



ITS Expenditure Allocation Audit

October 2014 – May 2016

CITY OF KILLEEN

A Report to the City
of Killeen Audit
Committee

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Report Summary

This audit was conducted in relation to technology disbursements to determine overall adherence to fund restrictions as required by contract and state and local law. The reasonableness and accuracy of technology disbursement allocations was also considered as part of the audit scope. The audit overall revealed inappropriate charges to restricted funds, charges to funds that do not benefit from the purchased software or equipment, and inconsistent charging methods.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

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AUDIT REPORT HIGHLIGHTS

Why This Audit Was Conducted

This audit was conducted to determine adherence to fund restrictions and reasonableness for disbursement allocations.

What Was Recommended

It was recommended that the method for allocating technology disbursements be evaluated and changed to reflect fund restrictions and proper accounting practices as well as any and all applicable rules and regulations.

August 24, 2016

Mayor and Council,

I am pleased to present this audit of Information Technology Services (ITS) expenditure and expense allocations.

BACKGROUND

ITS is responsible for the operation and procurement of technology and communications infrastructure for the City, including all related equipment, software and personnel. Some of these benefit multiple departments across several funds such as network equipment, financial software, and virus protection software. These have historically been allocated based on fixed percentages across six funds.

OBJECTIVE AND SCOPE

The objective of the audit was to determine adherence to fund restrictions as well as the reasonableness and accuracy of the way in which ITS disbursements are applied across multiple funds.

WHAT WAS FOUND

The audit revealed inconsistent charging methods and inappropriate charges to restricted funds as well as charges to funds that do not benefit from the purchased software or equipment. The fixed percentages that have long been utilized are not supported on any measurable basis.

These practices have long been in effect and are reportedly the result of several years of budget constraints which forced staff to consider alternate funding methods. It is imperative that these practices be evaluated and changed to follow proper accounting practices as well as any and all rules and regulations and related restrictions.

Adequate technological resources are a necessity and should be considered as such when preparing funding schedules during the annual budget process.

I appreciate the cooperation and assistance I received from the Information Technology Services Department staff during this audit.

Amanda R. Wallace

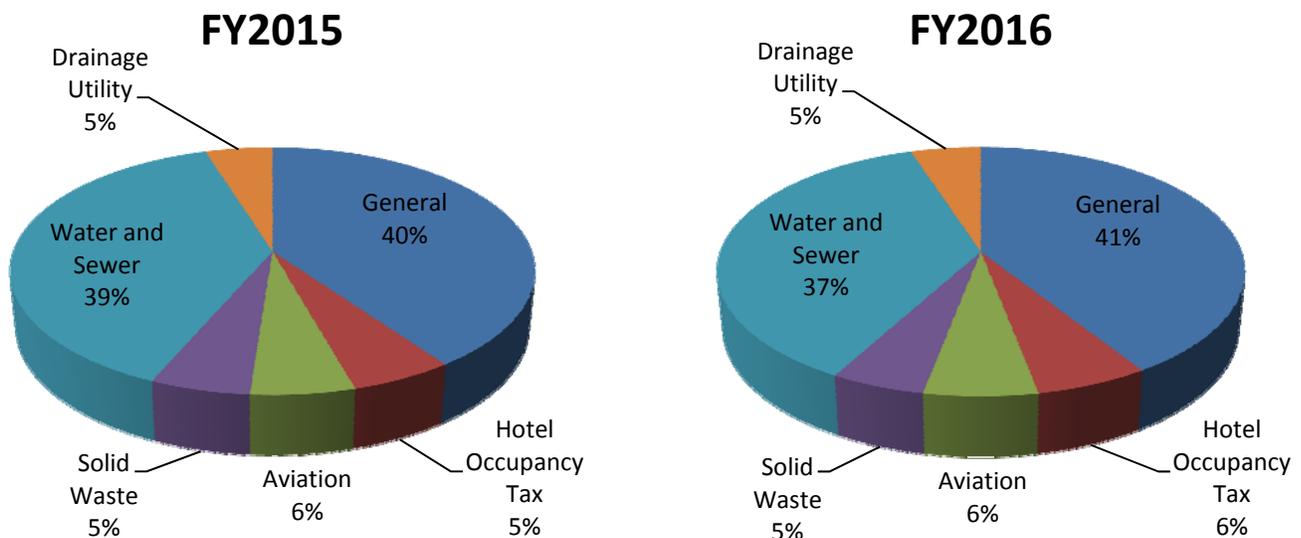
Amanda R. Wallace, City Auditor

BACKGROUND

Information Technology Services (ITS) is responsible for the operation of information technology and communications infrastructure for the City of Killeen, including all related equipment, software and personnel. It is also responsible for the procurement of technology on behalf of the departments and divisions in the City. As would be expected, there are different technology needs among the various departments and divisions, which require a multitude of softwares, applications, and equipment. Each of these are managed and procured by ITS, and some affect or benefit multiple departments and thus are considered to be “enterprise” in nature by ITS’s definition. Some examples of this would be:

1. Network equipment – This equipment enables collaboration and communication between computers and other devices in the City, which benefits every department in the City and can generally be allocated across the major funds.
2. Sungard (Enterprise Reporting Software) – This software is used for various functions to include the accounting functions of the City. It tracks and records all revenues and disbursements. It helps departments with work order tracking such as water meter shut offs/turn ons. It is used by every department in the City and can generally be allocated across the major funds.
3. Computer virus protection software – This protects the City’s data, files, and information from corruption or unauthorized use. There are computers in every department of the City; therefore, this cost can generally be allocated across the major funds.

For those technologies that are considered to be “enterprise” in nature, ITS allocates the related disbursements across the following funds: General, Hotel Occupancy Tax, Aviation, Solid Waste, Water and Sewer, and Drainage Utility. The percentages that are applied to these funds are shown in the charts below for the two fiscal years under audit.



The differences in the percentages over the two years are very slight, but were taken into consideration in the audit.

OBJECTIVE, SCOPE, AND METHODOLOGY

The ITS Expenditure Allocation Audit was included in the FY2016 Audit Plan, as presented to the City Council and the Audit Committee.

Objective

The objective of the audit was to determine adherence to fund restrictions as well as the reasonableness and accuracy of the way in which Information Technology Services (ITS) disbursements are applied across multiple funds.

Scope

The audit scope included the non-departmental ITS accounts found within the following funds: Hotel Occupancy Tax, Aviation, Solid Waste, Water and Sewer, and Drainage Utility. The period under audit was from October 2014 through May 2016.

Methodology

To accomplish the audit objective, the following steps were performed:

- Conducted interviews with ITS staff and obtained information on policies and procedures regarding the allocation of disbursements across funds.
- Obtained and tested data from Finance and ITS relating to the allocation of disbursements across funds.
- Analyzed supporting documentation to determine whether the policies and procedures were adhered to.
- Analyzed policies to determine effectiveness and adherence to fund restrictions.
- Considered fraud, waste, and abuse as related to the audit objective.

AUDIT RESULTS

Proper accounting requires that disbursements be recorded in the department/division which is benefited by the disbursement; therefore, the focus of the audit was to determine whether the allocation that has historically been used for these “enterprise” disbursements is reasonable. The formula that was used in our recent history to determine the percentages as presented in the background section of this report is not supported by any known measurable means.

The funds under audit – Hotel Occupancy Tax, Aviation, Solid Waste, Water and Sewer, and Drainage Utility – were reviewed with respect to the ITS allocations as well as researching any possible restrictions on the funds. The funds within the scope of the audit that were found to be restricted were Hotel Occupancy Tax, Aviation, and Drainage Utility.

According to chapter 351 of the Texas Hotel Occupancy Tax Code, revenue from municipal hotel occupancy tax may be used only to promote tourism and the convention and hotel industry, which includes the operation and maintenance of convention center facilities and/or visitor information centers. These funds can also be used to promote the arts within the City. Therefore, any ITS disbursements applied to the Hotel Occupancy Tax fund must directly benefit the Killeen Civic and Conference Center and must be applied based on reasonable and measurable means.

The Aviation fund is restricted based on multi-year grant assurances issued by the Federal Aviation Administration (FAA). The City of Killeen has been the recipient of multiple FAA Airport Improvement Project grants, which specifically state in the assurances that all revenue generated by the airport will be expended for the capital or operating costs of the airport or the local airport system. The City of Killeen was required to agree to these conditions in order to secure the grants. Therefore, any ITS disbursements applied to the Aviation fund must directly benefit the Killeen–Fort Hood Regional Airport or Skylark Field and must be applied based on reasonable and measurable means.

The City Code of Ordinances (Sec. 32–4) says that all drainage fees collected by the City shall be deposited in the Drainage Utility fund. Furthermore, it says that drainage revenues shall be used for the purpose of the creation, operation, planning, engineering, inspection, construction, repair, maintenance, improvement, reconstruction administration and other reasonable and customary charges associated with the operation of drainage services of the City. Therefore, any ITS disbursements applied to the Drainage Utility fund must directly benefit the Drainage Utility operation and must be applied based on reasonable and measurable means.

Based on the allocation ITS has used in applying enterprise costs across certain funds, a random sample of 75 ITS disbursements across those funds was selected over the period October 1, 2014 to May 31, 2016. The 75 sampled transactions were tested to determine

whether the amounts allocated were consistent with the percentages as presented in the background section of this report, which were provided by ITS. Additionally, each sampled disbursement was evaluated to determine the reasonableness of allocating it as an enterprise cost as well as determining whether disbursements were inappropriately applied to any funds.

These tests resulted in the determination that 24 of the 75 sampled transactions (32%) were inappropriate in some form. Twelve transactions (16%) were inappropriately applied to funds as “enterprise” or were charged to funds that were not benefitting from or utilizing the software/application/hardware. Additionally twelve transactions (16%) were appropriately classified as “enterprise”, but were allocated in a manner that was inconsistent with the formula as discussed in the background section of this report. The following findings provide the detail behind these discrepancies.

Finding 1: GIS software allocated to Hotel Occupancy Tax and Aviation funds.

GIS, Geographic Information Systems, is responsible for mapping the City in various capacities to include streets, drainage, and water and sewer lines. There were two disbursements in the audit sample in which software was purchased for GIS, and a portion of each disbursement was allocated to the Hotel Occupancy Tax fund and the Aviation fund. The charge against the Hotel Occupancy Tax fund was 6% of the transaction total, and the charge against the Aviation fund was 9% of the transaction total. Neither of these funds benefit from, nor work with, GIS. Additionally, one of these transactions allocated \$0 to the Water and Sewer fund, which is unreasonable as Water and Sewer does benefit from GIS activity.

Finding 2: Computer replacement disbursements not allocated according to receiving department.

As approved by Council in February 2015, ITS is in a multi-year process of replacing obsolete and end of life desktop computers. There were two disbursements in the audit sample related to this computer replacement program. One sampled disbursement allocated a blanket 4% of the disbursement total to the Aviation fund, without documentation supporting that 4% of the computers were purchased for and installed for Aviation personnel.

The second sampled disbursement related to computer replacement allocated 9% to the Aviation fund and 12% to the Drainage fund without documentation supporting that 9% and 12% of the computers, respectively, were purchased for and installed for Aviation and Drainage personnel.

Finding 3: Code of Ordinance service allocated across funds.

The City utilizes a service to manage the Code of Ordinances. Charges for this service have historically been allocated across several funds on an inconsistent basis. The nature of the

service, and the way in which the service is utilized causes difficulty in determining which departments benefit from each charge. Because of this, it is not appropriate to allocate these charges to various departments.

Finding 4: Various disbursements charged to the GIS division without proper justification.

The audit revealed three separate instances in which the GIS division budget (within the Water and Sewer fund) was charged for disbursements that were not related to the GIS division or should have been shared between GIS and ITS. One instance involved an invoice from an electrician for two separate jobs – one for work done for GIS Day, which is a large event GIS hosts annually for area middle schools; the other job was for work done on lights at the Killeen Arts and Activities Center. Both charges were included on the same invoice, and were inadvertently both charged to GIS. The inappropriate charge totaled \$1,338, and more appropriately should have been charged to the general fund.

The second instance involved software used by EMS Billing and the Fire Department to manage calls for emergency service. 77% of the disbursement for this software was allocated to the GIS division. However, GIS does not utilize or benefit from this software.

The third instance involved the monthly lease payment for the building occupied by ITS (budgeted in the general fund), which includes the GIS division. 100% of this disbursement was applied to the GIS division, which is not appropriate since ITS, as a department, benefits from this disbursement.

Finding 5: Public Works software applied to Hotel Occupancy Tax fund and Aviation fund.

A portion of the disbursement for the software that is utilized by the Public Works department to track work orders was allocated to the Hotel Occupancy Tax fund in the amount of 6% and to the Aviation fund in the amount of 6% of the total disbursement. Neither of these funds benefit from, nor work with, Public Works; therefore, the disbursement as it was allocated is inappropriate.

Finding 6: Actual allocations not consistent with the fixed percentages used by ITS.

As detailed in the background section of this report, according to ITS, a fixed percentage of “enterprise” software/equipment is charged to the General fund, the Hotel Occupancy Tax fund, the Aviation fund, the Solid Waste fund, the Water and Sewer fund, and the Drainage Utility fund dependent upon availability of funding. The following transactions were found to be reasonably considered “enterprise”, but were applied at percentages that were inconsistent with the fixed percentages, and no supporting information for the deviation was documented.

- a. 10% of web security software was charged to the Aviation fund.

- b. 10% of employee performance appraisal software was charged to the Aviation fund.
- c. 10% of data storage maintenance was charged to the Aviation fund.
- d. 10% of emergency operation center software was charged to the Aviation fund.
- e. 7.92% of network replacement equipment was charged to the Aviation fund and 6.6% was charged to the Drainage Utility fund.
- f. 9.72% of fiber installation costs that were shared by Bell County was charged to the Aviation fund and 16.51% was charged to the Drainage Utility fund.
- g. 9% of fleet software maintenance was applied to the Solid Waste fund and 12% was charged to the Drainage Utility fund.
- h. 26.01% of an employee ID printer used by HR was applied to the Solid Waste fund.
- i. 10% of email protection software was applied to the Drainage Utility fund.

Finding 7: Fixed percentages not supported by any known measurable means.

The fixed percentages as presented in the background section of this report are not supported by any known measurable means. In other words, there is no basis behind the fixed percentages such as total expenditures per fund or number of employees per fund. Allocations must be supported by a reasonable and measurable basis, especially for restricted funds, in order to ensure that disbursements are recorded within the funds that are benefited from the transactions. This is necessary for accurate financial reporting and for effectively analyzing the activity in each department and division.

OBSERVATIONS

Observation 1: The GIS division of Information Technology Services is budgeted and funded 100% within the Water and Sewer fund.

The Water and Sewer fund is very loosely restricted in that after all Water and Sewer obligations are met, funds can be transferred and/or used for general City purposes. So while the GIS division funding is not a violation of any rules or regulations, it is improper accounting. Proper accounting would require that disbursements be applied to the department/fund that benefit from them. In this case, because the GIS division does work that benefits several funds, it could be justified to allocate the related disbursements among the general fund, the Water and Sewer fund, and the Drainage fund based on the amount of work performed for each of these funds. Or this allocation could be considered in the indirect cost allocation calculation that is utilized in sharing the general fund administration costs that benefit enterprise funds (i.e. financial services, human resources, information technology services, general management functions, etc.).

RECOMMENDATIONS

The recommendations listed below are a result of the audit effort and are subject to the limitation of the scope of the audit. I believe that these recommendations provide reasonable approaches to help resolve the issues identified. I also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches, and I encourage them to do so when providing their responses to the recommendations. As such, I strongly recommend the following:

1. **The Hotel Occupancy Tax, Aviation, and Drainage Utility funds are restricted and cannot be used loosely or for broad or general purposes. Only direct costs should be applied to these funds. It is acceptable for an indirect cost allocation to be considered for the Aviation and Drainage Utility funds to apply overall general administration costs related to these funds. These can be considered direct costs.**
2. **Disbursements should match the department or division that benefits from them. It is not an acceptable accounting practice to apply charges to a fund that are not related to that fund such as is presented in Finding 2. It is equally not an acceptable accounting practice to not apply charges to a fund that is related to the cost such as is presented in Finding 1.**
3. **Computer replacement charges should be applied to each fund based on the number of computers that are replaced within each fund. This would enable proper matching of expenditures to funds and ensure accurate financial reporting.**
4. **Software and equipment that is not considered to be “enterprise” in nature should not be allocated across funds, but should be funded in a single location. For instance, the Code of Ordinance software cannot feasibly be allocated on any measurable basis; therefore, it should be funded in the City Secretary’s budget since this division oversees this activity.**
5. **True “enterprise” costs can reasonably be allocated across operating funds; however, it is difficult to set a fixed percentage since the same funds will not benefit from every “enterprise” software. For instance, a Public Works software should be allocated to the General, Solid Waste, Water and Sewer, and Drainage Utility funds only, depending on the use of the software. The allocation must be measurable and reasonable.**
6. **It is not a proper accounting practice to fund the GIS division in the Water and Sewer fund. It inhibits accurate reporting since this activity is shown in financial reports as an operating activity of the Water and Sewer fund, which is not true and accurate. This division could feasibly and reasonably be allocated across the General, Water and Sewer, and Drainage funds. It could also be funded in the General fund and included in the indirect cost allocation for general administrative charges to the Water and Sewer and Drainage Utility funds.**
7. **Depending on the direction that the City Council would like to take in making the recommended funding changes noted in the above recommendations, an additional option to consider would be to implement an Internal Service Fund for Information Technology Services across the City. The purpose of this fund would be to house all information technology operations including the purchase of all software, equipment, etc. The fund**

would charge out the services provided by ITS and all related costs to the benefitting departments. This would allow for a streamlined and efficient operation in tracking the City's technology disbursements.

See Appendix A for Management's Response to each recommendation.

APPENDIX A

MANAGEMENT'S RESPONSE

Information Technology Services Department Audit Finding Response

This document is written in response to the findings of the CoK internal audit conducted in May-July 2016 on the Information Technology Services Department budgetary accounts. The ITS budget consists of the following funds: General (010), Hotel and Motel Tax (214), Aviation (525), Solid Waste (540), Water and Sewer (550), and Drainage (575). When I arrived in October 2014, I was shown a percentage breakout of "enterprise funding" that was used to build the FY 15 budget. That percentage breakout was modified as we reviewed and consolidated funding for FY 16. We're unable to discern any specific rationale from these percentages and began moving operational costs to the appropriate departments as well as reviewing current software for its usefulness and proper funding account. We have made purchases deemed mission critical varying the percentages, as necessary. We will continue to look into funding strategies for software and hardware that support the entire city and those that support 1-2 departments to determine the appropriate funding account.

We define enterprise funding for equipment (hardware and software) that the department uses for any part of the normal work day. An example, of enterprise software: every department uses SunGard for payroll and HR functions on a daily/weekly basis; therefore each department pays a portion of the cost of that software. If the equipment is used to allow access to the network or to utilize a specific software application, then the cost is shared by all funding accounts. For example, the fiber loop that is being constructed and its future maintenance is a cost that allows all users to traverse the CoK network; therefore the cost is shared across all funding accounts. We fully understand that there is a disparity in the way the initial cost share was allocated prior to Oct 2014; we are committed to utilize strategies that develop a cost per factor for financing these enterprise hardware and software purchases in the future.

Finding 1.

The two software renewals in question were completed at different times of the year and our funding accounts were not consolidated in FY 15 as they are in FY 16. We also did not have adequate funding in each account to utilize usual calculations. The breakout of percentages leaned toward high end users paying most of the costs. In both of those cases the General fund paid 70% of the costs. As for the use of GIS software, the GIS Division maintains a data base of all assets in the city from buildings to real estate to fire hydrants to street center lines. These assets are used to make maps and assist the staff, council, contractors, and citizens to make important decisions about the city's future growth. Each department benefits from these assets being used in making maps, solidifying work order locations, and many other uses.

Finding 2.

The 1/5 plan for replacing computers was adopted in FY14, attempting to bring everyone to that standard in order to effectively keep pace with accountability and technology trends. Funding was provided through an issue paper approved by the City Manager, which delineated non-departmental accounts. We will continue to use the hardware enterprise approach through the fifth year of the five-year plan. Beginning in FY19 we will shift our approach to replacing desktop computers by department and charging the appropriate fund account. Past purchasing and deploying systems have made accurate investigating and accounting of computers in the City difficult to achieve.

Finding 3.

The Municipal Code software is charged on the basis of changes recorded in a specified time frame. The city had been being charged monthly; this changed to quarterly this FY. Although the city secretary is the only one who makes changes to the database and operates the software, the use is based on the number of ordinances and changes that are made to the database. The city secretary does not have the

Information Technology Services Department Audit Finding Response

capability to “bill” departments nor have access to funding outside the General fund; the ITS department pays for this software across all enterprise funds because ordinances impact the entire city. At present there is not a method for the city secretary to charge individual departments for changes in ordinances.

Finding 4.

Below is an explanation for each of the issues.

- A. The electrician bill for repairs to the KCCC for GIS Day was a valid charge to the 214 account. The charges to the KAAC should not have been charged to this same account. The bill was sent to and paid for by Building Services. We neither had knowledge of the cost nor the payment of the bill, nor did we authorize the payment from the 214 account.
- B. This specific purchase was approved by the city council in May 2014 (CCMR 14-048R), in which the future funding (\$3600 monthly subscription) would be budgeted through the IT maintenance program. This maintenance program set up in the FY15 and FY16 budgets pays for software across all IT non departmental funds. The EMS Zoll software monthly payment was set up with a PO at the beginning of the year based on the cost allocation for funds. The bill is paid monthly using one fund allocation until that fund allocation is depleted. This is the most efficient way to cost out a recurring PO paid for with multiple account funds. At the end of the year, the intent is to have fully expended all accounts.
- C. Our lease agreement was paid monthly with 9 months coming from the ITS (010-2705) account and 3 months from the GIS (550-2705) account. The specific payment in question was one of the three months that were viewed in the audit. GIS occupies roughly ¼ of the space.

Finding 5.

The software we purchase from Azteca Systems, Inc. is CityWorks. It is used to manage assets within the city’s infrastructure: water pipes, sewer pipes, valves, manholes, street signage and other assets associated with Public Works. The software also includes a work order system to manage work requests on the assets within the system. Although we believe that this system is used by all departments directly or indirectly within the City, we will change our purchasing accounting for this system in FY 16 and charge only those accounts that directly use this system.

Finding 6.

Until May 2015, our purchasing process was not based on a specified process or allocations within the ITS Department. If a product was for only one department, it was charged accordingly, however if it was for general use (enterprise software or network hardware), then it was charged across accounts based on previous year’s allocations. We made adjustments to the process as we looked for a logical breakout of funding. We were provided a guideline from the previous director’s notes, IT and Finance, not based on any logical usage or numbers that we could ascertain. Because of these changes we were making toward allocations of funds, we changed the payments to accounts based on funding available. The explanations for each item in this finding are below.

Items a, b, c, d and, i were all done prior to us changing our purchasing process. We recognized the errors and made changes.

Information Technology Services Department Audit Finding Response

Items e and g were completed towards the end of the fiscal year when funding in the several accounts was depleted (214 and 550). We used this set figures as a breakout for funding purchases, with prior approval for the Interim Finance Director (010 – 70%; 525 and 540 - 9%; and 575 – 12%).

Item f. The Bell County fiber project was approved by the city council in May 2014 (CCMR 14-049R) with the funding allocations identified by account. In Nov 2014 a budget amendment was approved as Ordinance 14-086 bringing across the funding by account for payment in FY16. We made the payment based on those approved allocations.

Item h. We purchased the ID card printer for HR. The funds used were all that was available in the accounts similar to items e and g above. With no ID card printer, employees have no access to secure buildings.

Finding 7.

The ITS management does not disagree with this finding. We are working toward developing a reasonable definition of “enterprise equipment (hardware and software)” and looking in a holistic view of all equipment used throughout the city. We have made adjustments for the FY 17 budget and should have all equipment funded according to the appropriate funds by FY 18. This process is not something we can do immediately because it would cause funds to be depleted without all city equipment obligations being paid. We are deploying a set of definitions we will use to categorize equipment as “ITS Enterprise” to assist in decision making for funding. We will work with finance and our legal department to ensure these fit within the letter of the laws and rules for specific accounts. We will also work with finance to achieve a simplistic set of accounts for equipment that fits these categories. All of this work is programmed during FY 17 to affect FY 18 and beyond budgets. Allocations of these funds and what should ITS department have for an operating budget are much more significant challenges and will take time to determine.

Commitment.

As we look toward FY 17 and beyond, it is our intent to continue to fund our projects correctly using Aviation, Hotel/Motel, and Drainage funds. We are researching different ways of funding all of our IT services including using an internal services fund approach or other options that may become available through our research.