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**Revenue Sharing Agreements Audit**

April 12, 2019



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

200 Texas Street  
Fort Worth, Texas 76102

**Audit Staff**

Patrice Randle, City Auditor  
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**The Revenue Sharing Agreements Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2018 Annual Audit Plan.**

### **Audit Objectives**

The objectives of this audit were to determine whether the City of Fort Worth:

- accurately accounted for shared Airport revenue;
- met its oversight responsibilities regarding revenue sharing agreements; and,
- received shared Airport revenue from the cities of Coppell, Euless, Grapevine and Irving as required.

### **Audit Scope**

Our audit included a review of shared Airport revenue for calendar years 2015, 2016 and 2017.

### **Opportunities for Improvement**

Increased contract management oversight

Require annual independent verifications of excess revenue

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## **Executive Summary**

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As part of the FY2018 Annual Audit Plan, the Department of Internal Audit conducted an audit of revenue sharing related to the Dallas Fort Worth International Airport. During our audit period, the City Fort Worth received approximately \$6 million each year from revenue sharing agreements to fund improvements.

The Department of Internal Audit concluded that the City was underpaid approximately \$71,000.00.

- Property tax payments that were excluded from the City of Grapevine's calculation resulted in a shared revenue underpayment of approximately \$36,000.00 in 2017.
- Utility franchise fees totaling approximately \$22,000.00 were due from the City of Euless, but were not paid in 2015.
- The City of Euless did not pay the CFW approximately \$13,000.00 in short-term motor vehicle taxes in 2017.

Also, independent revenue verifications were not obtained annually as required by revenue sharing agreements and state law.

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

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## Background

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The Dallas Fort Worth International Airport (referred to hereafter as Airport) is operated by a Board of Directors on behalf of the owner cities. Although Dallas and Fort Worth own the Airport, the property is located within the municipal boundaries of Coppell, Euless, Grapevine and Irving. These cities, therefore, receive a significant amount of revenue from business conducted on Airport property. Each city, except for Grapevine, entered into a revenue sharing agreement with the City of Fort Worth (CFW). Since Grapevine did not enter into a revenue sharing agreement with the CFW, Grapevine's sharing of revenue is specified by state law.

Section 22.089 of the Texas Transportation Code is an enactment of Senate Bill 569, which became effective on September 1, 2001. The Texas Transportation Code requires non-constituent municipalities (i.e., Grapevine) with property in a county or municipal airport to pay constituent agencies (i.e., Dallas and Fort Worth) two-thirds of excess airport revenue received.

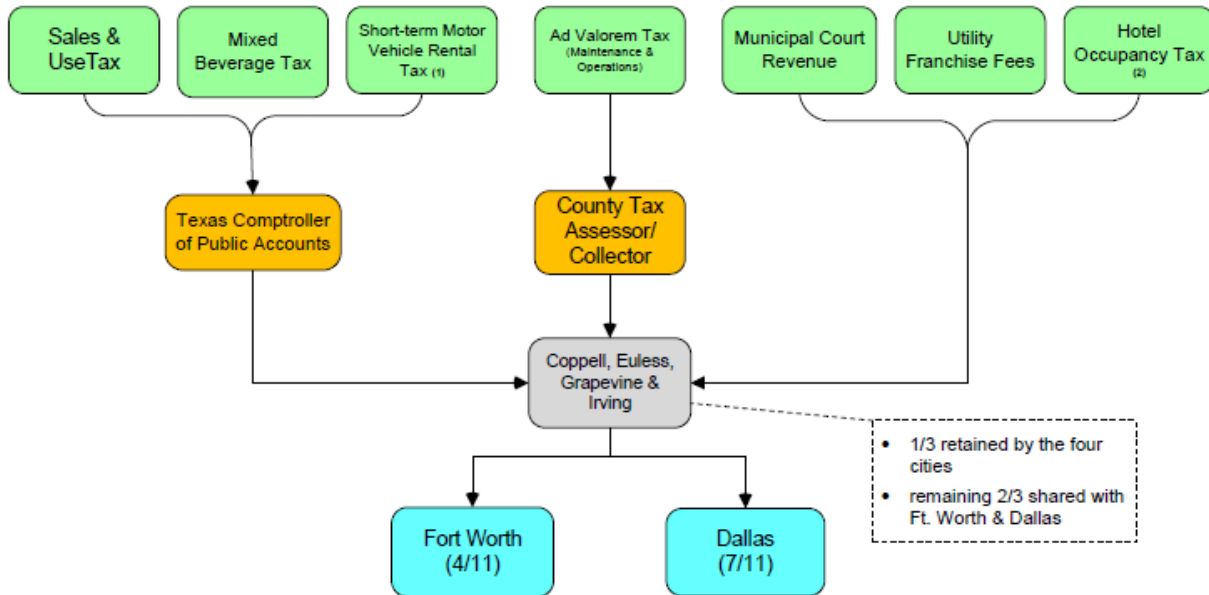
The revenue sharing agreements and state law both entitle the CFW to receive increased revenue, which is the excess of base year revenues generated from the property. Tax revenues that are shared include:

- ad valorem tax;
- sales and use tax;
- utility franchise fees;
- mixed beverage tax;
- hotel occupancy tax (HOT);
- municipal court revenue; and,
- all other general revenue tax levies, including short-term motor vehicle rental tax.

Shared Airport revenue received by the CFW is deposited into Fort Worth's DFW Revenue Sharing Fund. The following illustration highlights revenue allocations specified within the revenue sharing agreements and state law.



### Revenue Shared by Cities within the DFW Airport Boundaries



(1) Only Euless remits short-term motor vehicle rental tax  
 (2) Only Euless remits hotel occupancy tax revenue

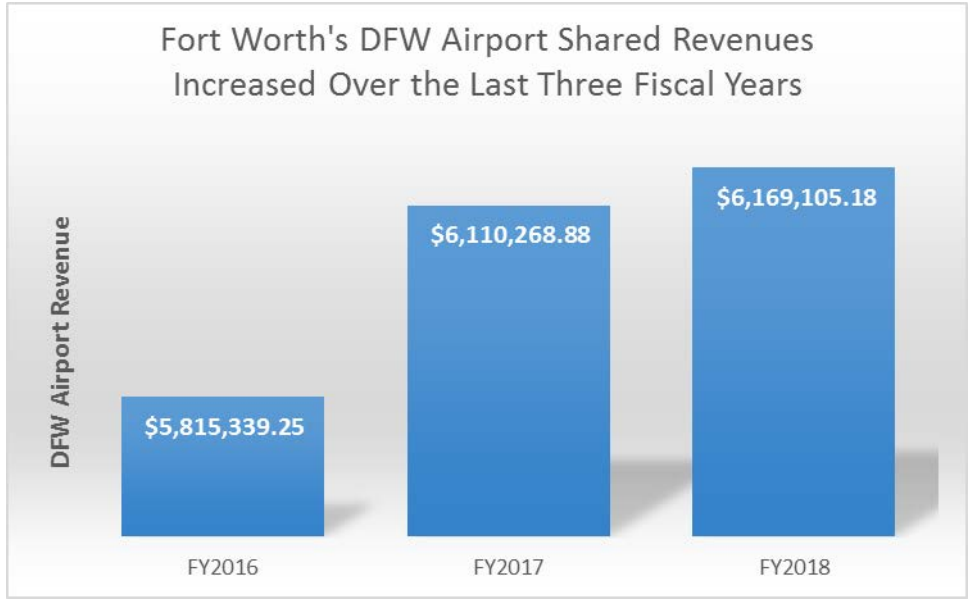
Source: Revenue sharing agreements; Texas Transportation Code

Revenue sharing agreements require that Coppel, Euless, and Irving pay revenues by March 31<sup>st</sup>. The Texas Transportation Code requires non-constituents (i.e., Grapevine) to pay revenues no later than December 31<sup>st</sup>. The revenue sharing agreements and the Code also require an annual independent verification of excess revenue.

Base year revenue is critical to the revenue sharing agreements. As stated in the revenue sharing agreements and the Texas Transportation Code, the cities of Dallas and Fort Worth are to collect increased/excess revenues. Excess revenues exceed the amount of airport revenue at the agreed upon base year. In reference to Euless and Irving, the revenue sharing agreements specify base year amounts. However, the revenue sharing agreement with Coppel does not. In reference to Grapevine, the Transportation Code specifies the base year.

Shared Airport revenue is dedicated to facility improvements and related debt at the Fort Worth Convention Center and the Will Rogers Memorial Center. Whereas, the CFW’s Revenue Policy dictates that all revenues derived from DFW Airport car rental revenue sharing be dedicated to facility improvements of the Fort Worth Convention Center and the Will Rogers Memorial Center. The Revenue Policy does not specify how other shared revenue sources should be used.

According to the City’s FY2016, FY2017 and FY2018 Comprehensive Annual Financial Reports, the CFW received approximately \$6 million annually in shared Airport revenue. The Financial Management Services Department (FMS) is responsible for collecting the shared revenue.



Source: General ledger

In December 2010, the City of Euless indicated an interest in encouraging hotel development within their airport boundaries. The cities of Dallas and Fort Worth authorized hotel development within Euless' portion of the airport, based on Euless' commitment to share hotel tax revenues generated from the hotel development. While the new contract required the City of Euless to share HOT revenue with the CFW, the revenue sharing agreement with the City of Irving did not. A HOT requirement was included in the Coppell agreement.

As previously stated, a revenue sharing agreement was not executed with the City of Grapevine. Since HOT were not specified within the Texas Transportation Code, the City of Grapevine was not required to share revenue generated from four hotels located on Airport property, and within the municipal boundaries of Grapevine. Internal Audit did note an inconsistency between House Bill 2083 and its companion bill Senate Bill 569. As noted in the following table, Senate Bill 569 abandoned HOT provisions that were included in House Bill 2083. Since the Texas Transportation Code is an enactment of Senate Bill 569, the Texas Transportation Code mirrors Senate Bill 569.



Revenue Source	House Bill 2083	Senate Bill 569	Texas Transportation Code 22.089
Ad Valorem Taxes	✓	✓	✓
Sales and Use Taxes	✓	✓	✓
Utility Franchise Fees	✓	✓	✓
Municipal Court Revenue	✓	✓	✓
Mixed Beverage Taxes	✓	✓	✓
Hotel Occupancy Tax (HOT)	✓	✗	✗
All other taxes attributable to the revenue sharing area and deposited to the credit of the municipality's general fund	✓	✓	✓
Revenue from commercial development municipality within the airport boundaries that is not a revenue sharing area as agreed by the joint board and non-constituent (i.e., Grapevine).	✗	✓	✓

Source: capitol.texas.gov



## Objectives

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The objectives of this audit were to determine whether the CFW:

- accurately accounted for shared Airport revenue;
- met its oversight responsibilities regarding revenue sharing agreements; and,
- received shared Airport revenue from the cities of Coppell, Euless, Grapevine and Irving as required.

## Scope

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The scope of this audit covered shared Airport revenue received from the cities of Coppell, Euless, Grapevine and Irving during calendar years 2015, 2016 and 2017.

Our review of sales and use, mixed beverage, short-term motor vehicle rental and property taxes was limited to information provided by the cities, the Texas Comptroller of Public Accounts and the Dallas and Tarrant County Tax Assessor/Collectors. The testing was limited to reviewing information received, and following up on what Internal Audit considered to be questionable amounts.

## Methodology

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

- reviewed internal and external audit reports related to Airport revenue sharing;
- interviewed key personnel within FMS, and the cities of Coppell, Euless, Grapevine and Irving;
- reviewed revenue sharing agreements and applicable regulations;
- obtained and reconciled revenue data from municipalities to data maintained by the Texas State Comptroller, Tarrant Appraisal District, Dallas Central Appraisal District, etc.;
- analyzed financial reports and related documentation to identify significant fluctuations in reported amounts and balances;
- reconciled revenue sharing amounts provided by municipalities to the CFW's general ledger;
- validated base year property tax values for the City of Grapevine; and,
- evaluated internal controls related to revenue sharing accountability.

We conducted this 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.





## Audit Results

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The Department of Internal Audit conducted an audit of Airport revenue sharing with the cities of Coppell, Euless, Grapevine and Irving. Based on our audit results, each city reported and paid revenues (e.g., ad valorem and sales and use tax, utility franchise fees, etc.) each year. However, the City did not receive all revenue for which it was due.

- Internal Audit concluded that the CFW was underpaid approximately \$71,000.00.
  - Grapevine underpaid property tax of \$35,750.00 for 2017.
  - Euless underpaid utility franchise fees of \$22,143.81 for 2015.
  - Euless underreported short-term motor vehicle tax of \$12,730.50 for 2017. The City of Euless indicated that the State had failed to report the tax to the City of Euless.
- Two cities (Grapevine and Irving) did not have the annual verification of revenue performed as required by the revenue sharing agreement and state law. The City of Coppell had revenue verifications performed (for a two-year period) every other year, instead of annually as required within the revenue sharing agreement.

During audit fieldwork, we identified a November 2008 audit issued by the City of Dallas. Based on that audit report, the City of Dallas concluded that the City of Irving miscalculated municipal court revenue and utility franchise fees. The City of Dallas estimated that \$419,615.00 was due to the City of Dallas for calendar years 2003 through 2007.

The City of Dallas' follow-up to their internal audit recommendations indicated a settlement with the City of Irving, from which Dallas received approximately \$333,885.00 in October 2010. When reviewing the City of Irving's on-line check register, we confirmed two payments to the City of Dallas totaling \$333,885.00, and one check to the City of Fort Worth totaling \$653,435.93. A letter from the City of Irving stated that \$190,632.96 of the \$653,435.93 was Fort Worth's share of the underpayment identified by the City of Dallas. The remaining \$462,802.97 represented Irving's annual payment. The CFW received its payment in FY2014.

While Euless' and Irving's revenue increased significantly after the base year, Grapevine's did not. Grapevine's 2001 appraised value (\$1,401,020,631.00) decreased approximately 6% from the base year value of \$1,487,364,004.00. Additionally, the taxable value decreased by approximately 11.2%. Internal Audit concluded that the base year decrease was consistent with economic changes. Internal Audit verified base year ad valorem tax amounts for Grapevine, but could not verify other shared revenue sources, due the lack of availability of records.



## Overall Evaluation

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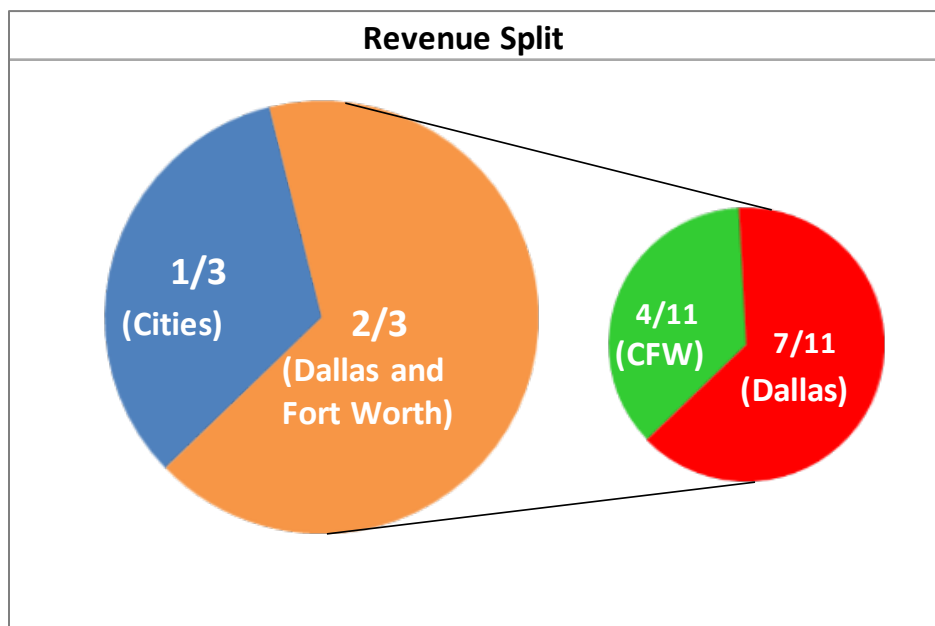
High	Medium	Low
<a href="#">Insufficient oversight of revenue sharing agreements</a>		
		<a href="#">Independent revenue verification not obtained as required</a>



## Detailed Audit Findings

### 1. The City of Fort Worth was underpaid approximately \$71,000.00 in excess shared Airport revenue.

As noted in the Background section of this report, revenue sharing agreements and state law entitle the CFW to receive increased revenue, which is the excess of base year revenues generated from the property. The cities of Coppell, Euless, Grapevine and Irving are required to pay the cities of Fort Worth and Dallas two-thirds (2/3) of excess airport revenue received. The cities of Dallas and Fort Worth then share the two-thirds (2/3), in proportion to each city's ownership interest in the DFW Airport (7/11 and 4/11, respectively).



Source: Revenue sharing agreements

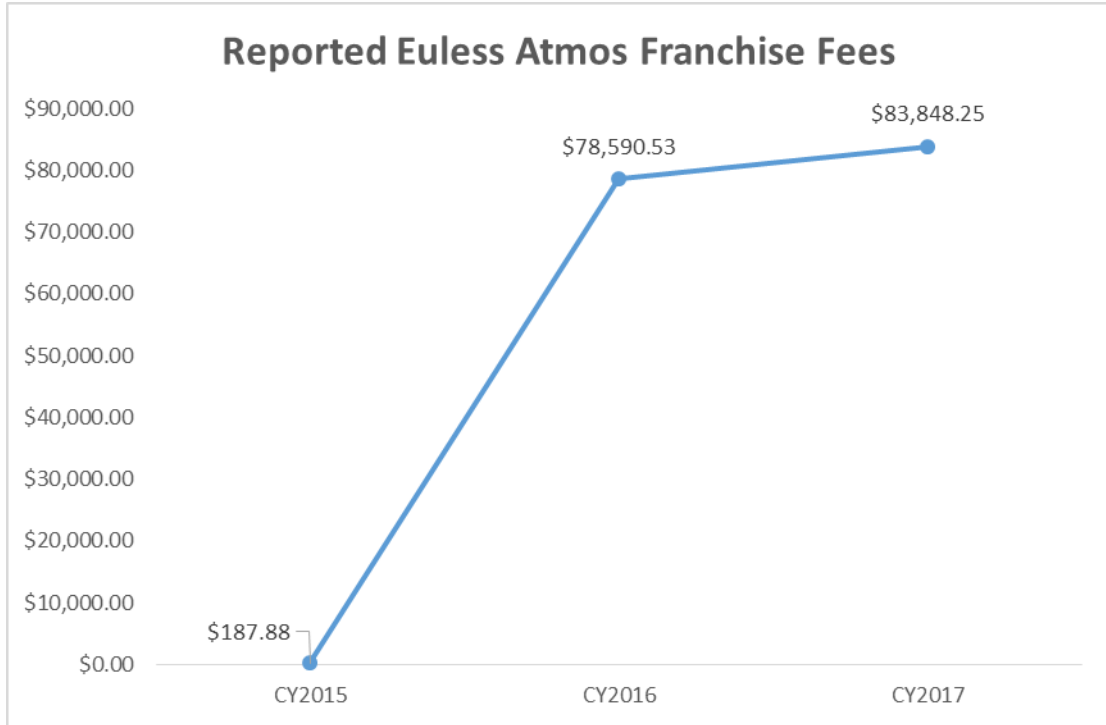
There is no 'owner' of the City's revenue sharing agreement process, as no one has been assigned contract management and oversight responsibilities. As a result, the CFW received less shared Airport revenue than was due, without detection.

#### Ad-Valorem Tax

The City of Grapevine did not include all required properties in its CY2017 payment, reportedly due to appraisal district reporting. As a result, the CFW was underpaid approximately \$35,750.00.

#### Utility Franchise Fee

Internal Audit concluded that the City of Euless did not accurately share CY2015 utility franchise fees. Euless initially reported \$187.88 in Atmos franchise fees to the CFW. Based on significant differences between CY2015, CY2016 and CY2017, Internal Audit questioned the CY2015 amount.



Source: City of Eules

Documentation received from Atmos Energy included \$91,343.00 of utility franchise fees, not reported by Eules. The CFW’s share of the \$91,343.22 ( $\$91,343.22 \times \frac{2}{3} \times \frac{4}{11} = \$22,143.81$ ) was, therefore, not received.

**Short-Term Motor Vehicle Rental Tax**

When comparing state and City of Eules data, we noted an apparent underreporting of short-term motor vehicle rental tax.

Upon further inquiry, Eules disclosed that they had been underpaid by the state, resulting in a CY2017 underpayment to the CFW. The City of Eules stated that a rental facility neglected to pay \$52,513.30 in revenue that was due for the month of September 2017. As a result, the City’s share of the \$52,513.30 ( $\$52,513.30 \times \frac{2}{3} \times \frac{4}{11} = \$12,730.50$ ) was not received. Eules stated that they would submit this underpayment to the City.

**Recommendation 1A:** *The Chief Financial Officer, in conjunction with the Public Events Director, should designate a processes owner to ensure contract compliance.*

**Auditee’s Response:** Concur. The Financial Management Services Department management staff will confer with the Public Events Department management staff to designate a “process owner” to be responsible for overseeing the contractual compliance aspects of the Airport Revenue Share agreements. Public Events concurs with the recommendation and suggests the process owner should be in the Financial Management Services Department.

**Target Implementation Date:** September 30, 2019

**Responsibility:** To be Determined



**Recommendation 1B:** *The Chief Financial Officer should verify that the payment that has reportedly been prepared by the City of Grapevine for the \$35,750.00 in underpaid ad-valorem tax is received.*

**Auditee's Response:** Concur. The Financial Management Services Department will contact the City of Grapevine to follow up on the ad-valorem payment totaling \$35,750.00 in underpaid ad-valorem taxes.

**Target Implementation Date:** September 30, 2019

**Responsibility:** John Samford, Assistant Finance Director, Financial Management Services Department – Treasury Division

**Recommendation 1C:** *The Chief Financial Officer should bill for, and collect, the underpaid franchise fee of \$22,143.81 from the City of Euless.*

**Auditee's Response:** Concur. The Financial Management Services Department - Treasury Division will bill and collect the underpaid franchise fee of \$22,143.81 due from the City of Euless.

**Target Implementation Date:** September 30, 2019

**Responsibility:** John Samford, Assistant Finance Director, Financial Management Services Department – Treasury Division

**Recommendation 1D:** *The Chief Financial Officer should ensure that a receivable, due from the City of Euless for underpaid short-term motor vehicle tax, is recorded within the City's general ledger in the amount of \$12,730.50.*

**Auditee's Response:** Concur. The Financial Management Services Department - Treasury Division will bill and collect the underpaid short-term motor vehicle tax of \$12,730.50 due from the City of Euless.

**Target Implementation Date:** September 30, 2019

**Responsibility:** John Samford, Assistant Finance Director, Financial Management Services Department – Treasury Division

**Recommendation 1E:** *The Chief Financial Officer should require that trend analysis, by revenue source, be performed upon receipt of annual reports to identify anomalies that require research and/or inquiry.*

**Auditee's Response:** Concur. The Financial Management Services Department management staff will confer with the Public Events Department management staff to designate a “process owner” to be responsible for performing analysis on the revenue received from the Airport Revenue Share agreements.

**Target Implementation Date:** September 30, 2019

**Responsibility:** To be Determined



**2. The cities of Irving and Grapevine did not obtain an independent verification of its increased revenues, as was required.**

Revenue sharing agreements and state law require that each city obtain an annual independent verification of excess airport revenue. The cost of the independent verification is to be apportioned based on the percentages specified within the contract. In absence of a contract, Texas legislation states that the cost will be equally divided among the cities.

Internal Audit concluded that the cities of Irving and Grapevine did not obtain an independent verification for calendar and/or fiscal years 2015, 2016 and 2017. The City of Coppell retained an independent verification. However, that verification was for prior and current year revenue.

Without annual revenue verifications, the CFW did not receive an independent attestation that the amounts reported to the City were reasonable and/or accurate. However, since independent attestations were not obtained, the cities rightfully did not apportion costs to the CFW.

**Recommendation 2:** *The Chief Financial Officer or Public Events Director, whichever is applicable, should ensure all cities complete independent revenue verifications as required.*

**Auditee's Response:** Concur. The Financial Management Services Department management staff will confer with the Public Events Department management staff to designate a "process owner" to be responsible for overseeing the contractual compliance aspects of the Airport Revenue Share agreements. Public Events concurs with the recommendation and suggests that the Financial Management Services Department would be applicable to ensure all cities complete the independent verifications

**Target Implementation Date:** September 30, 2019

**Responsibility:** To be Determined

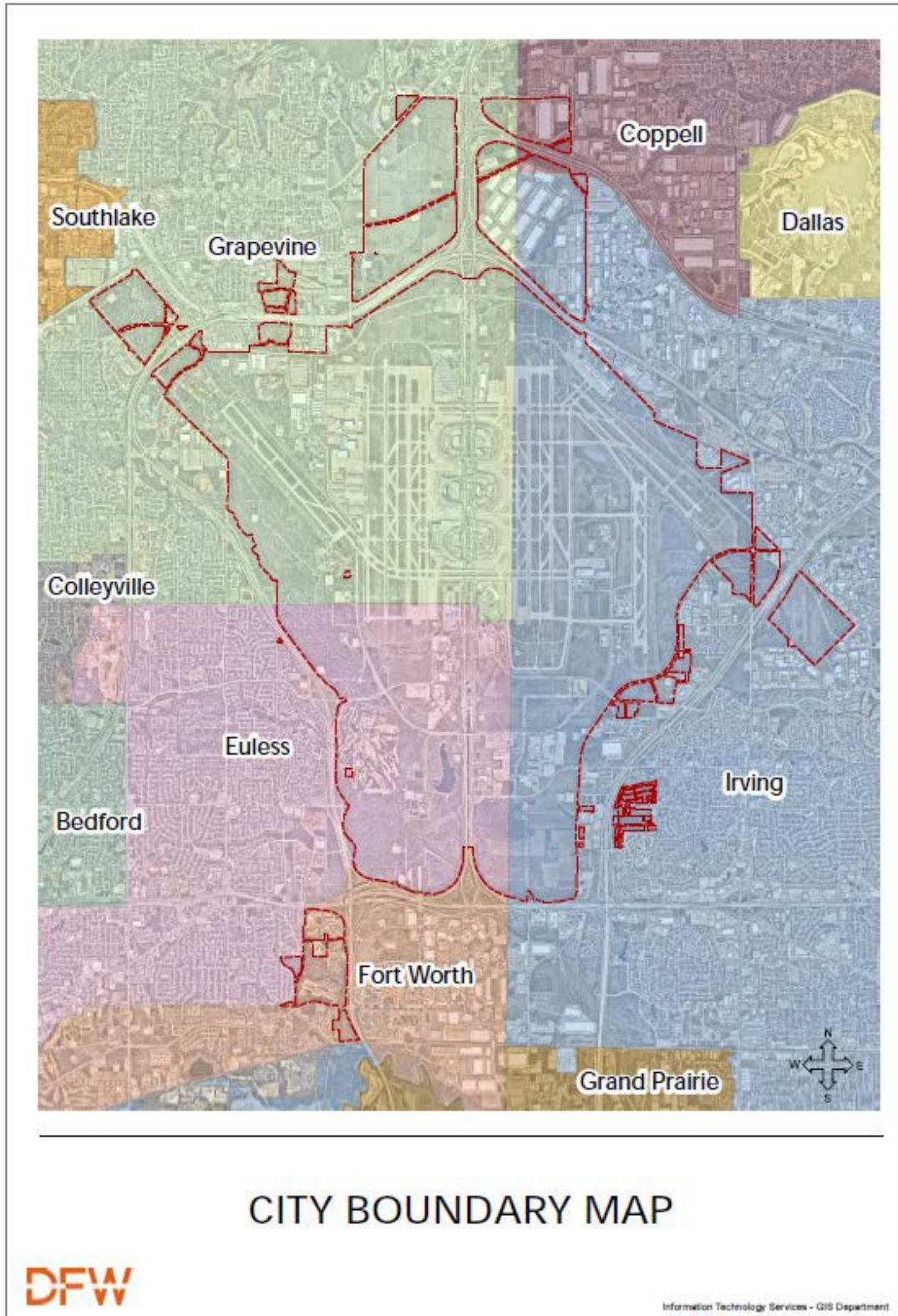


## Acknowledgements

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The Department of Internal Audit would like to thank the Financial Management Services and Public Events Departments, as well as cities of Coppell, Euless, Irving, and Grapevine for their cooperation and assistance during this audit.

# Exhibit I – DFW Airport Boundaries



CITY BOUNDARY MAP

Source: DFW Airport