

Travis County Auditor's Office Risk Assessment Update
and Limited Scope Examination
Balcones Canyonlands Conservation Plan
Transportation and Natural Resources
#17-12



TRAVIS COUNTY AUDITOR'S OFFICE
Risk Evaluation & Consulting Division

November 15, 2017

TRAVIS COUNTY AUDITOR'S
OFFICE

NICKI RILEY, CPA
COUNTY AUDITOR



TRAVIS COUNTY
700 LAVACA
P.O. BOX 1748
AUSTIN, TX 78767
(512) 854-9125
FAX: (512) 854-9164

To: Steven Manilla,
County Executive, Transportation and Natural Resources

From: Nicki Riley, CPA
Travis County Auditor

Date: November 15, 2017

Re: 2017 Risk Assessment Update and Limited Scope Examination

The Risk Evaluation and Consulting Division (REC) of the Travis County Auditor's Office has completed an updated risk assessment and limited scope examination of the Balcones Canyonlands Conservation Plan (BCCP) function of Travis County Transportation and Natural Resources (TNR). The objective of the risk assessment and limited scope examination was to assist TNR in identifying potential risks or exposures associated with their business processes, allowing them to implement or adjust internal controls as they deemed necessary.

We began by performing an updated risk assessment focusing on identifying and rating risks that are intrinsic to BCCP's activities and business processes. To a limited extent, we considered the impact of internal controls implemented by management to mitigate these risks. As such, the reported risks represent potential exposures. While we are not providing a judgment of how well management is addressing risk, we have noted some "areas of concern" that involve a variety of issues, risks, and potential control items.

BACKGROUND

The BCCP is a habitat conservation plan establishing a preserve system in western Travis County called the Balcones Canyonlands Preserve (BCP). The plan defines how the BCP is to be funded and organized, and it served as the basis for the 10(a) permit issued under the Endangered Species Act by the U.S. Fish & Wildlife Service (USFWS) that established the Preserve.

The permit was issued jointly to the BCP's two managing partners, the City of Austin and Travis County, in 1996 with the goal of setting aside 30,428 acres in western Travis County as habitat for the black-capped vireo, golden-cheeked warbler, six karst invertebrates, and two plant species.

THE RISK ASSESSMENT PROCESS

Risk assessment is a systematic process of evaluating the potential negative outcomes, such as financial loss, that may occur in a business process. The risk assessment process includes three steps: data gathering; business process, risk and control identification; and risk rating. In data gathering, we collect information about the functional area under review to gain an understanding of its objectives, operations, and processes. We then identify what processes are in place, the inherent risks for each process, and the internal controls that have been implemented by management. The last step is rating the risks identified for the business processes handled by the functional areas under review by evaluating them based on risk factors and assigning risk ratings. These risk assessments are then updated periodically, as is detailed in this report.

SCOPE

This risk assessment covered the operations of BCCP and was limited to the business processes that were in place during the time the risk assessment was being performed – January 23, 2017 through May 23, 2017. In addition, expenditure and revenue testing was performed on a sample basis for FY16 transactions. All client meetings were held at the TNR Offices.

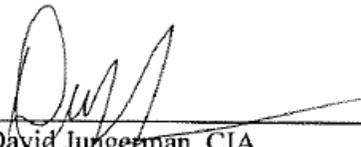
Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters in this office's records that might be material weaknesses or misstatements. In regard to the written and verbal representations made by BCCP staff, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

ENGAGEMENT TEAM

Amanda Muehlberg, CPA, Lead Auditor

CLOSING

This report is intended solely for the information and use of TNR, the Auditor's Office, and County management. We greatly appreciate the cooperation and assistance received from management and staff during this risk assessment. Please contact our office if you have any concerns or questions regarding this report.



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



Patti Smith, CPA
First Assistant County Auditor



Nicki Riley, CPA
Travis County Auditor

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BACKGROUND INFORMATION

The Balcones Canyonlands area in western Travis County provides habitat for a number of rare and endangered plant and animal species found nowhere else on earth. Above ground are unique woodlands, wetlands and grasslands. Below ground is a honeycomb network of caves, sinkholes and springs containing highly specialized animals adapted to these unique environments. Still deeper are a series of aquifers, including the Edwards Aquifer that is the primary drinking water source for over 1.5 million central Texas residents.

For centuries, the Texas Hill Country supported a thriving community of wildlife including species such as the golden-cheeked warbler and the black-capped vireo. Unfortunately, changing patterns of land use and urban expansion fragmented habitats and populations of these species declined. When scientists and community leaders came together to create a plan that would protect this natural heritage while allowing economic growth and development to continue, the Balcones Canyonlands Conservation Plan was created.

In addition to providing landowners with locally managed solutions to address endangered species concerns, the BCCP called for the creation of a system of habitat preserves known as the Balcones Canyonlands Preserve (or BCP). The BCP was created to protect eight federally listed endangered species, including two songbirds and six invertebrates, as well as two plant species. In addition to protecting these especially vulnerable animals, the BCP offers a protective habitat for other native plants and animals of the Texas Hill Country.

The BCP is primarily managed under the terms and conditions of the BCCP, a regional permit issued under section 10(a) of the Endangered Species Act granted by the U.S. Fish and Wildlife Service and jointly held by Travis County and the City of Austin. More specifically, the Balcones Canyonlands Conservation Plan (or BCCP) is comprised of several guiding documents including, but not limited to, the USFWS 10(a) permit, Habitat Conservation Plan and Environmental Impact Statement, and the associated interlocal agreement. Collectively, these documents make up the regional habitat conservation plan known as BCCP.

A number of cooperating partners own and manage lands dedicated to the Preserve. This includes several private landowners, the Lower Colorado River Authority, the Nature Conservancy of Texas, and the Travis Audubon Society.

BCCP Requirements

The primary requirement for the BCCP is the acquisition and protection of at least 30,428 appropriate acres in western Travis County. With the purchase of 31,780 acres, this minimum acreage requirement for the Preserve has now been met; however, other requirements remain.

The first of these requirements relates to preserve macrosites, which are defined as differentiated pockets within a larger environment that have unique features, conditions or characteristics. In the BCP, this differentiation is typically defined by the macrosite's watershed. Basically, macrosites are mini-preserves within the larger preserve that require their own minimum acreages in order to support their attendant wildlife.

The BCCP defines both minimum and targeted (preferred, potentially more viable) acreages for each macrosite. Of the eight macrosites defined by the BCCP, the minimum acreage requirements for one, Bull Creek, have not been met – 197 more acres are needed. In addition, the targeted acreage has not been obtained for three additional macrosites.

The second open requirement relates to the protection of caves located within the Canyonlands. The permit specifies 62 caves that are to be protected. Protection involves preventing people from entering or otherwise damaging these caves. However, the permit does not provide definite guidelines specifying how these caves are to be protected. As a result, determination of cave protection is left to interpretation by BCCP personnel. Currently, 50 of the 62 named caves have been afforded some level of protection, which may or may not be sufficient.

The third open requirement relates to the BCCP's perimeter edge-to-area ratio, which has not been met. A perimeter edge-to-area ratio is calculated by dividing the length of the outer edge of a shape(s) by the surface area. The last analysis of the BCCP's edge-to-area ratio was conducted in 2011 and, at that point in time, the BCCP did not meet the specified guidelines of an edge-to-area ratio of less than or equal to 20%. A Geographic Information System (GIS) analysis of the perimeter is expected in the next few years, with the focus being on completion in 2021. Once the perimeter is obtained, a new edge-to-area ratio can then be computed.

Prior to permit expiration, BCCP personnel will present a completion report detailing the program's completion status to the USFWS. Once submitted, the USFWS will determine the BCCP's compliance with the permit requirements and determine if a permit extension is necessary.

TNR BCCP Division

TNR's BCCP Division provides ongoing maintenance, patrol, and biological management of the preserved habitat; and it conducts biological monitoring and research activities that support the BCCP permit terms and conditions. This division is also responsible for managing the Participation Certificate process, maintenance of all preserve areas, and coordinating committees that serve to educate the community on the goals of the program.

The financial section of TNR's BCCP Division is responsible for receiving and processing the deposit of fees received as part of Participation Certificate issuance and Operations & Maintenance agreements, as well as recording Tax Benefit Financing funds. This division is also responsible for processing disbursements relating to BCCP preserve maintenance, including, but not limited to, ongoing services provided to the preserve area by third party vendors, staff travel, laboratory testing, and land acquisition.

Natural Resources and Environmental Quality – BCP Organizational Chart

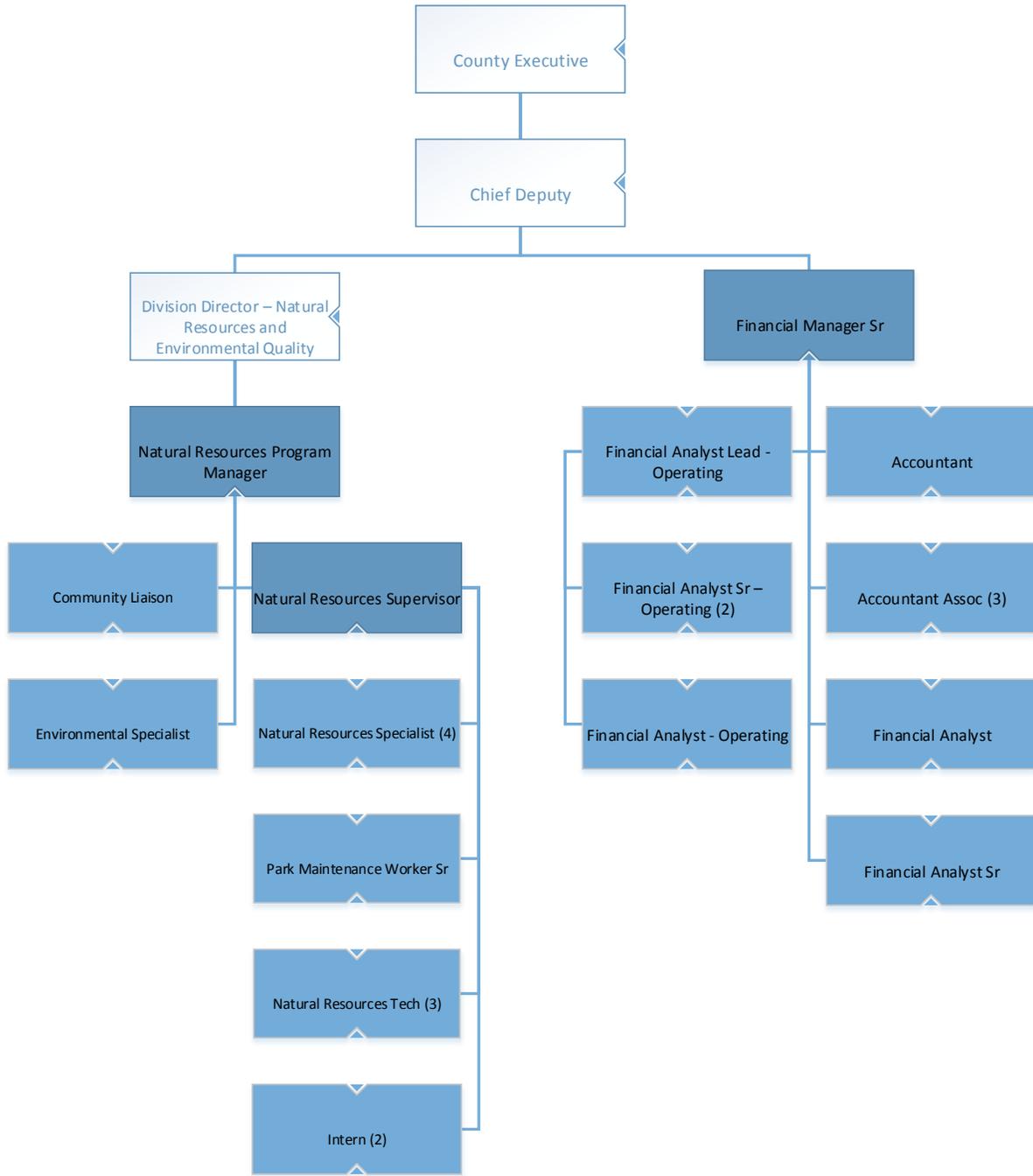
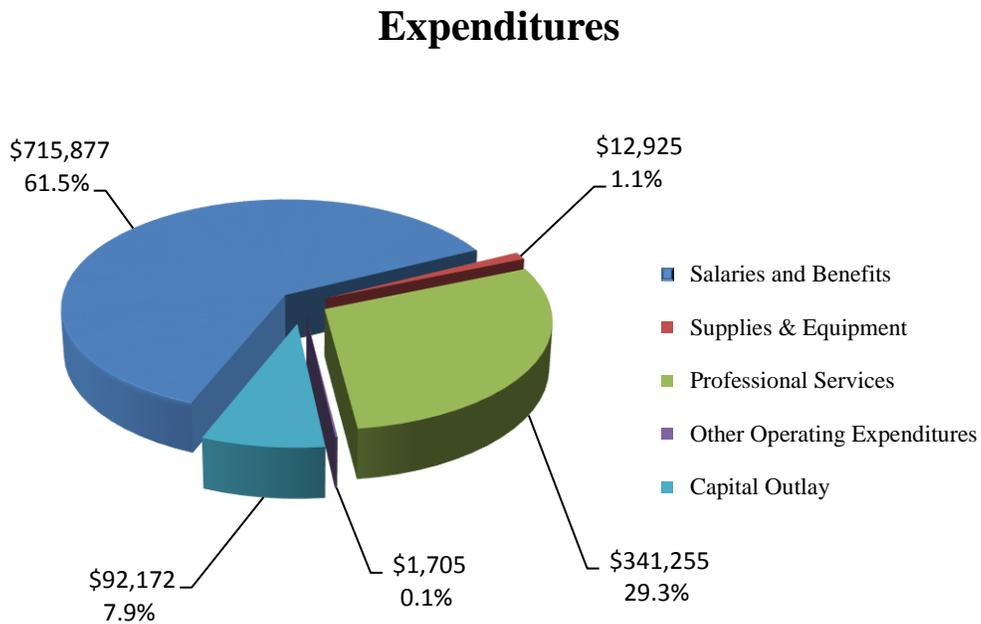
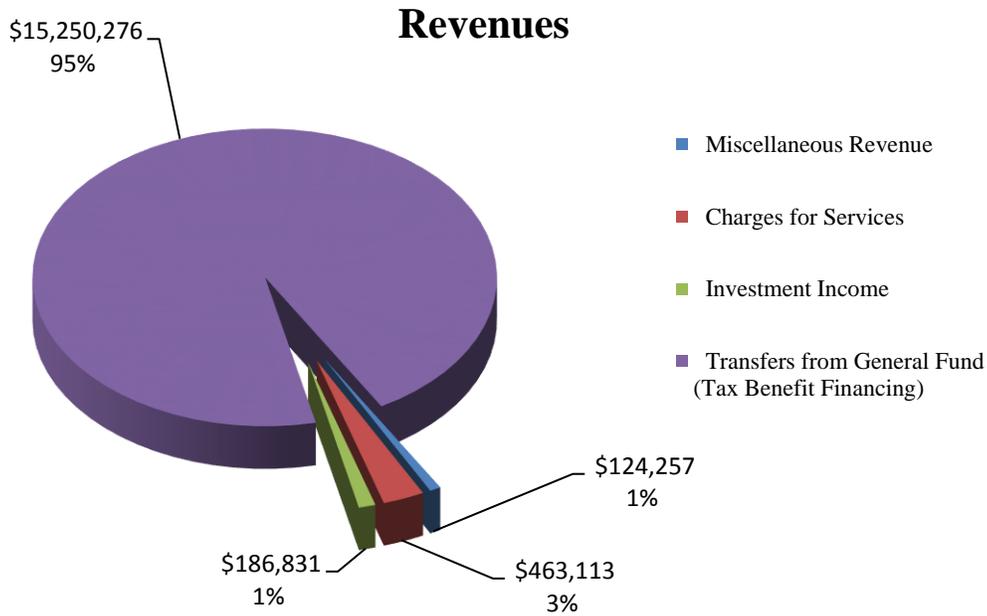


Chart information obtained from SAP – May 2017

Fiscal Year 2016 Financial Data

During fiscal year 2016, the Travis County BCCP fund received \$124,257 in miscellaneous revenue (\$109,785 in developer contributions and \$14,472 in cell tower rent revenue), \$463,113 in charges for services, \$186,831 in investment income, and \$15,250,276 in Tax Benefit Financing transfers from the General Fund. Salaries and Benefits, totaling \$715,877 represented approximately 62 percent of expenditures from this fund. The details for revenues and expenditures are provided below in graph form:



RISK ASSESSMENT SUMMARY

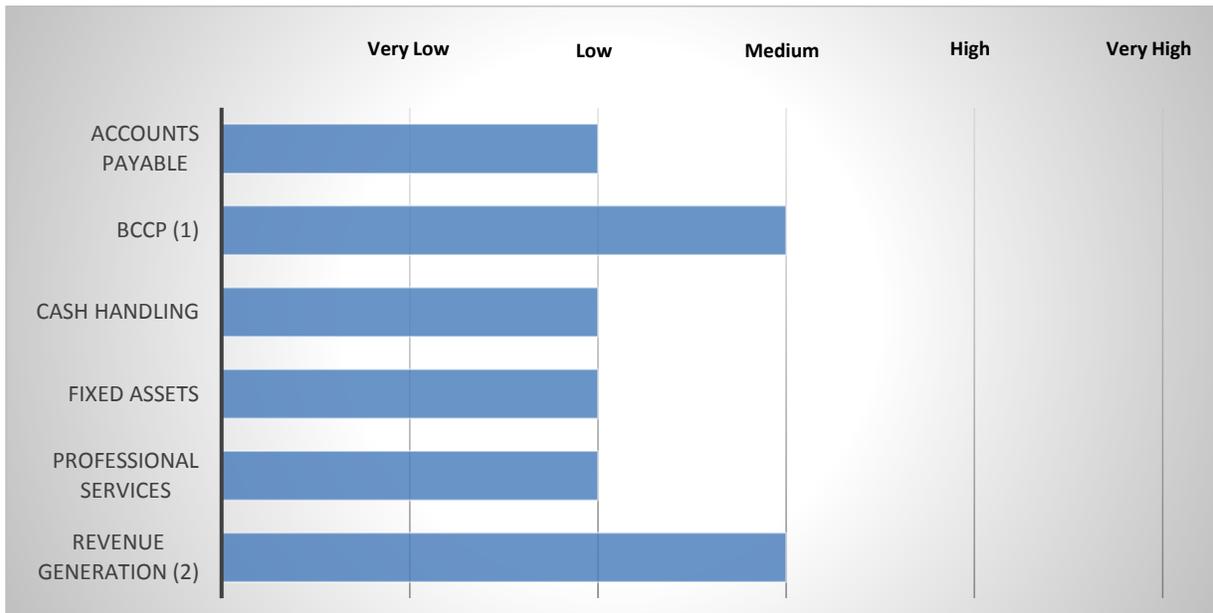
Business Processes

A business process can be defined as a group of interrelated activities or tasks that are initiated to accomplish a specific organizational goal. In the context of a risk assessment performed by REC, business processes include the basic activities used to support financial operations such as cash handling, accounts payable, contract management, etc. Business processes in place for the BCCP include the following:

- Accounts Payable
- Cash Handling
- Professional Services
- BCCP Processes
- Fixed Assets
- Revenue Generation

Graph 1 – Risk Profile by Business Process

To provide visibility into the business processes which pose the greatest risk to BCCP, we present the results in graph form below:



(1) BCCP processes include the issuance of Participation Certificates and the annual reconciliation of BCCP-designated parcels against Travis Central Appraisal District (TCAD) records.

(2) Revenue generation is comprised of the assessment of mitigation and operations and maintenance fees resulting from Participation Certificate issuance and Tax Benefit Financing transfers from the General Fund determined by the Planning and Budget Office.

The following are the primary risk areas/control objectives associated with these business processes:

1. Invoices are properly approved, preventing incorrect or unnecessary payments.
2. BCCP fees are calculated correctly when issuing Participation Certificates.
3. A reconciliation of Travis Central Appraisal District (TCAD) properties is performed to ensure all appropriate parcels are being included in the Tax Benefit Financing transfer from the General Fund.
4. Collections are properly tracked, reviewed, and accounted for to prevent loss or misappropriation.
5. Fixed Assets are tagged and tracked to prevent loss or misappropriation.
6. Professional Services are provided by third party vendors that have been approved by the Purchasing Office.
7. The services provided by BCCP personnel are regularly reviewed to ensure standards are being met.
8. Changes in fees are approved by Commissioners Court, as applicable.

Business Process Risk Profiles

Accounts Payable

Disbursements processed by staff include, but are not limited to, payments to other BCCP participating organizations for shared services, third party vendors for services provided in the maintenance of the preserve lands, and for travel-related expenses for staff.

Purchase Requisition Forms (PRFs) related to regular land management, wildlife management, or land pre-acquisition costs (e.g. appraisals, environmental site assessments, boundary surveys, etc.) can be paid out of the general fund with normal operating authorizations, similar to other operating expenditures. All payments are submitted and approved through SAP and remitted by the Accounts Payable division of the Auditor's Office for payment.

Authorizations for land acquisitions require Commissioners Court approval. Capital asset purchases, including vehicles, equipment (computer, mowers, etc.), and building upgrades are part of the budget process. Anything requiring immediate action that is not in the approved current fiscal year budget requires approval from Commissioners Court through PBO.

BCCP Processes

The most significant processes for BCCP are Participation Certificate application processing, purchase and maintenance of preserve areas, and the annual reconciliation of TCAD parcels.

Cash Handling

Payment for participation is made with two checks; the total fee is divided equally between the County and the City of Austin. Manual receipts are issued separately for each check by TNR's BCCP Division personnel. A Memorandum of Payment is created detailing the transaction to both the County and the City of Austin. It is signed and emailed to the City of Austin by TNR personnel. County checks are given to the TNR cashier, while City of Austin checks are hand delivered by a lead staff member to the City of Austin. The Senior Financial Analyst prepares the daily deposits for BCCP and the cashier enters the deposit information into SAP and holds the deposit for pick-up. Deposits are prepared daily, as needed.

Fixed Assets

Fixed assets are tagged, tracked, maintained, and disposed of in accordance with County policy. Annually, fixed assets are verified by the Purchasing Office.

Professional Services

BCCP contracts with third party vendors to provide services for preserve maintenance. This includes, but is not limited to, janitorial, land acquisition, electrical, ground maintenance, fuel, and laboratory testing services. BCCP works directly with the Purchasing Office to secure contracts and services as needed, in accordance with County Policy.

Revenue Generation

BCCP has three main revenue streams: Participation Certificate fees, Developer Operations and Maintenance (O&M) fees, and Tax Benefit Financing (TBF). Additional revenue streams include miscellaneous revenue for cell tower leases, surplus land sales, or owner short-term rentals and interest revenue. Totals for each of these types of revenue for FY16 are as follows:

Revenue Type	2016 Total
Participation Certificates	\$463,113
Miscellaneous Revenue ¹	124,257
Tax Benefit Financing	15,250,276
Investment Income	186,831
Total	\$16,024,477

BCCP Participation Certificates are acquired by landowners in Travis County that want to develop land that provides endangered species habitats. Landowners are able to comply with federal laws regarding endangered species habitats through Travis County, instead of the USFWS. In most cases, the ability to participate through Travis County, instead of the USFWS, assures an expedited process for the landowner. The applicable applications are processed free of charge and are typically completed within 15 business days. Submission of an application does not obligate the applicant to participate through the BCCP. Landowners always have the opportunity to consult with USFWS to address mitigation concerns. Once a completed application is received, TNR staff determine the cost to participate, based on the mitigation fee zone maps approved by the USFWS.

¹ Miscellaneous Revenue is comprised of O&M fees and rent revenue for cell phone towers placed on County lands.

Mitigation fee zone determinations are rounded to the nearest tenth of an acre, and assessments are based on the amount of mitigation fee zone acreage within the entire legal tax parcel(s).

In exchange for Travis County's help meeting 10A permit requirements, developers are subject to O&M fees until tax benefit financing fees paid by the developers meets/exceeds the annual O&M fees. O&M fees are based on acreage and increase each year in relation to the Consumer Price Index (CPI) to account for inflation. All fees are used to support and maintain the preserve areas.

The fees are calculated each year using the acreage in the agreement multiplied by the current CPI for the month the agreement was entered into. For example, an agreement that became effective in January of 2015, would use the January CPI for each subsequent year, with the effect being an adjustment to fees due based on inflation. Some fees are set aside for specific purposes, while the remaining fees can be used in any manner to support and maintain preserve areas. Currently, there are four agreements remaining requiring O&M fees to be paid.

Tax Benefit Financing (TBF) is an annual transfer from the general fund for tax revenue collected from authorized development on lands that have been issued Participation Certificates. For all properties designated by TCAD, the County maintenance and operations (M&O) tax rate is multiplied by the total new taxable value to determine the tax due. Utilizing TCAD and Tax Office data, the Planning and Budget Office annually determines the amount of TBF revenues payable to the BCCP Fund from the General Fund.

AREAS OF CONCERN

Finding #1 – Salary Funding

Currently, 12 County employees are paid either fully or partially through the BCCP fund. In order to ensure BCCP funds are used properly, employees should be paid from the BCCP fund based on the percentage of their duties that directly relate to the administration of the BCCP program and maintenance of the preserves. For employees partially paid from the BCCP fund, a portion of their duties do not directly relate to the BCCP, and this portion of their salary is paid from the General Fund. The table below details the percentages these 12 employees are paid from the BCCP fund:

Position #	Position	Percent Allocated
30004747	Natural Resources Specialist	100%
30004743	Natural Resources Program Mgr.	75%
30004751	Natural Resources Tech	100%
30004745	Natural Resources Supervisor	75%
30004750	Park Maintenance Worker Sr.	100%
30004781	Park Ranger Sr.	75%
30004686	Right of Way Agent	70%
30050234	Natural Resources Tech	100%
30004748	Natural Resources Specialist	100%
30004752	Natural Resources Specialist	100%
30004744	Environmental Specialist	100%
30004746	Community Liaison	100%

Obtained from the Auditor’s Office Payroll Division (current as of March 24, 2017)

A detailed review of how the salaries for these 12 positions should be allocated was last performed in 2010.

Recommendation:

We recommend that TNR evaluate the percent of each salary allocated to the BCCP fund every three to five years, documenting this process and related percentages and positions. Any positions or portions of positions that do not directly relate to the BCCP should be paid from the General Fund.

TNR’s Management Response:

Natural Resources (NR) agrees with the auditor’s recommendations to: a) reevaluate percentages allocated to TBF or GF funds for its positions every three to five years, at a minimum, with documentation to support the reasonableness of the allocation, and b) move any positions that do not significantly support the BCP mission to the General Fund.

NR will reevaluate staff time allocations in January/February 2018. The Natural Resources & Environmental Quality Division is evaluating the benefits of moving all NR staff positions to the General Fund.

Finding #2 – Revenue Reconciliation and Financial Record Security

The Senior Financial Analyst prepares and reviews the daily deposits and provides a report of all Participation Certificate revenue to the Environmental Specialist on an annual basis for reconciliation. In addition, all finance staff have access to shared financial and operational spreadsheets and are able to make changes to these files. There is no mechanism in place to maintain historical copies of these files as part of the audit trail.

Significance:

Performing revenue reconciliations at 12-month intervals may make it more difficult to determine the source of reconciling items and to timely correct these items.

Any changes to spreadsheets made in error may not be readily apparent to users. As a result, information may be compromised or deleted, leading to inaccurate financial or operational information being utilized.

Recommendations:

We recommend performing these revenue reconciliations each quarter, at a minimum. In addition, these reconciliations should be completed by a party with no cash handling responsibilities. We also recommend that TNR consider setting up a database for important spreadsheets to maintain the integrity of this information and prevent unauthorized or accidental changes or deletions.

TNR's Management Response:

TNR will begin quarterly reconciliations in July 2017. This will be completed by a Senior Financial Analyst. Due to the size of the TNR Financial Services staff, we are unable to limit the reconciliation to someone not involved in cash handling. All higher level TNR Financial staff serves in some cash handling capacity as either a backup cashier or preparing deposits.

TNR is in the process of scoping a revenue database for all revenue sources within TNR. Until that initiative is completed, a pdf version of the reconciliations will be saved along with the Excel versions for historical perspective. We are also working with the SAP folks to try and identify more system solutions instead of analyzing so much outside of the system. For now, all we can do for version control is the pdf solution and saving files by date instead of continually writing over the same file. We really would prefer to create a bunch of databases if we can find a way to do more with SAP. (Auditor's note: When asked about the expected timeframe for completion of the revenue database, the response provided was "before the end of fall.")