



Audit Report

Debt Service Fund – Finance Department January 28, 2016

Mayor

Jim Yarbrough

Council Members

Tarris Woods

Dr. Craig Brown

Ralph McMorris

Norman Pappous

Terrilyn Tarlton

Carolyn Sunseri



City Auditor

Glenn Bulgherini, CPA

Auditor

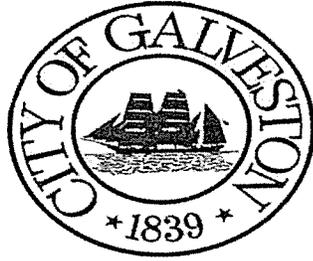
Carrie Sumrall, CFE

Report Summary

Audit Finding #1: An excess of cash in the amount of \$1,164,118 should be returned to the Industrial Development Corporation Fund (IDC). Each of the four silos should receive 25 percent of the \$1,164,118, equating to \$291,029 for each silo. The four silos are: Beach Nourishment; Economic Development; Parks; and Public Infrastructure.

Audit Finding #2: An amount of \$910,920 should be transferred from Reserved Fund Balance of The Debt Service Fund to Unreserved Fund Balance within The Debt Service Fund. This will increase the availability for general debt service purposes by \$910,920.

The Finance Department made the appropriate journal entries for audit findings.



DEBT SERVICE FUND - FINANCE DEPARTMENT
CITY AUDITOR

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AUDIT TEAM

Glenn Bulgherini, CPA, City Auditor
Carrie Sumrall, CFE, Auditor

Office of the City Auditor
Galveston City Hall
Phone: 409-797-3771
Email: bulgheriniglen@cityofgalveston.org

**City of Galveston
Cash – Debt Service Fund
City Auditor Executive Summary**

January 28, 2016

Objective

The objective of this audit is to identify the correct amount of cash to be appropriated among the seven categories of the Debt Service Fund and recommend accounting adjustments needed to meet this objective. The seven categories within the Debt Service Fund are:

1. Hotel Occupancy Tax;
2. Industrial Development Corporation (4B Sales Tax);
3. Municipal Utility District;
4. Real Property Tax Ad Valorem;
5. Tax Reinvestment Increment Zone;
6. Wharves Board; and
7. General Fund.

Scope

The scope of this audit was initially limited due to the fact that internal documentation did not exist to facilitate the reconciliation of cash among the seven categories. However, in support of the Auditor's needs, the City's Finance Department went back to 1995 and reconstructed the records of The Debt Service Fund up to the date of this report.

Fieldwork Performed

The City Auditor's Department recreated detailed cash flow statements for fiscal years 2010 through 2015. Based on that effort, it was estimated that an excess of approximately two million dollars existed in the Debt Service Fund as of April 2015. This finding was immediately reported to City leadership and the Finance Director since the current year's audit was in process.

As a result of the Auditor's Finding, finance department staff began an effort to recreate records beginning in fiscal year 1995-96 and prepared schedules of cash flow into The Debt Service Fund and cash flow out of The Debt Service Fund for each of the seven categories through the audit date. Cash flow into The Debt Service Fund included revenues, transfer-ins, and proceeds from the sale of bonds. Cash flow out of The Debt Service Fund included bond principal and interest payments, agent fees, and bank fees. This methodology created balances for each of the seven categories that later reconciled to the Unreserved Fund Balance.

**City of Galveston
Cash – Debt Service Fund
City Auditor Executive Summary**

Audit Findings

Audit Finding #1: An excess of cash in the amount of \$1,164,118 should be returned to the Industrial Development Corporation Fund (IDC). Each of the four silos should receive 25 percent of the \$1,164,118, equating to \$291,029 for each silo. The four silos are:

1. Beach Nourishment;
2. Economic Development;
3. Parks; and
4. Public Infrastructure.

Audit Finding #2: An amount of \$910,920 should be transferred from Reserved Fund Balance of The Debt Service Fund to Unreserved Fund Balance within The Debt Service Fund. This will increase the availability for general debt service purposes by \$910,920.

Staff Conduct

There was minor miscommunication of internal audit policies and procedures between The City Auditors Department and The Finance Department. The City Manager and the Deputy City Manager promptly interceded and properly communicated internal audit policies and procedures to all employees.

City Manager's Response

The audit resulted in the need to create an inception to date accounting of transactions within the Fund. Absent the identification of the issue by the Auditor, the excess coverage within the Fund would not have been identified leaving the overall balance exceeding that which was needed to cover debt obligations. The IDC funding that remained in the Fund after retirement of its corresponding obligation was returned to the IDC silos for use in funding current projects and programs.

Without the focus placed on this account by the Auditor the identified issues would have remained unchecked.

Follow Up

The Finance Department made the appropriate journal entries for audit findings #1 and #2.