to evaluate service level provision and learn more about trends and other deviations that may impact future operations. Also, recording considerable and recurring revenue in a separate account helps management detect non-payments.

Recommendation 2: *The Chief Financial Officer should consider whether revenues identified should be recorded in the Miscellaneous Revenue general ledger account, or recorded in another account and budgeted separately.*

Auditee's Response: Concur. The Planning & Data Analytics Department ("P&DA") will submit a request to create unique revenue accounts for the revenues identified in the Responsible Authority audit and will ensure necessary budget entries are recorded. The Accounting Division of the Financial Management Services Department ("Accounting") will ensure the applicable department(s) submit the appropriate journal entries to move the actual transactions to the new revenue accounts after the accounts are set up and the budget entries are completed.

P&DA is responsible for maintaining and publishing the City's Revenue Manual, which provides detailed information about the City's revenues. This manual provides guidance to departments on the proper account coding for the revenue transactions that are detailed within the manual. As a future project, Accounting will support P&DA's evaluation of all significant revenue transactions to determine whether or not a unique revenue account is warranted, which will be included in future updates to the City's Revenue Manual.

Target Implementation Date: September 30, 2020, for the following actions:

1. Creation of unique revenue accounts
2. Processing of the appropriate budget entries
3. Processing of the appropriate accounting entries

Responsibility: Tony Rousseau, Assistant Finance Director/Controller
Terry Hanson, Assistant Director, Planning and Data Analytics Department

Applicable Department Head: Reginald Zeno, Chief Financial Officer
Jan Hale, Acting Director, Planning and Data Analytics Department

Applicable Deputy City Managers: Jay Chapa (Financial Management Services)
Fernando Costa (Planning and Data Analytics)



Acknowledgements

The Department of Internal Audit would like to thank all City departments for their cooperation and assistance during this audit.