

Fort Worth



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Revenue Estimates Audit

September 24, 2021



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

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Background

Revenue-generating departments, in conjunction with the Planning and Data Analytics 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 Planning and Data Analytics Department. The Planning and Data Analytics Department reviews the department estimates.

The City's Planning and Data Analytics Department requires revenue-generating departments to provide an explanation for revenue accounts/line items where actual revenue varies from budgeted revenue by +/- 10% or +/- \$10,000.00. Using this standard, Internal Audit considered the auditee's estimated revenue reasonable if there was a 10% or less variance between the auditee's budgeted revenue and Internal Audit's estimate. A variance over 10% was considered unreasonable. It should be noted that budgeted revenue is an estimate that may or may not be achieved, especially during the COVID-19 pandemic.



Objective

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

Scope

The scope of this audit included a review of the FY2022 budget for commercial garbage collections fees (96-gallon carts), as recorded in the commercial waste revenue account #4443003.

While commercial waste was not a major revenue source, it was selected because the FY2021 adopted budget (\$3,055,009.00) reflected a 433.12% increase from FY2020 budgeted revenue of \$573,036.00.

Methodology

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

- interviewed personnel from the Water and Code Compliance Departments;
- reviewed prior internal audit reports and recent news articles;
- reviewed revenue trends from other local cities;
- reviewed assumptions and revenue calculation methodologies used by the Code Compliance Department;
- compared Internal Audit assumptions to the Code Compliance Department's assumptions; and,
- traced supporting documentation to the Proposed FY2022 Budget.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for evaluating the internal controls.¹ 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.

¹ 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

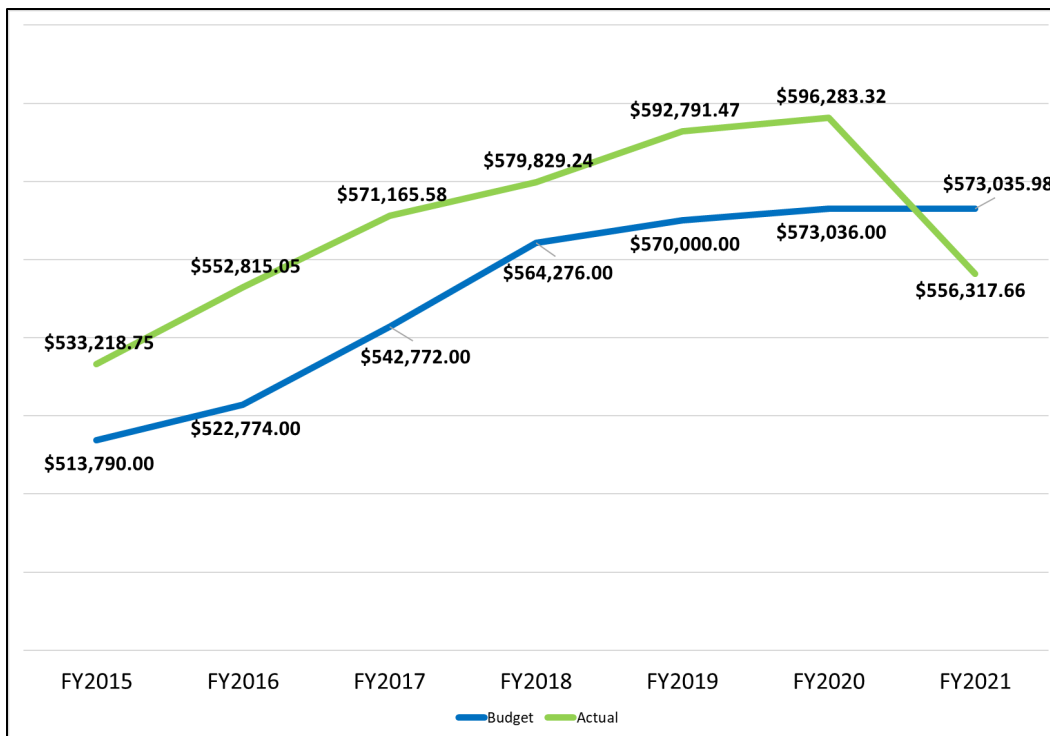
COMMERCIAL WASTE REVENUE ACCOUNT

Commercial waste revenue is generated from commercial customers who use 96-gallon garbage carts. The customer determines how often their garbage carts will be picked up, with the majority of these customers choosing once per week. Weekly garbage carts have different rates, based on the number of pick-ups per week. City Ordinance #16188 (dated October 26, 2004) authorizes the City of Fort Worth to charge customers amounts noted within the following table.

| Frequency of Pick-Up | Authorized Rate |
|----------------------|-----------------|
| 1 time per week | \$23.00 |
| 2 times per week | \$34.00 |
| 3 times per week | \$49.00 |
| 4 times per week | \$66.00 |
| 5 times per week | \$86.00 |
| 6 times per week | \$110.00 |

In FY2021, the adopted budget for commercial waste revenue was \$3,055,009.00, an increase of approximately 412% over the previous year's actual revenue of \$596,283.32. This increase resulted after a \$5.00 landfill fee was included in FY2021 estimated revenue. However, on February 15, 2021, the budgeted amount (\$3,055,009.00) was reduced to remove the \$5.00 landfill fee impact. The amended FY2021 budget was, therefore, \$573,035.98.

**Commercial Waste Budget-to-Actual Revenue
(FY2015 through FY2021)**



Source: PeopleSoft



CODE COMPLIANCE DEPARTMENT'S METHODOLOGY

The Code Compliance Department's FY2022 commercial waste revenue projection (**\$400,008.00**) was based on the number of carts with once per week pick-ups (1,386), plus the number of carts picked up more than once per week, multiplied by the authorized monthly rates (\$23.00 for once per week pick-ups / rates ranging from \$34.00 to \$110.00 for more than once per week pick-ups), annualized.

INTERNAL AUDIT ASSUMPTIONS

1. Commercial garbage collection fees (Section 12.5-841.2 of City Ordinance Number 16188, approved on October 26, 2004) will remain the same.
2. The number of garbage carts will remain consistent with the prior years' trends.
3. The average increase in revenue will remain constant.
4. The number of commercial accounts will remain constant, based on a June 2021 Economic Report ("Outlook for the Texas Economy"), published in September 2021.
5. There would be minimal impact on current trends from the COVID-19 pandemic.

INTERNAL AUDIT'S METHODOLOGIES

Number of Carts Billed

- Internal Audit obtained FY2021 billing data, as of July 31, 2021.
- In order to project the number of carts billed for the entire fiscal year, Internal Audit estimated the last two months of the fiscal year (August and September 2021) by averaging the actual number of carts billed from October 2020 through July 2021.
- We then added the estimated number of carts for August and September 2021 to the actual number of carts billed from October 2020 through July 2021.
- The total estimated carts, annualized, (4,110) were then multiplied by the applicable billing rates (ranging from \$23.00 to \$110.00).
- Based on this calculation methodology, Internal Audit estimated **\$590,814.00** as FY2022 commercial waste revenue.

Revenue Trending

- Assuming that the Code Compliance Department used the same budgeting methodology, Internal Audit averaged actual monthly revenue for the six-year period ending FY2020.
- We then averaged budget-to-actual variances over the six-year period (2.27%), and multiplied that percentage by the actual FY2020 revenue (\$596,283.32).
- Based on this calculation methodology, Internal Audit estimated **\$609,818.95** as FY2022 commercial waste revenue.

Number of Carts, Per Code Compliance Department Records

- Internal Audit obtained FY2021 cart data.
- The total number of carts noted by the Code Compliance Department (2,124) as being picked up once per week, was multiplied by the applicable billing rate (\$23.00), and then annualized.



- Since the document provided by the Code Compliance Department only included counts for carts that were picked up once per week, Internal Audit multiplied the number of carts billed by the applicable billing rates (ranging from \$34.00 to \$110.00), annualized and then added to the number of carts with one pick-up per week.
- Based on this calculation methodology, Internal Audit estimated **\$624,960.00** as FY2022 commercial waste revenue.

CONCLUSION: Internal Audit's revenue estimates, which ranged from **\$590,814.00** to **\$624,960.00**, exceeded Code Compliance's FY2022 budgeted revenue (**\$400,008.00**) by a range of \$190,806.00 to \$224,952.00. Since Internal Audit and the Code Compliance Department's estimates varied by more than 10%, we concluded that the Code Compliance Department's FY2022 budgeted commercial waste revenue is unreasonable.

A majority of the variance was because the Code Department's calculation was based on the estimated *number of accounts*, while Internal Audit's was based on the estimated *number of carts*. Since one account can include multiple carts, Internal Audit's revenue estimate exceeded the Code Compliance Department's revenue estimate.

Code Compliance staff indicated their projection was conservative because COVID-19 mitigation strategies resulted in businesses closing, operating at 50% occupancy, and large segments of employees working remotely. Code Compliance staff also indicated that they worked closely with the City's landfill operator and commercial haulers, who both suggested a downturn in commercial collections. The expected decline has not occurred, and the Code Compliance Department has indicated they plan to increase their projection.



Acknowledgements

The Department of Internal Audit would like to thank the Code Compliance, Data and Analytics, Financial Management Services and Water Departments for their cooperation and assistance during this audit.