

Memorandum



CITY OF DALLAS

DATE: October 26, 2017

TO: Honorable Members of the Budget, Finance & Audit Committee –
Jennifer S. Gates (Chair); Philip T. Kingston (Vice Chair);
Deputy Mayor Pro Tem Erik Wilson; Rickey D. Callahan;
Scott Griggs; Lee M. Kleinman

SUBJECT: Office of the City Auditor – Fiscal Year 2018 First Quarter Update

I will provide a briefing to the members of the Government Performance and Financial Management Committee on Monday, November 6, 2017 regarding:

- Office of the City Auditor – Fiscal Year 2018 First Quarter Update

Sincerely,

A handwritten signature in black ink that reads "Craig D. Kinton".

Craig D. Kinton
City Auditor

C: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Larry Casto, City Attorney
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
M. Elizabeth Reich, Chief Financial Officer
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager
Directors and Assistant Directors

Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Jo M. (Jody) Puckett, Interim Assistant City Manager
Joey Zapata, Assistant City Manager
Theresa O'Donnell, Chief of Resilience
Nadia Chandler Hardy, Chief of Community Services
Raquel Favela, Chief of Economic Development
and Neighborhood Services

Office of the City Auditor – Fiscal Year 2018 First Quarter Update

**Government Performance and
Financial Management Committee
November 6, 2017**

**Craig D. Kinton, City Auditor
Office of the City Auditor
City of Dallas**



Office of the City Auditor

Vision, Mission, and Statement of Values

VISION

Accountability professionals helping Dallas work better

MISSION

Our mission is to promote public trust and advance accountability by providing independent, objective, and useful professional services for the City of Dallas.

STATEMENT OF VALUES

We achieve our mission with PRIDE:

Professionalism
Respect
Integrity
Diversity
Excellence

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Government Performance and Financial Management



City of Dallas

Fiscal Year 2017 Summary

Staff Tenure with Office	
	Percent
Under Two Years	34.8
Two to Five Years	30.4
Six to Ten Years	13.1
More than Ten Years	21.7

Gender		
	Office Percent	Dallas, TX * Percent
Male	56.5	50.4
Female	43.5	49.6

* Source: US Census Bureau 2015 (Estimate)

Ethnicity		
	Office Percent	Dallas, TX * Percent
Non-Hispanic White	65.2	29.2
Non-Hispanic Black	17.4	24.0
Hispanic	4.3	41.4
Other Race	13.1	5.4

*Source: Economic Development Profile – Office of Economic Development



Fiscal Year 2017 Summary

Education *	
	Percent
Some College, No Degree	4.3
Bachelors Degree	95.7
Masters Degree	60.9
Doctor in Jurisprudence	8.7

* Does not total 100% as employees with Masters Degrees also have Bachelors Degrees

Professional Certifications / Designations *	
	Percent
Certified Public Accountant (CPA)	47.8
Certified Internal Auditor (CIA)	43.5
Certified Information System Auditor (CISA)	13.1
Certified Fraud Examiner (CFE)	21.7
Certified Financial Forensics (CFF)	4.3
Licensed Attorney	8.7
Other Certifications	13.1

• Does not total 100% as all employees do not have professional certifications / designations and some employees have more than one professional certification / designation



Fiscal Year 2017 Summary

	FY 2017 Target	FY 2017 Actual
Outputs		
Performance Audits	18	12
Attestations	0	0
Investigative Reports	18	6
Nonaudit Services	11	17
Totals	47	35
Efficiency		
% of Hours on Direct Projects	75%	73.5%
Hourly Billable Rate	\$86.63	\$89.42*

* Preliminary Hourly Billable Rate – Final Fiscal Year 2017 Financials Still in Process



Fiscal Year 2017 Summary

	FY 2017 Target	FY 2017 Actual
Outcome Measures Include:		
Percentage of Recommendations Management Agrees to Implement	93%	86%
Percentage of Substantiated Fraud/Waste/Abuse Complaints Resulting in Accountability Actions	100%	100%



Fiscal Year 2017 Summary

- Performance Audits – Produced 12 reports which provided coverage of operational risks and produced 93 total recommendations (including sub-recommendations) to reduce risks or improve operations in areas such as:
 - Design of controls for personnel and training services (Dallas Police Department)
 - Dallas Animal Services operations
 - Internal controls of Neighborhood Code Division (Code Compliance)
 - Sole source / single bid procurements (Office of Procurement Services, formerly Department of Business Development and Procurement Services)
 - Business partners oversight – Arts District (Cultural Affairs)
 - Cash management / collections processes (Court and Detention Services)

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Fiscal Year 2017 Summary

- Investigative Services – Produced 6 reports
 - Closed 124 complaints during FY 2017, resulting in at least 35 accountability actions, including filing of criminal charges, termination of employment, or implementation of other disciplinary or administrative control measures
 - Began FY 2017 with 25 open complaints
 - Received 136 complaints during FY 2017
 - 37 complaints remained open at end of FY 2017

Fiscal Year 2017 Summary

- Nonaudit Services – Completed 17 *
 - Two City Council Members' request for assistance
 - Three departments' request for assistance
 - Twelve presentations to City staff and City Council committees

** Note: Nonaudit Services refers to any service provided by the Office that is not performed under Government Auditing Standards established by the United States Comptroller General. These standards require the Office to consider whether the performance of the service would pose a potential threat to auditor independence.*

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Audit and Attestation Services Reports Issued

(April 1, 2017 to October 31, 2017)

- Performance Audits
 - Special Audit of the Accounts of Former City Manager – A.C. Gonzalez
 - Design of Internal Controls over the Department of Code Compliance's Neighborhood Code Division
 - Sole Source / Single Bid Procurements
 - Department of Trinity Watershed Management
 - Business Partners Oversight – Arts District
 - Revenue Estimates for Fiscal Year 2017-18 Proposed Budget
 - Court Information System – Cash Management / Collections Processes
 - Construction-Related Procurements

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Special Audit of the Accounts of Former City Manager, A.C. Gonzalez – Recommendations

- *No recommendations associated with this report*



Design of Internal Controls over the Department of Code Compliance's Neighborhood Code Division – Recommendations

- Continue to develop an document the internal control system for Neighborhood Code to more clearly align with the five components and 17 principles identified in the *Standards for Internal Control in the Federal Government* (Green Book) and in Administrative Directive 4-09, *Internal Control*

Sole Source / Single Bid Procurements – Recommendations

- Develop and implement formal policies and procedures (written, approved, and dated) over sole source / single bid procurement process, including quality control process
- Verify bid specifications are written clearly and required attachments are provided to potential bidders when bid specifications are posted
- Document and include in procurement files the buyers' analysis of how responsible awards were made at lowest possible cost to City
- Review bid responses to validate bid specifications, such as client references, are obtained or reasons for omissions documented
- Document that buyers performed adequate research to identify potential vendors using appropriate research tools (e.g., Internet, Thomas Register of American Manufacturers)

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Sole Source / Single Bid Procurements – Recommendations Auditor Follow-Up Comments

- The Office of Procurement Services (OPS, formerly know as the Department of Business Development and Procurement Services) disagreed with four of the five recommendations stating the exceptions identified are isolated incidents and current processes are sufficient
- Exceptions noted, however, are comparable to those reported in pre-audits performed by the Office of the City Auditor for past nine years
- Although OPS developed checklists and recently implemented quality review process, these improvements did not identify and correct these exceptions noted in the report

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Department of Trinity Watershed Management – Recommendations

- Ensure Internal Transaction Initiators (ITIs) are consistently processed timely by developing formal (written, approved, and dated) policies and procedures that include following measures to track and / or improve the ITI process:
 - Establish an expectation for the timely completion of ITIs (i.e., within 30 calendar days or other appropriate benchmark to measure timely ITI processing) and adopt standards for timely completion of each step within ITI process, specifically senior management's review
 - Compare actual results of ITI processing against adopted standards to evaluate opportunities to further improve timeliness
 - Perform a customer satisfaction survey periodically (e.g., annual or biannual) with applicable City departments / offices to monitor expectations of the ITI process and performance of Stormwater Drainage Management personnel

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Business Partners Oversight, Arts District – Recommendations

- Implement procedures to more closely monitor the financial viability of the two business partners – AT&T Performing Arts Center (ATTPAC) and the Dallas Black Dance Theatre, Inc. (DBDT)
- Comply with the cost reimbursement terms for each Arts District business partner’s agreement. If Office of Cultural Affairs (OCA) determines the retroactive calculations needed to gain compliance with the terms of each agreement are too onerous, we recommend OCA works with the individual business partners and the City Attorney’s Office to align each agreement with current expense reimbursement practices.
- Develop procedures to ensure the Consumer Price Index adjustment calculation is performed when and as required by the agreement with ATTPAC

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Business Partners Oversight, Arts District – Recommendations *(continued)*

- Comply with Administrative Directive 6-01 Section 4.2.6, and Section 4.1 of the Dallas Museum of Art (DMA) agreement by:
 - Performing an annual inventory of the City-owned artwork housed and exhibited at the Museum and valuing the artwork as considered appropriate to obtain adequate insurance coverage
 - Obtaining an artwork Certificate of Insurance from DMA
 - Verifying the DMA has adequate artwork insurance coverage for the City's artwork housed and exhibited at the Museum

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Business Partners Oversight, Arts District – Recommendations *(continued)*

- Improve internal controls over the invoice processing and approval of ATTPAC's quarterly Payment Certificates by:
 - Reviewing the Payment Certificates to ensure the information included is correct
 - Ensuring each reimbursement expense amount listed on the Payment Certificate is adequately supported
 - Establishing the criteria for acceptable supporting documentation required for OCA to reimburse ATTPAC for purchases made with personal credit cards
 - Documenting unallowable costs that are identified and not reimbursed to ATTPAC
 - Documenting OCA's review and approval of each Payment Certificate

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Business Partners Oversight, Arts District – Recommendations *(continued)*

- Improve the DBDT's invoice review and approval procedures to ensure:
 - The DBDT submits evidence DBDT paid the vendor (preferably a canceled check) with each invoice
 - The DBDT submits the complete vendor invoice
 - The OCA reimburses DBDT only once for each vendor invoice submitted

Business Partners Oversight, Arts District – Recommendations (*continued*)

- Work with the City Attorney’s Office and Dallas Symphony Association (DSA) to modify the use agreement to include a facility fee charge as part of the ticket price for DSA performances
- Work with the City Attorney’s Office and the DSA to modify the use agreement to allow for full utilization of the Morton H. Meyerson Symphony Center and Annette Strauss Artists Square

* Auditor Follow-Up Comments

While management agreed with the recommendations in this report, their action plans are not specific and the implementation dates, set for June 30, 2019 (with one exception), are lengthy. Without specific action plans, including interim milestones to demonstrate progress towards implementation, accountability for the control improvements is unclear and the risk is increased that the deficiencies in the OCA’s contract oversight / monitoring controls will remain.

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Revenue Estimates Included in the Fiscal Year 2017-18 Proposed Annual Budget for the City of Dallas – Recommendations

- *No recommendations associated with this report*



Court Information System: Cash Management / Collections Processes – Recommendations

- Ensure City departments responsible for the citation accountability processes develop and implement formal (written, approved, and dated) policies and procedures that define roles, responsibilities, and accountability among departments to ensure:
 - Issued e-citations and paper citations are properly accounted for in Incode System
 - Unissued and / or voided paper citations and associated citation books are properly accounted for, retained, and ultimately destroyed
- Ensure Department of Court and Detention Services (CTS) and other citation issuing departments conduct more in-depth cost-benefit analysis (personnel and system costs, including costs related to internal control implementation) to determine whether transitioning to more complete e-citation process is more cost effective and improves internal controls. This cost-benefit analysis may also include a utilization study of current e-writers. If e-citation process is considered more beneficial, we recommend City Manager develops an implementation plan including associated budget.

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Court Information System: Cash Management / Collections Processes – Recommendations (*continued*)

- Director of the Department of Communication and Information Services (CIS), in consultation with CTS, should ensure an information technology solution is implemented to eliminate the duplicate scanning of paper citations

Court Information System: Cash Management / Collections Processes – Recommendations (*continued*)

- Ensure that (1): Incode System user access is further segregated to reduce risk that a cash misappropriation could occur and remain undetected; and, (2) additional internal controls are implemented to mitigate risk if duties cannot be segregated
- Ensure that: (1) CTS personnel duties are appropriately segregated in CTS-FRM-926; (2) CTS users' actual access to Incode System is aligned with any segregation of duties changes made to CTS-FRM-926; (3) CTS periodically monitors that segregation of duties is appropriate by comparing user profiles in aligned CTS-FRM-926 to user profiles established in Incode System; and, (4) Collection Supervisors and the Collection Manager can void cash payments without Incode System Administrator Level access to Incode System or implement additional internal controls to mitigate these risks

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Court Information System: Cash Management / Collections Processes – Recommendations (*continued*)

- Ensure that (1): Incode System user access is further segregated to reduce risk that a cash misappropriation could occur and remain undetected; and, (2) additional internal controls are implemented to mitigate risk if duties cannot be segregated
- Ensure that: (1) CTS personnel duties are appropriately segregated in CTS-FRM-926; (2) CTS users' actual access to Incode System is aligned with any segregation of duties changes made to CTS-FRM-926; (3) CTS periodically monitors that segregation of duties is appropriate by comparing user profiles in aligned CTS-FRM-926 to user profiles established in Incode System; and, (4) Collection Supervisors and the Collection Manager can void cash payments without Incode System Administrator Level access to Incode System or implement additional internal controls to mitigate these risks

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Court Information System: Cash Management / Collections Processes – Recommendations (*continued*)

- Update Revised CTS-PRO-906 by including methodology and documentation requirements for:
 - User access reviews to ensure inappropriate user access issues are identified and timely corrected
 - Transaction logs reviews to ensure: (1) sample selection is statistically valid and produces a relevant estimate of true presence of errors in total population of CTS transactions; and, (2) errors and anomalies are identified and timely corrected

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Court Information System: Cash Management / Collections Processes – Recommendations (*continued*)

- Ensure Incode System user access and transaction logs reviews are conducted in accordance with updated Revised CTS-PRO-906 at least once per year, including formally and consistently documenting:
 - User access review methodology
 - Transaction logs reviews methodology, including sample selection
 - Results of Incode System user access and transaction logs reviews
 - Actions taken to investigate and correct errors and anomalies identified

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Court Information System: Cash Management / Collections Processes – Recommendations (*continued*)

- Improve compliance and oversight of cash management / collections processes for fines and fees by requiring CTS:
 - Collections, Correspondence and Bonds Division personnel to update vault combination timely when a manager, supervisor or team leader change occurs
 - Collections, Correspondence and Bonds Division personnel to develop and implement a change fund verification schedule for personnel assigned to verify and count change fund on daily basis
 - Finance and Accounting Division personnel to conduct till and vault audits
 - Collections, Correspondence and Bonds Division personnel to evaluate need for Closeout Summaries, update the CTS-WKI-504 accordingly, and consistently follow the updated CTS-WKI-504

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Construction-Related Procurements – Recommendations

- Require all departments involved in construction-related procurements adopt uniform internal control best practices, such as those used by the Department of Dallas Water Utilities (DWU), to ensure compliance with State of Texas law and Administrative Directive 4-05, *Internal Control* (AD 4-05)
- Ensure the City departments authorized to conduct construction-related procurements have formal (written, approved, signed, and dated) policies and procedures
- Ensure the Director of Office of Procurement Services (OPS) develops formal (written, approved, signed, and dated) policies and procedures that describe OPS' responsibilities for facilitating construction-related procurement

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Construction-Related Procurements – Recommendations (continued)

Ensure City departments, authorized to conduct construction-related procurements, and OPS implement the internal controls needed to ensure AD 4-05 is uniformly followed by:

- Decreasing the complexity of AD 4-05 and / or clarifying the requirements by developing an implementation guide. The result should specify:
 - Professional Services procurement requirements, such as the process departments must use after the Request for Qualifications to select the most highly qualified firm (i.e., Request for Proposal, negotiations, etc.)
 - Screening and selection committee composition requirements to minimize potential conflicts of interest, including documentation such as a signed conflict of interest statement
 - Allowable exceptions to the procurement process, such as when the most highly qualified firm is not selected
- Requiring departments to develop consistent policies and procedures
- Monitoring departments for conformity with AD 4-05 for construction-related procurements

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Construction-Related Procurements – Recommendations (continued)

- Ensure City departments, in collaboration with the City Attorney's Office, develop internal controls to ensure distributing the work practices are transparent, consistent, documented, and comply with AD 4-05
- Ensure policies and procedures are developed to require department Directors to document their reasoning for selecting a specific firm when the: (1) selection committee scoring and ranking process results in a tie; or, (2) the firm selected is not the most highly qualified firm recommended by the selection committee

Investigative Services Reports Issued

(April 1, 2017 to October 31, 2017)

- *No Investigative Services Reports Issued*



Anticipated Report Releases

First Quarter FY 2018

- MuniServices Contract for Sales / Use Tax Receipts
- Homeless Response System Effectiveness
- Line-of-Duty Death Report Recommendations – Dallas Fire-Rescue
- Special Audit – Four Former City Council Members
- Attestation Engagement: Storm Drainage Improvements Mill Creek / Peaks Branch / State-Thomas Drainage Relief Tunnel (Second Procurement) – Trinity Watershed Management

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Audit and Attestation Services

Projects In-Progress

First Quarter, Fiscal Year 2018

- Environmental Compliance – Multiple Departments
- Special Collections Operations – Dallas Water Utilities
- Miscellaneous Permit Fee Revenues
- Special Audit – Former City Secretary
- Prior Audit Recommendations Follow-Up Fiscal Year 2016
- Records Management System – Dallas Police Department
- Continuity of Operations Audit Follow-Up
- Off-Duty Employment Administration – Dallas Police Department
- Surveillance Camera Oversight – Multiple Departments
- Dallas Convention & Visitors Bureau (VisitDallas)
- Water Quality and Safety, Testing, and Monitoring – Dallas Water Utilities
- Franchise Fees Review through MuniServices (*Ongoing*)
- Sales/Use Tax Compliance Review through MuniServices and / or TexasCityServices (*Ongoing*)

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Audit and Attestation Services

Anticipated Project Starts

First Quarter, Fiscal Year 2018

- Prior Audit Recommendations Follow-Up Fiscal Year 2018
- Utilization of Bond Funds
- Performance Measurement Process

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QUESTIONS?

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Appendix – Report Links

Audit Reports

- [Special Audit of the Accounts Former City Manager – A.C. Gonzalez](#)
- [Audit of the Design of Internal Controls over the Department of Code Compliance’s Neighborhood Code Division](#)
- [Audit of Sole Source / Single Bid Procurements](#)
- [Audit of the Department of Trinity Watershed Management](#)
- [Audit of Business Partners Oversight – Arts District](#)
- [Audit of the Revenue Estimates Included in the Fiscal Year 2017-18 Proposed Annual Budget for the City of Dallas](#)
- [Audit of Court Information System – Cash Management / Collections Processes](#)
- [Audit of Construction-Related Procurements](#)

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Office of the City Auditor – Fiscal Year 2018 First Quarter Update

**Government Performance and
Financial Management Committee
November 6, 2017**

**Craig D. Kinton, City Auditor
Office of the City Auditor
City of Dallas**

