



CITY OF KILLEEN

DONATION FUNDS AUDIT

Audit Report #22-02

A Report to the City of Killeen Audit Committee

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EXECUTIVE SUMMARY



AUDIT REPORT HIGHLIGHTS

Why Was This Audit Conducted?

The City Auditor proposed this audit to the Audit Committee as part of an ongoing focus on the City's revenue streams.

The City Auditor appreciates the cooperation of the Finance Department, Utility Collections, Community Development, Police Department, Fire Department, and Recreation Services staff in the completion of this audit.

Donation Funds Audit

Mayor and Council,

I am pleased to present this audit of the City's Donation Funds.

Audit Objectives

The objectives of the audit were to review the City's donation fund accounts to: (1) verify all donation accounts currently in existence; (2) review the revenues and expenditures for Fiscal Years 2017 through 2021; (3) determine the appropriateness of expenditures; and (4) identify opportunities for best practice improvements.

Audit Results

The City Auditor's review of the City's donation fund activity found that donations reviewed were properly recorded and used for their intended purposes. However, the City's efforts to highlight donor activity through the use of social media, in accordance with best practices were somewhat mixed, with some activities promoted and others not. In addition, the Senior Citizen Utility Bill Assistance Program takes in nearly twice what it doles out in monthly assistance payments and has built up a sizable reserve balance. At the same time, Water and Sewer rates have increased several times since the payment plan was last adjusted, in 2014. Management should consider proposing to City Council another increase in program payments to help offset the increases in the cost of services. Finally, the City still maintains donated funds in its Special Event Center Fountain Fund. The donations were solicited more than a decade ago in a fund-raising campaign related to the City's 125th Anniversary celebration and were intended to fund the construction of a fountain. The estimated cost of the fountain far outstripped the funds raised, and the project was never completed. Nevertheless, the City accepted the donations, creating at least the expectation that they would be used for their intended purpose.

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INTRODUCTION

The City Auditor conducted this performance audit of the City's Donation Funds pursuant to Article III, Chapter 40 of the City Charter, as Amended May 11, 2013, and in accordance with the City Auditor's Annual Audit Plan, approved by the Audit Committee on June 4, 2020, and amended January 13, 2022.

The objectives of the audit were to review the City's donation fund accounts to: (1) verify all donation accounts currently in existence; (2) review the revenues and expenditures for Fiscal Years 2017 through 2021; (3) determine the appropriateness of expenditures; and (4) identify opportunities for best practice improvements.

The scope of the audit focused primarily on cash-funded donation activities from FY 2017 through FY 2021. The audit scope did not include non-cash or in-kind donations.

Background

The City of Killeen receives on average about \$72,000 annually in cash donations in support of its various programs and activities. These include but are not limited to Animal Services, the Senior Citizen Utility Bill Assistance program, Blue Holiday, Homeless Outreach, Parks, and the Disadvantage Youth program. Donations generally come from citizens and small businesses and can range from small change to thousands of dollars.

How are donations received?

Most donations are made in-person either to the Finance Department or to the departments responsible for managing their respective programs. However, in FY 2018 management sought to facilitate the donation process for several programs by adding donation options to the City's monthly utility bill, as shown below.

The image shows a portion of a utility bill from the City of Killeen. On the left is the City of Killeen logo, a stylized 'K' with a star above it. Below the logo are labels for 'Service Address', 'Customer ID - Location ID', 'Cycle - Route', 'Bill Date', and 'Due Date'. In the center, the text reads: 'City of Killeen Utility Collections Department', 'PO Box 549, Killeen, TX 76540-0549', 'Phone (254) 501-7800 Pay by Phone (254) 220-4183', and 'Solid Waste Department (254) 501-7785'. On the right, there is a section for donations: 'I have included \$ _____ as a donation to the:' followed by a list of programs with checkboxes and dollar amounts: 'Senior Citizen Utility Bill Assistance Program \$ _____', 'Summer Youth Program \$ _____', and 'Animal Services Unit \$ _____'. Below this list is 'Total Donation \$ _____'. At the bottom right, a box contains the text 'DUE DATE APPLIES TO CURRENT CHARGES ONLY'.

The donation options added to the bill were for the Senior Citizen Utility Bill Assistance program; for the Summer Youth program, now referred to as the Disadvantaged Youth program; and for the Animal Services Unit.

The following is a brief description of the City's active donation funds, by department.

Community Development Department

Library Memorial Fund

The Library Memorial Fund is the City's oldest donation fund, dating back more than 20 years. The purpose of the fund is to support library services. Donations in the past have been used for furnishings and renovations. The most recent example of this was the Library's recent purchase of a new service desk for its Copper Mountain Branch with funds bequeathed by the estate of longtime library patron, John Chopelas.



Source: Library Services

Police Department

The Killeen Police Department donation-funded programs include Homeless Outreach, Blue Holiday, National Night Out, and Explorers.

Homeless Outreach Program

The Homeless Outreach Donation Fund was created in FY 2019. Donations are used by the KPD Homeless Coordinator in his daily interactions with the homeless population to purchase toiletries and

other incidentals, obtain vital records for ID issuance, provide temporary shelter, and pay for transportation to help reunite homeless individuals with family members.

Blue Holiday Program

The Blue Holiday program, also referred to as the Blue Santa program dates back to 1972, when two Austin patrol officers began distributing gifts to local families in need from the back of their patrol car. The program has since been adopted by police departments in cities across the country. Killeen established its Blue Holiday Donation Fund in FY 2019 and uses its cash donations to purchase items and gift cards for local families in need.



Source: KPD Facebook

Police Explorers Program

The Police Explorers program was founded in 1973. The program offers eligible teenagers and young adults, aged 14 to 21 the chance to gain experience in elements of law enforcement work through hands-on training in basic traffic stops, building searches, firearms, etc. In addition, Explorers can observe law enforcement officers in the field through the Explorer Ride-Along program, as well as train to compete against other Explorer teams though local, state and national competitions. Killeen established its Police Explorers Program Fund in FY 2015.



Source: KPD Facebook

National Night Out Program

The National Night Out program had its origins in the western suburbs of Philadelphia, Pennsylvania in the 1970s. The first National Night Out took place in August 1984, a natural outgrowth of the network of already established law enforcement agencies, neighborhood watch groups, and civic groups dedicated to crime prevention. Killeen established its National Night Out Fund in FY 2015.



Source: KPD Facebook

Finance Department

Senior Citizen Utility Bill Assistance Program

The purpose of the Senior Citizen Utility Bill Assistance program, according to the Financial Governance policy is “to reduce the impact on community resources by providing assistance to senior citizens who are unable to pay their utility bills.” The City initiated the program in 1998 under its previous name, the Seniors Count program. The program was initially funded with a \$10,000 contribution from the General Fund. Since then, it has been sustained by donations.



Source: Internet

The program requires that eligible citizens must receive a utility bill from the City of Killeen and be at least 60 years old at the time of application. Applications are taken by Utility Collections staff. Completed applications are forwarded to the Community Development Department to determine low-income eligibility. Eligible applicants may remain on the program for up to six months and may then reapply after being off the program for six months. In FY 2019, the fund was added to the City’s monthly utility bill to streamline the donation process.

Special Event Center Fountain Fund

The Special Event Center Fountain Fund comprises donations received from a fundraising campaign arising from the City’s 125th Anniversary celebration in 2007. The funds were to go towards the construction of a fountain at the Special Event Center, adjacent to the Killeen Civic and Convention Center. While the funds continue to earn interest as part of the City’s pooled cash investment account, they have otherwise remained dormant. The Fountain Fund will be discussed in greater detail in the body of the report.



Source: City Archives

Fire Department

The Fire Department Donation Fund was created in FY 2017. Its purpose is to support Fire Department operations. Potential uses include training, tools, and equipment.

Recreation Services Department

Recreation Services Donation Funds include Animal Services, the Recreation Services Fund, Disadvantaged Youth program, Athletics Fund, the Parks Fund, and the Senior Citizen Center Fund.

Animal Services Fund

The Animal Services Donation Fund was established in FY 2014. The purpose of the fund, according to the Financial Governance policy is “to reduce the impact on community resources by providing spay and neuter services” for animals in the care of Animal Services. Although funds are to be used primarily for spay and neuter services, the policy does allow for the reallocation of funds based on need, as determined by the City Manager or designee. The fund was added to the City’s monthly utility bill in FY 2019.



Source: Communications Dept.

Recreation Services Fund

The Recreation Services Donation Fund was created in FY 2015. The fund is used to pay for banquets, award ceremonies, and awards.

Disadvantaged Youth Program Fund

Also referred to as the Summer Youth program, the purpose of the Disadvantaged Youth program is to provide eligible families financial assistance for participation in Department of Recreations’ fee-based youth activities. Eligible children must



Source: Internet

live in the City of Killeen and be ages 4 to 16. Applications must be submitted by the child's parent or guardian. To be eligible, household income must be at or below 80 percent of the area's median household income. Each family may receive up to \$100 per child, with a \$200 maximum per family per year. Funds are disseminated on a first come, first served basis until depleted. The fund was added to the City's monthly utility bill in FY 2018.

Athletics Fund

The Athletics Fund was created in FY 2015. Donated funds are used to support athletic activities, including athletic gear, equipment and uniforms.

Senior Citizen Center Program Fund

The Senior Citizen Center Donation Fund was established in FY 2018. The fund is used to purchase supplies and food for events and activities at the Senior Center.

Parks Donation Fund

The Parks Donation Fund was established in FY 2017. Donations typically are used for park improvements, including tree plantings and park benches.

Statement of Compliance with Audit Standards

We conducted this performance 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. Those standards also require that we, as internal auditors, meet the criteria for independence. We believe that we met those independence standards, and that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

The City Auditor's audit of the City's donation funds found that donations were accounted for and used appropriately. However, opportunities exist for expanded use of social media to promote programs and highlight donor activity, in particular the Senior Citizen Utility Assistance program. Further, the program has sufficient reserves to handle an increase in assistance payments for eligible seniors. Finally, the longstanding issue of the Special Event Center Fountain Fund should be addressed.

The City Auditor's review of the City's donation fund accounts found that donations reviewed were properly recorded and used for their intended purposes. However, the City's efforts to highlight donor activity through social media were somewhat mixed, with some programs and activities promoted and others not. The Senior Citizen Utility Bill Assistance Program has built up a sizable reserve balance, and as such has the wherewithal to handle an increase in monthly program payments. In 2014, City Council approved an increase in the program's original monthly assistance amounts of \$36, \$25, and \$12 to \$45, \$30, and \$15, respectively to adjust for increases in Water and Sewer rates. Since then, the City has raised Water and Sewer rates three more times and implemented a Street Maintenance Fee, which was recently increased. Given these increases, coupled with the impact of current economic conditions on low-income residents, management should consider another increase in monthly assistance amounts. Finally, the City continues to maintain donated funds in its Special Event Center Fountain Fund. The donations were solicited more than a decade ago in a fund-raising campaign related to the City's 125th Anniversary celebration and were intended to fund the construction of a fountain. The estimated cost of the fountain far outstripped the funds raised, and the project was never completed. Nevertheless, the City accepted the donations and continues to maintain them, creating at least the expectation that the funds will at some point be used for their intended purpose.

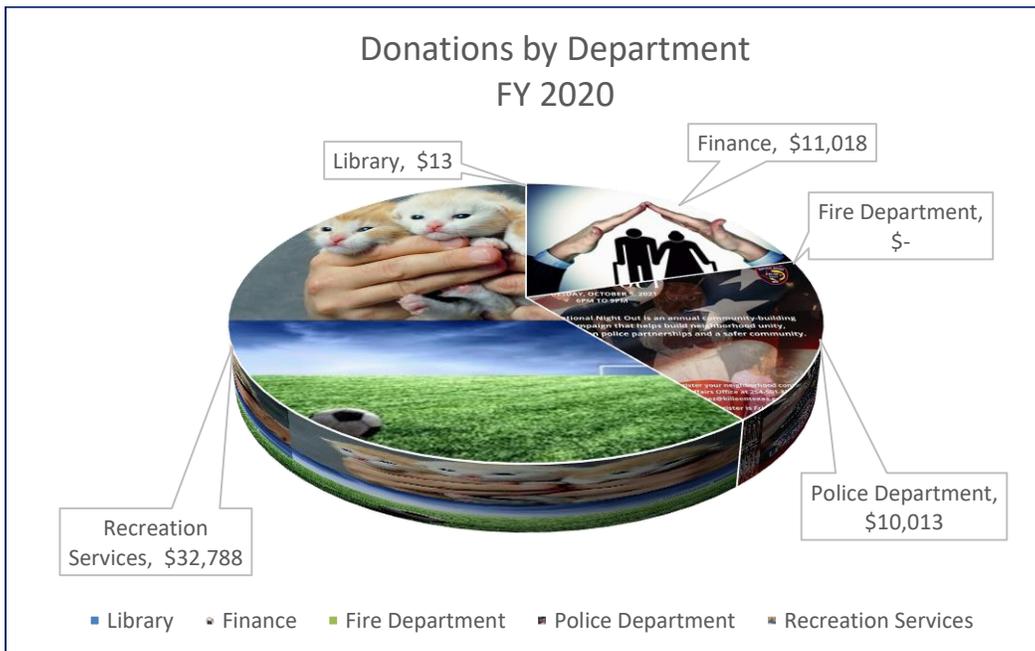
Donations Funds Overview

The City of Killeen received on average about \$72,000 in cash donations annually for its various programs and activities during the

review period. FY 2021 was an outlier at \$94,000 due to the one-time \$38,000 donation to the Library Memorial Fund from the estate of long-time library patron John Chopelas. In a typical year, as shown in FY 2020, Recreation Services garnered the lion's share of donations, followed by Finance (Utility Collections) and the Police Department.



Source: AS400 Financial Management System



Source: AS400 Financial Management System

Cash donations reviewed were properly recorded and used for their intended purposes. Cash collection procedures reviewed appear adequate to safeguard cash donations received. There were some inconsistencies noted in the classification of some grants as donated funds. In addition, there was room for improvement in the tracking of expenditures where multiple donation funds exist in one department. However, Finance Department staff were already aware of these issues and had begun taking corrective action in conjunction with the FY 2023 budget process. These issues are discussed in more detail in OTHER MATTERS (page 16).

Senior Citizen Utility Bill Assistance Program

The Senior Citizen Utility Bill Assistance Program receives on average about \$11,000 in donations annually and pays out on average about \$5,700 annually in assistance payments. That is, the fund takes in nearly double what it pays out. Over the years, the fund has built up a sizable reserve balance.

As of the end of FY 2021, the Assistance Fund had a balance of \$72,750, representing over 12 years of assistance payments based on the average annual payout. While maintaining a reserve is a prudent best practice, a 12-year reserve may be excessive, and may indicate an opportunity to amend program policy to increase assistance payments.

The original program policy established three "priority" levels of monthly assistance payments in the amounts of \$36, \$25, and \$12, respectively. The priority levels are based on several factors including the number of people in the household, medical costs, and extraordinary circumstances. In June 2014, City Council approved an increase in the three priority levels to \$45, \$30, and \$15, respectively, to adjust for several increases in water and solid waste rates that had amounted to about a 70-percent increase in the monthly utility bill. However, since that time, customers have seen three additional increases in their water rates, as well as the implementation of the Street Maintenance Fee in FY 2018 and the subsequent increase of the fee in FY 2021. Altogether, these increases have amounted to an additional 30 percent rise in the monthly utility bill.

Given the additional increases in the monthly utility bill, along with the potential financial hardship posed by current economic conditions on low-income residents, management should consider recommending to City Council another increase in monthly assistance payments. The

substantial reserve balance, bolstered by the annual excess of donation revenue over expenditures indicates that the fund is well-positioned to handle such an increase.

Use of Social Media

The effective use of social media to communicate with an entity’s donor base and to highlight program activities is a vital best practice in the non-profit sector. The practice serves to acknowledge donors’ contributions, as well as to communicate to donors the impact of their contributions on the donor-supported activity.

The City’s use of social media to highlight its donation activities has been somewhat mixed. On the positive side, the Police Department has been consistent in highlighting its donor-funded programs on its Facebook page, although its efforts could be further enhanced by the coordinating with the Communications Department to expand coverage to the City’s main Facebook page. Also, the Library coordinates frequently with the Communications Department to highlight its activities, including donor activity. As previously mentioned, the library received a large donation from the estate of longtime library patron, John Chopelas, which was used to purchase a new service desk for the Copper Mountain branch.



Source: City/KPD FaceBook Pages

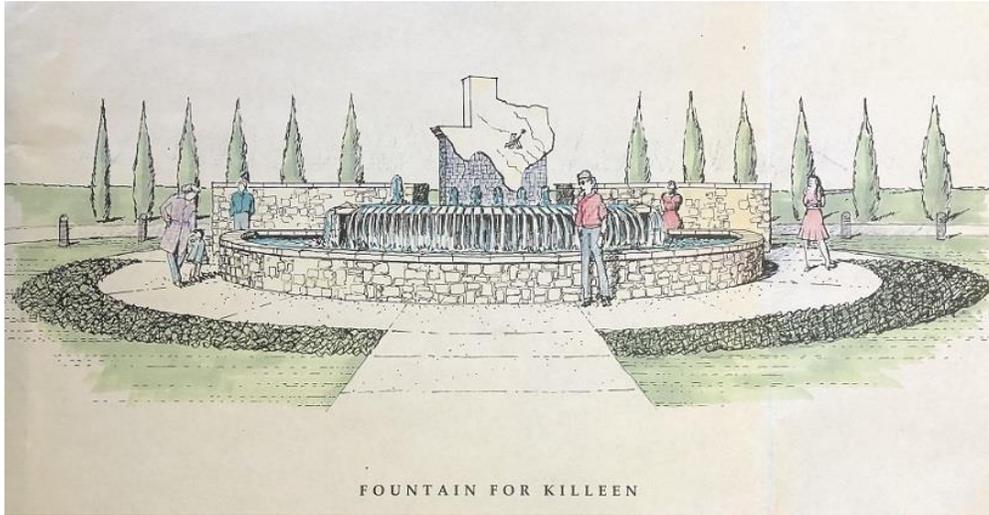
Animal Services has dramatically improved its coordination with the Communications Department in recent years to promote its operations and highlight community involvement in the shelter on Facebook, including non-cash donations, such as the in-kind contributions of volunteers and fosters. The shelter has not yet coordinated with the Communications Department on its cash donor contributions, which average about \$15,000 annually. However, the Animal Services Manager explained that they have been accumulating their cash donations to pay for physical improvements to the shelter.

On the other side, donor contributions for the Senior Citizen Utility Bill Assistance program, one of the City's most active donor bases have largely gone unacknowledged, at least on social media. Donations for the program totaled about \$12,500 for FY 2021. Cumulatively, donors have contributed nearly \$200,000 to the program since its inception. The City should expand its social media coverage to include recognition of these donors, and to highlight the impact their donations have had on participating senior citizens who have benefited from the program.

Fire Department

In FY 2017, the Finance Department created a donation fund for the Fire Department. The fund has received a total of \$60 over its six-year existence, a \$50 donation in FY 2017, and a \$10 donation in FY 2018. The reason for the lack of donor activity is not clear. However, given the strong support the Fire Department enjoys in the Killeen community, it is likely that would-be donors are simply not aware of the fund's existence. One reason might be the lack of specific programs similar to that of the Recreation Services' Disadvantaged Youth program, or the Police Department's Blue Holiday, Explorers, and National Night Out programs, all of which tend to elevate awareness of the respective funds. The Fire Chief is aware of this issue and is currently working to develop possible donor-funded programs and activities that could benefit the Fire Department and the community.

Special Event Center Fountain Fund



Source: City Archives

The Special Events Center Fountain has a long history, dating back two decades to the construction of the Killeen Civic and Convention Center (KCCC). Architectural designs for the fountain were presented to management in February 2002. In April 2002, the month in which the KCCC opened, management received a cost estimate of \$168,000 for the fountain project. The estimate included materials, labor, and equipment, but excluded rock excavation and relocation of underground utilities, as well as incidental items, such as port-a-potties; therefore, it should be considered a conservative estimate. Ultimately, management chose not to go forward with the project at that time due mostly to budgetary concerns, according to a former City official.

Interest in the fountain resurfaced at the time of the City's 125th Anniversary celebration in 2007. Planning and fundraising for the anniversary celebration and the fountain were handled by the 125th Birthday Committee.

The City solicited donations for the anniversary celebration and fountain, which included sales of commemorative coins, hats, Christmas ornaments, etc. The Killeen Volunteers Inc. (KVI) Celebrate Killeen Committee also helped plan the celebration and



Source: City Archives

raised funds for the event. The 125th Birthday Committee conducted preliminary planning on the fountain project. However, the funds raised fell short of what was needed, and the second attempt at the Special Events Center Fountain eventually came to an end.

While the fountain project did not come to fruition, the donations associated with the project continued to be maintained in their respective accounts. There are two pots of money associated with the fountain. The City maintains approximately \$18,000 in its Special Events Center Fountain Special Revenue Fund, which includes interest earned as part of the City's pooled cash investment account. In addition, KVI had a residual balance of approximately \$27,000 in its 125th Anniversary money market account from its own fund-raising efforts. It should be noted that KVI Board Members believe that the funds raised by KVI should remain with KVI and be used to maintain the Fort Hood Memorial. The issue is somewhat academic in that the potential cost of a fountain would far exceed the combined totals of the two pots of money.

Going Forward

While the City is under no contractual obligation to follow through on the Fountain Project, there is at a minimum an expectation that something will be done, given that the City participated in fundraising activities, accepted the donations and continues to maintain the donated funds. Since returning the funds is not an option at this point, given the passage of time and the lack of donor records, management should consider other possible options going forward.

The easiest option would be to simply let the funds sit in perpetuity as a permanent resident of the City's pooled cash investment fund. Another option might be to repurpose the funds. Neither of these are likely to be palatable options for the donors who contributed to the fountain fund-raising campaign. Further, these options carry a reputational risk, which may color future fund-raising efforts the City may wish to pursue.

Other possible options include but are not limited to going forward with the original plans for the Special Event Center Fountain developed in 2002. The construction cost will likely be substantially greater than the original \$168,000 estimate, which would not include the cost of annual maintenance.



Source: City Archives



Source: Internet



Source: Internet

The City Auditor reached out to the Parks and Recreation Department of Kansas City, Missouri, known as the “City of Fountains” for its many fountains and asked for an estimate on annual maintenance costs for a fountain of comparable size. Kansas City Parks and Recreation provided an annual maintenance cost estimate of \$27,600 for a similar sized fountain, which did not include the cost of repairs. Another possible, and more viable option might be an indoor water feature for the KCCC lobby. And still another option might be a fountain in the downtown area, which would align with the City’s downtown revitalization efforts. Whichever path forward the City chooses, it should be with an eye towards honoring the intent of the original fund-raising campaign.

Recommendations:

The City Auditor Recommends that the Executive Director of Finance:

1. Work with the Executive Director of Community Development to develop a proposal for increasing monthly assistance levels for the Senior Citizen Utility Bill Assistance Program to help offset increases in the utility bills.
2. Work with the Utility Collections Director to coordinate with the Communications Department to promote Senior Citizen Utility Bill Assistance Program donor activity on social media.
3. Work with the Executive Director of Community Development on a proposal for the City Manager on the possible options for the Special Event Center Fountain Fund.

OTHER MATTERS

There were several issues identified during the audit that Finance Department staff were already aware of and had begun taking corrective actions, as follows:

Classification of Grant Funds as Donated Funds

The City's Auditor's review noted two instances, in which grant funds were classified as donation revenue. The Police Department receives annually grant funds for law enforcement training. The Texas Comptroller allocates these funds to qualified law enforcement agencies under the Law Enforcement Officers Standards and Education (LEOSE) grant program for continuing education for law enforcement officers. KPD has received on average about \$20,000 annually over the past five years. Rather than classify the funds as grant revenue, similar to that of Department of Justice, Justice Assistance Grant (JAG) grants, for example, the Department instead classified the LEOSE grants as donation revenue. According to KPD staff, this was done at the direction of a former Finance Department Comptroller. It should be noted that despite the misclassification, the LEOSE funds were used appropriately for law enforcement training, in accordance with the terms of the grant.

The other instance involved Recreation Services' Animal Services Unit, which periodically receives grant awards from the Petco Foundation. In FY 2021, Animal Services was awarded a \$300,000, 3-year grant for spay and neuter operations and rabies vaccinations. Like the Police Department's LEOSE grant, the Petco grant was classified as donated revenue. While the grant funds are used for similar purposes as donated funds, the classification of grant proceeds as donation revenue is not consistent with how other grants are handled. The Finance Department's Budget Office is aware of these issues and is currently working with the departments to improve the consistency of revenue classification with regard to grant funds.

Tracking Expenditures for Departments with Multiple Donation Funds

In those departments with multiple donation accounts, specifically, Recreation Services and the Police Department it was difficult to match expenditures with their related donation revenue accounts in the financial system. This not only reduced the overall transparency of the activities, but also increased the likelihood that accounting errors

would go undetected. Again, the Finance Department was aware of the issue, and its Budget Office had already begun taking corrective action. At the time the audit was conducted the Budget Office had consolidated all Police Department donation revenue under one umbrella account and then assigned specific project codes to each of the programs for the purpose of tracking program revenues and their related expenditures. The Budget Office was also working with Recreation Services staff to do the same for that Department's various donation funds.

VIEWS OF RESPONSIBLE OFFICIALS

Copies of the draft report were provided to the Executive Director of Finance and the Executive Director of Community Development for review and comment. Their input is reflected throughout this report. Management agreed with the report's findings and recommendations, including the need to consider viable options for the Special Event Center Fountain Fund.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of the audit were to review the City's donation fund accounts to: (1) verify all donation accounts currently in existence; (2) review the revenues and expenditures for Fiscal Years 2017 through 2021; (3) determine the appropriateness of expenditures; and (4) identify opportunities for best practice improvements.

Scope and Methodology

The scope of the audit focused on donation fund activities from FY 2017 through FY 2021, but also included a review of historical data pertinent to the audit. The scope did not include non-cash or in-kind donations.

To address the audit objectives, the City Auditor:

- ▶ Spoke to key personnel, including the Executive Director of Finance, the Comptroller, Utility Collections Director, Animal Services Manager, Executive Director of Community Development, Director of Library Services, Police Department Finance Manager, Assistant Director of Recreation Services, Recreation Services Account Specialist, Fire Department Fire Chief, select former City Officials, and the Executive Director of the Zellerbach Family Foundation.
- ▶ Reviewed cash collection procedures for select donation funds to determine if internal controls were adequate to safeguard assets.
- ▶ Conducted research on fundraising best practices for non-profits.
- ▶ Obtained and analyzed budget data on the City's donation funds.
- ▶ Reviewed revenues and expenses reported during the review period to determine if revenues were accurately recorded and used for their intended purposes.
- ▶ Reviewed the City's social media activity for content related to donation activities.

Statement of Compliance with Audit Standards

We conducted this performance 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. Those standards also require that we, as internal auditors, meet the criteria for independence. We believe that we met those independence standards, and that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.