



INTERNAL AUDIT REPORT

Revenue Estimates Audit

November 22, 2022

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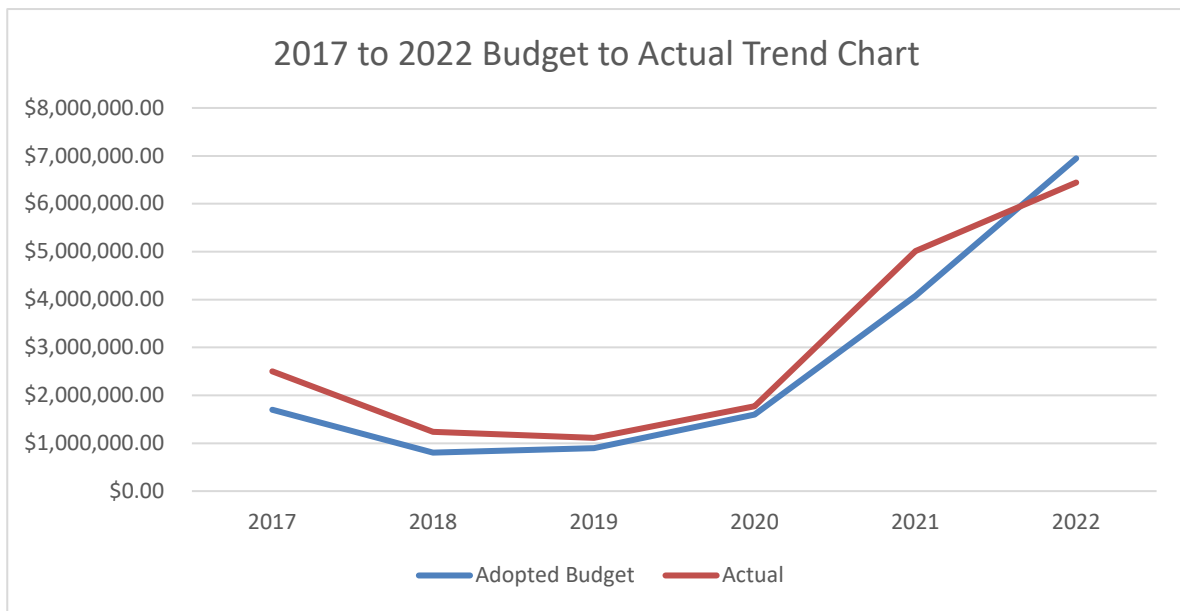


Background

Revenue-generating City departments, in conjunction with the Planning and Data Analytics Department (P&DA), 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 are to be considered (e.g. historical trends, current and/or known upcoming projects/events, changes in legislation, changes in City policy, etc.). Revenues are estimated each year by departments responsible for collecting revenue, in coordination with P&DA, which is responsible for reviewing each department’s submitted estimate for reasonableness.

P&DA requires departments to provide an explanation for revenue accounts/line items where actual revenue varies from budgeted revenue by +/- 10% and exceeds \$10,000.00. Applying this standard, Internal Audit considered the auditee’s estimated revenue reasonable, based on audit procedures and tests performed.

Lease Revenue Budget-to-Actual Revenue (FY2017 through FY2022)



Source: PeopleSoft



Objectives

The objectives of this audit were to evaluate the City's process for estimating revenue, and to conclude as to whether revenue assumptions seem reasonable.

Scope

The scope of this audit included a review of the FY2023 budget for Lease Revenue Account #4620001.

While lease revenue was not a major revenue source, it was subjected to testing because the FY2022 adopted budget (\$6,947,164.00) exhibited a 70.47% increase from the FY2021 budgeted revenue of \$4,075,382.00.

Methodology

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

- interviewed personnel from P&DA, and communicated with the Property Management Department, Aviation Department, and Park & Recreation Department staff;
- reviewed prior related internal audit reports and recent news articles;
- reviewed revenue trends from other local cities;
- reviewed assumptions and revenue calculation methodologies;
- traced supporting documentation to the Proposed FY2023 Budget;
- reperformed the calculations for estimating lease revenue; and
- compared reperformed calculations to the departmental estimates for reasonableness.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Internal Audit would like to thank the P&DA, Property Management, Aviation, and Park & Recreation Departments for their cooperation and assistance during this audit.



Audit Results

Lease Revenue Estimates Methodology

City leases executed with lessees are contractual obligations which serve as a source for estimating expected revenue streams to the City. City Department staff administer leases executed by their respective departments. A lease revenue account has been established in PeopleSoft within each of the following separate funds: General Fund, Municipal Parking, Municipal Airport, Alliance Maintenance Facility, Botanic Gardens Special Revenue, Lancaster Corridor LLC, and Fort Worth LDC.

P&DA

Each department submits its respective lease revenue estimate into the financial budget tool, Hyperion. P&DA aggregates these raw revenue estimates (and any related comments) submitted by departments and then develops the City's estimated lease revenue.

Property Management Department

The Property Management Department (PMD) consists of four divisions including Facilities Management, Fleet Services, General Services, and Real Estate. The Real Estate Division has five sections: Real Property, Tax Foreclosed Property, Lease Administration, Mineral Management, and Lake Worth Lease Management. Our testing and audit procedures focused on Real Property, Lease Administration, and Lake Worth Lease Management sections in addition to leases associated with the new City Hall:

- **Real Property** is responsible for acquiring land and property interest for the CFW as it relates to capital improvement projects through offers, negotiations, and administrative processes.
- **Lease Administration** is responsible for identifying properties, negotiating lease terms and rates for the CFW's use of the private property, and coordinating space planning with the Facilities Division of City-owned property.
- **Lake Worth Lease Management** coordinates land management activities related to leases, licenses, sales, and management of properties owned by the CFW.

INTERNAL AUDIT ASSUMPTIONS

1. The number of leases will remain constant for FY2023.
2. Lease Revenue will be in accordance with contractual agreements.

INTERNAL AUDIT PROCEDURES (RECALCULATION)

Lease Revenue Trending and General Ledger (GL) Data

- obtained FY2022 GL data as of September 8, 2022.
- averaged the actual lease revenue from October 2021 through August 2022.
- estimated the September 2022 lease revenue.
- annualized the FY2022 lease revenue with the combined actual and estimated FY2022 revenue.
- Based on this calculation methodology, Internal Audit estimated \$7,028,220.38 as FY2022 lease revenue.



Lease Revenue records per the Individual Department and P&DA Records

- obtained FY2023 Estimated Lease Revenue data.
- reviewed the lease agreements and verified whether the leases were active or not active.
- recalculated each department's estimated lease revenue based on their internal records and their active lease agreements.
- using data from the above three data points, Internal Audit's independent estimate of the FY2023 lease revenue was \$7,022,745.96.

CONCLUSION: The City's estimated lease revenue for FY2023 is \$7,006,389. The estimate Internal Audit recalculated for lease revenue was \$7,022,745.96. The variance between these two estimates was 0.23%; consequently we concluded the City's process for estimating revenue to be reasonable, given the scope of this audit.