

**Travis County Auditor's Office Review of  
700 Lavaca Lease and Parking  
#18-08**

**January 15, 2019**



TRAVIS COUNTY  
AUDITOR'S OFFICE

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To: Roger El-Khoury, M.S., P.E.,  
Director, Travis County Facilities Management Department

From: Patti Smith, CPA  
Travis County Auditor

Date: January 15, 2019

Subject: 700 Lavaca Lease and Parking Review

The Risk Evaluation and Consulting (REC) Division of the Travis County Auditor's Office has completed a review of the 700 Lavaca Lease and Parking function in accordance with the applicable statutes governing the County Auditor's Office.

### **OBJECTIVE AND SCOPE OF REVIEW**

The primary objective of this review was to assess the adequacy and effectiveness of the overall system of internal controls in place for 700 Lavaca lease and parking contracts administered by the Travis County Facilities Management Department (FMD) and to verify FMD properly collected and remitted associated revenues to the County. The period under review was October 1, 2015 to February 28, 2018.

### **REVIEW METHODOLOGY**

Our review methodology included obtaining and reviewing internal control policies, general ledgers, and contracts, as well as other review procedures deemed necessary. In regard to written and/or verbal representations obtained during this review, unless otherwise noted in this report, management maintains that the assertions we relied upon were correct to the best of their knowledge.

### **SUMMARY OF SIGNIFICANT FINDINGS**

For tax years 2015 through 2017, FMD under-estimated property taxes due from private-use tenants by \$166,688, due to computational errors. These taxes were subsequently collected in full from the tenants through various means, and no County funds were lost. Our findings and recommendations are detailed in the Areas of Concern Section of this report. Each finding has a listed severity of "Most Serious", "Serious", or "Less Serious".

## ENGAGEMENT TEAM

James Marlett, CPA, Lead Auditor  
Ronald Cintron, CIA, Staff Auditor  
Travis Lee, Staff Auditor

## CLOSING

This report is intended solely for the information and use of FMD and the Commissioners' Court. We greatly appreciate the cooperation and assistance received from the management and staff of FMD during this examination. Please contact our office if you have any questions or concerns regarding this report.



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David Jungerman, CIA  
Chief Assistant County Auditor  
Risk Evaluation & Consulting Division



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Patti Smith, CPA  
Travis County Auditor

## REPORT DISTRIBUTION

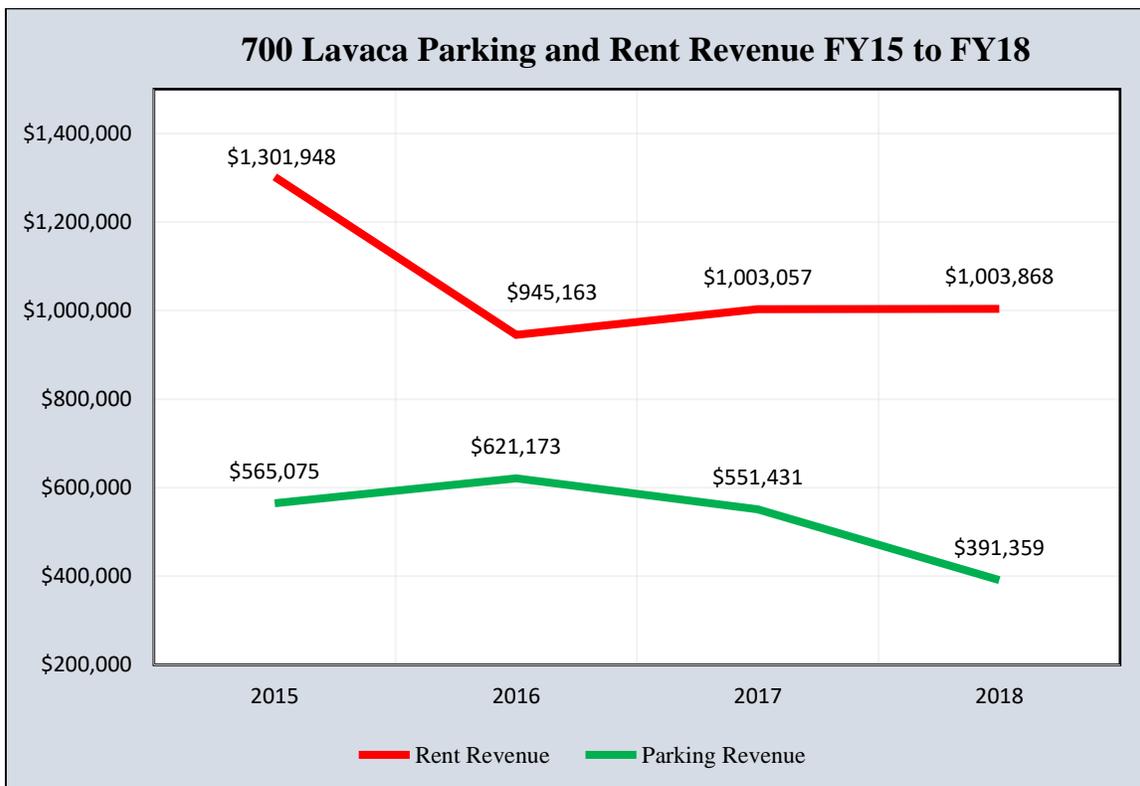
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# BACKGROUND

In 2010, Travis County purchased the 15-story building at 700 Lavaca Street and its adjacent 675-vehicle parking garage (800 Lavaca). The County purchased the property with existing tenants and active contracts for parking spaces. Current building tenants include: Luby's, Murphy's, the City of Austin, Texas Charter Schools, Austin Suites, the Department of Public Safety, and Executive Workspace, LLC. Active parking garage tenants include: ViaWest, UFCU, and the United States Attorney's Office.

In October 2017, FMD discontinued its annual contract with Platinum Parking for the management of parking services at 800 Lavaca and signed a new contract with Metropolitan Parking. This vendor provides monthly payments to Travis County for the County's portion of funds collected from the public for parking.

The graph below reflects rent and parking revenue collections for FY15 through FY18 (FY18 estimated):



# AREAS OF CONCERN

## 1. Property Taxes (Less Serious)

Annually, property taxes are assessed on the private-use portion of the 700 Lavaca building and the associated parking garage at 800 Lavaca. These taxes are estimated and billed monthly to tenants based on estimates made by FMD financial personnel. Shortfalls occur when the amount estimated is less than the total taxes due for the year.

Since estimates are being utilized, overages and shortfalls are to be expected; however, if the estimation process is effective, these differences should not be material. During our review, we noted material shortfalls of 7 to 30% for tax years 2015-17 totaling \$166,688, as detailed below:

Tax Year	Estimated Tax	Actual Tax	Shortfall	%
2015	\$246,721.40	\$265,292.11	\$18,570.71	7%
2016	197,684.74	268,937.79	71,253.05	26%
2017	176,295.36	253,159.55	76,864.19	30%
Total Shortfall (2015-17):			\$166,687.95	

These estimation shortages typically occurred because tax rates from prior periods were used in the estimate computation instead of current tax rates. For example, in January through April of 2016, each tenant's estimated property taxes were based on the 2013 tax rate, while the remaining eight months of 2016 were estimated using the 2015 tax rate.

Tax estimate shortfalls would typically result in a shortage of collections from building tenants; however, FMD also over-estimated tenant billings for utilities, maintenance and administrative expenses during this period. These overbillings, combined with the annual tenant account true-up process, resulted in the collection of the correct aggregate amount due from the tenants. However, these estimation issues resulted in inaccurate monthly tenant billings for both taxes and operating expenses.

### *Recommendations:*

We recommend the following:

1. FMD should estimate property taxes based on the prior year's taxes, along with an appropriate estimate of the expected increase for the current year. FMD should also consult with the Travis County Central Appraisal District (TCAD) throughout the year, obtaining updates on changes in property values and adjusting property tax estimates as needed.
2. FMD should ensure that the tax estimates also include appropriate and applicable estimates of the taxes due for the parking garage at 306 W. 8th Street.

*Management Response:*

The Facilities Management Department responses to these recommendations are:

1. FMD has already taken steps to ensure that the current year tax accrual is based on the prior year plus a percentage markup.
2. FMD has already included the parking garage at 306 W. 8th Street in the 2018 tax accrual.
3. FMD will request a meeting with TCAD in Aug/Sept period of each year to ensure that the current tax accrual is close to the projected amount. An adjustment journal entry at fiscal year-end will be made to ensure the liability account is current.

FMD has collected all the taxes due. FMD will revise its tax collecting method as per the recommendations above.

**2. Revenue Remittance (Less Serious)**

During fiscal year 2017, FMD did not consistently deposit funds from leases with the Travis County Treasurer on or before the day after the funds were received. In the period, FMD received and deposited 199 payments totaling \$1,723,622.13. Ten (5%) of these payments, totaling \$186,582.65, contained incomplete and/or erroneous date information and thus could not be reviewed. For the remaining 189 payments totaling \$1,537,039.48, we noted the following:

<b># of Days Between Receipt and Deposit</b>	<b>Count of Payments</b>	<b>Percent of Payments</b>	<b>Sum of Amount</b>	<b>Percent of Amount</b>
<b>Same or Next Day</b>	93	49.2%	\$767,365.41	49.9%
<b>2-7 Days</b>	95	50.3%	\$766,349.39	49.9%
<b>Over 7 Days</b>	1	0.5%	\$3,324.68	0.2%
<b>Total</b>	189	100%	\$1,537,039.48	100%

Internal controls are strengthened when deposits are made no later than the next working day after receipt, thereby reducing funds available for loss or misappropriation. This is particularly the case when funds are not secured in a safe after being received, as is the case at FMD. Additionally, Section 113.022 of the Texas Local Government Code, “Time for Making Deposits” states the following:

*“A county officer who receives funds shall deposit the funds with the county treasurer on or before the next regular business day after the date on which the funds are received. If this deadline is not met, the officer must deposit the funds, without exception, on or before the seventh business day after the day on which the funds are received.”*

*Recommendation:*

We recommend that payments received by FMD be deposited with the County Treasurer on or before the next regular business day after the date on which the funds are received in order to better safeguard funds on hand and to ensure that the funds are deposited in a manner that is in compliance with Texas Local Government Code §113.022.

*Management Response:*

Facilities Management Department will make sure that all payments received will be deposited within 24 hours.

**3. Segregation of Duties (Less Serious)**

Currently, one FMD employee is responsible for all lease payment accounting processes, including payment receipt, creating a check log, and booking the associated journal entries into the County's financial system.

FMD does not perform a secondary review of the journal entries booked into SAP. Rather, the single employee responsible for performing the journal entry also posts the journal entry.

*Significance:*

The absence of proper segregation of duties, as well as the absence of a secondary review or approval of the journal entries related to lease payments and deposits, creates the following risks:

- Data entry and/or lease accounting errors, intentional or unintentional, may go undetected.
- Data entry errors may reduce the reliability of system reports.
- Asset misappropriation or loss, process inefficiencies and inappropriate lease accounting practices may also go undetected.

Proper segregation of duties and implementation of secondary review/approval processes may serve as internal controls that can reduce these risks.

*Recommendation:*

We recommend FMD document and clearly communicate who will initiate, submit, process, authorize, review, and/or reconcile each activity related to lease payments by creating and implementing appropriate internal controls. In addition, controls ensuring journal entries are reviewed and approved by someone other than the employee who booked the journal entry should be implemented.

*Management Response:*

FMD has established the following process to double check the rent deposits:

1. The Office Specialist receives the payments in the mail, scans and emails them to several FMD staff prior to entry into SAP.
2. The 700 Lavaca Building Manager reviews the receipt of all payments before billing the upcoming month.
3. A list of missing payments are sent to the Administrative Division Manager prior to approving the next month's invoices.

Besides, the volume of payments processed per year is relatively low (FY17 were 199). Creating more separation of duties is unrealistic with the financial team, which consists of only four staff. In addition, the lease payments are multi-departmental function. Consequently, it creates two checks and balances automatically outside FMD.

1. The first check and balance occurs when FMD deposits the payments at the Treasury Office (Deposit and verification).
2. The second check and balance occurs within the Auditor's Office as they verify each tenant and lease agreement payment.