

Memorandum



CITY OF DALLAS

DATE: July 17, 2015

TO: Honorable Mayor and Members of the City Council

SUBJECT: Office of the City Auditor – Audit, Attestation and Investigative Services Update:
Fiscal Year 2015 Fourth Quarter

The *Audit, Attestation and Investigative Services Update: Fiscal Year 2015 Fourth Quarter* (Update) is presented to provide current information about the results and status of audit, attestation, and investigative service projects of the City of Dallas' (City) Office of the City Auditor (Office).

A total of six audit, attestation, and investigative reports were issued in the third quarter of Fiscal Year (FY) 2015, including:

- Audit of Controls over Weapons and Other High Risk Inventory for Dallas Police Department's Quartermaster Unit
- Audit of the Paving and Maintenance Program / Capital Program Streets and Thoroughfares
- Agreed-Upon Procedures:
 - Three single bid procurements
- Investigative Reports:
 - Theft by Employee – Department of Code Compliance

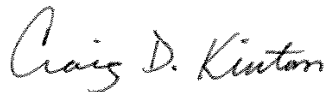
The key points from these reports are included in Section II of the Update. The project objectives for reports scheduled to be released and for projects currently in progress or expected to be started in the fourth quarter of FY 2015 are included in Sections III through V of the Update.

Approved Audit Plans allow the City Auditor to make additions to, deletions from, or other changes to the plan(s) when deemed necessary upon written notification to the City Council. At this time, the Office would like to notify you of a project deletion that was included in the FY 2014 plan:

- Trinity Watershed Management – After consultations with the Interim Director of Trinity Watershed Management, a decision was made to delete this audit and to include it in the proposed FY 2016 Audit Plan to accommodate the timing of other scheduled reviews of the department.

Should you have questions or if we can be of assistance, please contact me at 214-670-3222.

Sincerely,



Craig D. Kinton
City Auditor

Attachment

C: A.C. Gonzalez, City Manager
Warren M. S. Ernst, City Attorney
Rosa Rios, City Secretary

**City of Dallas
Office of the City Auditor**

**Audit, Attestation and
Investigative
Services Update**

Fiscal Year 2015 – Fourth Quarter

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Summary of Audit, Attestation and Investigative Services *

Audit – Reports that provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability

Attestation – Reports that cover a broad range of financial or non-financial objectives; results in an examination, a review, or an agreed-upon procedures report on a subject matter or an assertion about a subject matter that is the responsibility of another party

Investigative – Reports providing evaluations and results of substantiated allegations of fraud, waste and abuse

Audit and Attestation Services Reports Issued Fiscal Year 2015 – Third Quarter April 1, 2015 to June 30, 2015 (See Section II for Details)

- Audit of Controls over Weapons and Other High Risk Inventory for Dallas Police Department's Quartermaster Unit
- Audit of the Paving and Maintenance Program / Capital Program Streets and Thoroughfares
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # Single Bid # BUZ1417: Department of Aviation – Outfall Closure Devices Controls System Maintenance and Support (Large Scale Hazardous Containment System Maintenance and Support), \$1,356,215.70
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BP1505: Department of Dallas Water Utilities – Liquid Polymer for Wastewater Facilities – Five Year Master Agreement for Delivery, Services and Equipment, \$6,414,077
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # PBPRP899: Department of Public Works – CBD Signage and Wayfinding Phase III, \$184,082

* All audit and attestation services are conducted under authority of the City Charter, Chapter IX, Section 3, and in accordance with the Annual Audit Plan approved by the City Council. We conduct our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective(s). Fraud investigations are conducted in accordance with Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

**Investigative Services Reports Issued
Fiscal Year 2015 – Third Quarter
April 1, 2015 to June 30, 2015
(See Section II for Details)**

- Theft by Employee – Department of Code Compliance

**Audit and Attestation Services Anticipated Report Releases
Fiscal Year 2015 – Fourth Quarter
July 1, 2015 to September 30, 2015
(See Section III for Details)**

- Civilian Timekeeping Internal Controls and Processes
- Performance Measurement Process – Dallas Fire-Rescue
- Purchasing / Contracting Processes
- Water Customer Billings
- Budget Revenue Estimates – Fiscal Year 2016
- Single Bid Procurements:
 - Vector Airport Systems – Aircraft ID and Fee Billing/Collections System, \$432,478.61 / Department of Aviation
 - EAS Contracting, LP – Hold Sign Relocation Project, \$2,696,969 / Department of Public Works
 - Avatar Solutions – Business Survey Services, \$59,612 / Office of Financial Services – Budget Management Services
 - West Shore Services, Inc. – Preventative Maintenance of Outdoor Warning Sirens, \$109,272 / Office of Emergency Management
 - Stryker Power Ambulance Cots, \$182,850 / Department of Dallas Fire-Rescue
- Sole Source Procurements:
 - Cobus Industries – Apron Passenger Transportation Vehicle, \$525,000 / Department of Aviation
 - Orion Software Applications Maintenance and Support, \$462,747 / Department of Communication and Information Services

Audit and Attestation Services Projects in Progress
Fiscal Year 2015 – Fourth Quarter
July 1, 2015 to September 30, 2015
(See Section IV for Details)

- Franchise Fees Review through Third-Party Vendor (*Ongoing*)
- Sales/Use Tax Compliance Review through Third-Party Vendor (*Ongoing*)
- Building Permits – Customer Service / Satisfaction
- Contract Monitoring – Public Works and Transportation
- Courts Information System – Access Controls
- Courts Information System – Cash Management / Collections Processes
- Customer Service / 311 Non-Emergency Services
- Fleet Maintenance
- Maintenance of Infrastructure – Department of Dallas Water Utilities
- Performance Measurement Process – Dallas Police Department
- Special Audit of the Accounts of Former City Council Members
- Contract Monitoring – Dallas Convention and Visitors Bureau
- Contract Monitoring – Housing
- Leasing, Concessions, and Other Activities – Aviation
- Neighborhood Code Enforcement Services
- Police Personnel and Training Services
- Prior Audit Recommendations Follow-Up
- Regulatory, Safety and Maintenance – Park and Recreation

Audit and Attestation Services Anticipated Project Starts
Fiscal Year 2015 – Fourth Quarter
July 1, 2015 to September 30, 2015
(See Section V for Details)

- Records Management System – Dallas Police Department

- Independent Auditor’s Report on Applying Agreed-Upon Procedures (as requested) for:
 - Single Bid Procurements

 - Sole Source Procurements

**Audit, Attestation and Investigative Services
Reports Issued
Fiscal Year 2015 – Third Quarter
April 1, 2015 to June 30, 2015**

Audit Services

**Audit of Controls over Weapons and Other High Risk Inventory for
Dallas Police Department's Quartermaster Unit (April 17, 2015)**

- Significant internal control deficiencies exist in the Dallas Police Department's (DPD) Quartermaster Unit's (Unit) management of high risk inventory (weapons, radios, badges, and Tasers) stored at and issued from the Unit's facility.
- Internal control deficiencies increase the risk of:
 - unauthorized and/or inappropriate access to the Unit's facility and automated systems
 - theft
 - accounting errors
 - inventory misstatements
 - fraud occurring and not being detected within a timely period by employees in the normal course of performing their assigned functions
- The internal control deficiencies noted relate to:
 - physical and software application security controls
 - management of high risk inventory
 - inconsistency in the application of high risk inventory procedures

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Chief of Police ensures Unit personnel:			
<ul style="list-style-type: none"> Improve the existing physical security issues discussed in Table I 	DPD	Agree	12/31/2015
<ul style="list-style-type: none"> Properly secure high risk inventory ordered by other DPD divisions and damaged items received/stored by the Unit 	DPD	Agree	10/31/2015
<ul style="list-style-type: none"> Establish and implement a formal process for granting, removing, and monitoring security badge access to the Unit's facility 	DPD	Agree	10/31/2015
<ul style="list-style-type: none"> Evaluate and establish appropriate segregation of duties for all aspects of inventory management, including authorization, approval, receiving, and recording high risk inventory 	DPD	Agree	10/31/2015
<ul style="list-style-type: none"> Establish and implement security processes for the granting of, removal of, and monitoring of user access to WEPI and M5 inventory software applications 	DPD	Agree	10/31/2015
<ul style="list-style-type: none"> Improve password security for M5 inventory software application 	DPD	Agree	12/31/2015
<ul style="list-style-type: none"> Implement spreadsheet controls, including passwords, which conform to password parameters for the Unit's MS Excel spreadsheets 	DPD	Agree	06/30/2015
<ul style="list-style-type: none"> Develop and execute a plan with stated dates and deliverables so that all high risk inventory is recorded within the M5 inventory software application 	DPD	Disagree	Not Applicable
<ul style="list-style-type: none"> Follow established standard operating procedures so that high risk inventory adjustments are accurately recorded, including: (1) loans, (2) lost and stolen, (3) warranty service requirements; and, (4) disposal of weapons and badges with required documentation 	DPD	Agree	10/31/2015

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
<ul style="list-style-type: none"> • Follow established procedures so that inventory control cards are completed fully and accurately until all high risk inventory can be transferred to M5 	DPD	Agree	12/31/2015
<ul style="list-style-type: none"> • Review, update, and approve high risk inventory management procedures to reflect actual operations and activities 	DPD	Agree	10/31/2015
<ul style="list-style-type: none"> • Periodically review the high risk inventory procedures, in accordance with DPD policies and/or as changes occur in operations, so that the documented procedures continue to reflect actual operations 	DPD	Agree	10/31/2015
<ul style="list-style-type: none"> • Follow established DPD's standard operating procedures so that received high risk inventory is recorded completely and timely 	DPD	Agree	10/31/2015
<ul style="list-style-type: none"> • Receive high risk inventories against a valid purchase order without quantities listed 	DPD	Disagree	Not Applicable
<ul style="list-style-type: none"> • Follow established standard operating procedures to: <ul style="list-style-type: none"> ○ Ensure Issue Request Forms are documented completely, accurately, and retained in the officers' personnel files for issuances and returns ○ Obtain prior approval for new recruits and reissuances and retain the approvals in the officers' personnel files ○ Develop appropriate issuance quotas completely for all DPD officers (sworn and non-sworn) and integrate the quotas into the inventory software application ○ Complete radio user agreements for every issued radio 	DPD	Agree	10/31/2015
<ul style="list-style-type: none"> • Comply with City and departmental procedures and perform consistent monthly, annual, and change of command physical inventories, including the associated reconciliations 	DPD	Agree	10/31/2015

Audit of the Paving and Maintenance Program / Capital Program Streets and Thoroughfares (June 19, 2015)

- The Department of Street Services (STS) has sufficient controls in place over the: (1) administration of service requests; and, (2) contractor payment process. The STS can, however, improve controls by ensuring:
 - Formal policies and procedures and trained back-up personnel are in-place for the:
 - Evaluation and selection of annual maintenance projects
 - GEO project management system
 - Inspection requirements are met for certain projects
 - General Inspections are selected based upon service request, service requests categories or Service Maintenance Areas

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of STS:			
• Develop formal policies and procedures for the annual maintenance project evaluation and selection process and the GEO	STS	Agree	12/01/2015
• Ensure back-up personnel are designated and trained for the annual maintenance project evaluation and selection process and the GEO	STS	Agree	10/01/2015
• Update ISO project inspection policies and procedures to reflect current operations	STS	Agree	09/30/2015
• Develop a random inspection selection process that includes selection by service requests, service requests categories, and SMAs	STS	Agree	08/01/015

Attestation Services

Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BUZ1417: Department of Aviation – Outfall Closure Devices Controls System Maintenance and Support (Large Scale Hazardous Containment System Maintenance and Support), \$1,356,215.70 (May 13, 2015)

The procurement followed Administrative Directive (AD) 4-5: Contracting Policy provisions for processing single bid items.

Exceptions noted:

- Price reasonableness could not be determined from the Department of Business Development and Procurement Services' (BDPS) analysis

Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BP1505: Department of Dallas Water Utilities – Liquid Polymer for Wastewater Facilities – Five Year Master Agreement for Delivery, Services and Equipment, \$6,414,077 (June 10, 2015)

The procurement followed Administrative Directive (AD) 4-5: Contracting Policy provisions for processing single bid items.

No exceptions noted.

Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # PBPRP899: Department of Public Works – CBD Signage and Wayfinding Phase III, \$184,082 (June 12, 2015)

The procurement followed Administrative Directive (AD) 4-5: Contracting Policy provisions for processing single bid items.

No exceptions noted.

Investigative Services

Theft by Employee – Department of Code Compliance (April 8, 2015)

- This investigative report provided results of an administrative investigation of a criminal allegation that Mr. Benjamin Ovalle, a Department of Code Compliance (CODE) Inspector, committed theft by promising a homeowner he would obtain a building permit in return for \$1,800 cash.
- December 2013 – CODE Management reported to the Office of the City Auditor (Office) that they received information that a City of Dallas (City) citizen was upset that he was being required to obtain permits for construction work previously completed on his home because he had already *“paid off”* Code Inspectors to take care of the problems. One of the Code Inspectors was identified as Mr. Ovalle. This information led to another case, also involving Mr. Ovalle, which became the focus of a criminal investigation by the the Dallas Police Department – Public Integrity Unit (DPD-PIU).
- February 2015 – the Grand Jury indicted Mr. Ovalle for felony theft of property by a public servant.
- March 2, 2015 – the Dallas County District Attorney’s Office recommended dismissal of the criminal case because Mr. Ovalle made full restitution in the amount of \$1,800.
- Evidence supports that Mr. Ovalle’s actions violated the City Personnel Rules, specifically rules regarding dishonesty, theft, disturbance by intimidation, misconduct, and disregard of the public trust.
- The CODE Management reviewed the Office’s administrative investigation and concluded Mr. Ovalle’s actions were in violation of the City of Dallas Personnel Rules. As a result of this conclusion and following a Pre-Termination Hearing, Mr. Ovalle was discharged from employment with the City effective at the close of business on April 2, 2015.

**Audit and Attestation Services
Anticipated Report Releases
Fiscal Year 2015 – Fourth Quarter
July 1, 2015 to September 30, 2015**

Audit Services

Civilian Timekeeping Internal Controls and Processes

- Anticipated Report Date: August 2015
- Project Objective(s): To assess internal controls and processes to determine the accuracy of the payroll system and the adequacy/reliability of controls related to civilian timekeeping

Performance Measurement Process – Dallas Fire-Rescue

- Anticipated Report Date: August 2015
- Project Objective(s): To conduct audits of selected departments to evaluate whether performance data are meaningful, accurate, supportable, reliable, and valid

Purchasing / Contracting Processes

- Anticipated Report Date: August 2015
- Project Objective(s): To determine whether processing controls over purchasing / contracting for goods and services are adequate

Water Customer Billings

- Anticipated Report Date: August 2015
- Project Objective(s): To assess the design of the controls over the Department of Dallas Water Utilities' meter-to-billing process

Budget Revenue Estimates – Fiscal Year 2016

- Anticipated Report Date: September 2015
- Project Objective(s): To determine whether the City has effective processes to ensure reasonable revenue estimates are included in the City Manager's proposed operating budget

Attestation Services

Independent Auditor's Reports on Applying Agreed-Upon Procedures

Single Bid Procurements:

- Vector Airport Systems – Aircraft ID and Fee Billing/Collections System, \$432,478.61 / Department of Aviation
- EAS Contracting, LP – Hold Sign Relocation Project, \$2,696,969 / Department of Public Works
- Avatar Solutions – Business Survey Services, \$59,612 / Office of Financial Services – Budget Management Services
- West Shore Services, Inc. – Preventative Maintenance of Outdoor Warning Sirens, \$109,272 / Office of Emergency Management
- Stryker Power Ambulance Cots, \$182,850 / Department of Dallas Fire-Rescue

Sole Source Procurements:

- Cobus Industries – Apron Passenger Transportation Vehicle, \$525,000 / Department of Aviation
- Orion Software Applications Maintenance and Support, \$462,747 / Department of Communication and Information Services

**Audit and Attestation Services
Projects in Progress
Fiscal Year 2015 – Fourth Quarter
July 1, 2015 to September 30, 2015**

Audit Services

Franchise Fees Review through Third-Party Vendor (*Ongoing*)

- Anticipated Report Date: Periodic, as warranted
- Project Objective(s): To verify that franchise fees (which may include utilities, cable, and telephone) identified by a third-party vendor are received by the City

Sales/Use Tax Compliance Review through Third-Party Vendor (*Ongoing*)

- Anticipated Report Date: Periodic, as warranted
- Project Objective(s): To identify and collect new and misreported tax revenue identified through a third-party vendor which will conduct Sales and Use Tax Compliance Review and Recovery Services

Building Permits – Customer Service / Satisfaction

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To evaluate the efficiency and effectiveness of the building permitting process which may include customer service / satisfaction

Contract Monitoring – Public Works and Transportation

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To evaluate whether the monitoring process(es) used for selected contracted programs are adequate to ensure compliance with contract terms and conditions

Courts Information System – Access Controls

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To evaluate the adequacy of the new Court and Detention Services' information systems access controls

Courts Information System – Cash Management / Collections Processes

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To evaluate internal controls over cash management / collections processes for fines and fees which may include cash bond forfeitures and reinstatement on Class C misdemeanors

Customer Service / 311 Non-Emergency Services

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To evaluate the effectiveness of 311 Customer Service in uniformly addressing and accurately monitoring and reporting citizens' complaints

Fleet Maintenance

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To evaluate efficiency and/or effectiveness of selected aspects of Dallas Fire-Rescue's fleet maintenance management

Maintenance of Infrastructure – Department of Dallas Water Utilities

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To determine whether Dallas Water Utilities adequately maintains and renovates infrastructure to ensure current and future service delivery

Performance Measurement Process – Dallas Police Department

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To conduct audits of selected departments to evaluate whether performance data are meaningful, accurate, supportable, reliable, and valid

Special Audit of the Accounts of Former City Council Members

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To conduct audits in accordance with Chapter IX, Section 4 of the City Charter of Officers who vacate their offices due to death, resignation, removal, or expiration of term

Contract Monitoring – Dallas Convention and Visitors Bureau

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To evaluate the effectiveness of program services provided to the City by the Dallas Convention and Visitors Bureau

Contract Monitoring – Housing

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To evaluate whether the monitoring processes used for selected contracted programs are adequate to ensure compliance with contract terms and conditions

Leasing, Concessions, and Other Activities – Aviation

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To evaluate the adequacy of management's controls of leases, concessions, and other activities

Neighborhood Code Enforcement Services

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To evaluate neighborhood code enforcement effectiveness which may include whether: (1) CCS' actions in response to complaints and/or to bring properties into compliance with City code were timely, and in accordance with policies and procedures; and, (2) abatements, by the City, consistently resulting in liens on affected properties

Police Personnel and Training Services

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To evaluate whether the Dallas Police Department's practices, including criminal history screening requirements, comply with State law, City rules and regulations, or other authoritative requirements

Prior Audit Recommendations Follow-Up

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To evaluate management implementation of prior audit report recommendations

Regulatory, Safety, and Maintenance – Park and Recreation

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To determine whether the Department of Park and Recreation has effective internal controls to identify and ensure compliance with regulatory, safety, and maintenance requirements

Attestation Services

Independent Auditor's Reports on Applying Agreed-Upon Procedures

None Currently

**Audit and Attestation Services
Anticipated Project Starts
Fiscal Year 2015 – Fourth Quarter
July 1, 2015 to September 30, 2015**

Audit Services

Records Management System – Dallas Police Department

- Anticipated Report Date: Fourth Quarter Fiscal Year 2016
- Project Objective(s): To determine whether the City's goals for implementing the Records Management System achieved anticipated results (specifically cost, project schedule, functions implemented, and shadow systems eliminated) and includes the appropriate controls

Attestation Services

Independent Auditor's Reports on Applying Agreed-Upon Procedures

A. Single Bid: As Requested

Anticipated Issue Date: As Completed

Project Objective(s): To perform Agreed-Upon Procedures to ensure the Department of Business Development and Procurement Services (BDPS) follows Administrative Directive (AD) 4-5 provisions for processing single bid items and makes reasonable efforts to increase bid participation

B. Sole Source: As Requested

Anticipated Issue Date: As Completed

Project Objective(s): To perform Agreed-Upon Procedures to ensure the procurement meets the exemptions from competitive bidding as specified in the State of Texas Local Government Code, Chapter 252.022, **General Exemptions (a) (7)** – *a procurement of items that are available from only one source*