

Memorandum



CITY OF DALLAS

DATE: October 17, 2014

TO: Honorable Mayor and Members of the City Council

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

The *Audit, Attestation and Investigative Services Update: Fiscal Year 2015 First 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 nine audit, attestation, and investigative reports were issued in the fourth quarter of Fiscal Year (FY) 2014, including:

- Audit of Revenue Estimates Included in the Fiscal Year 2014-15 Proposed Annual Budget for the City of Dallas
- Agreed-Upon Procedures:
 - May 11, 2013 Election Costs Invoiced by the Dallas County Elections Department
 - Patriot's Crossing Development
 - one single bid / three sole source procurements
- Investigative Reports:
 - Department of Dallas Water Utilities – Water Meter Fraud
 - Department of Communication and Information Services – Insurance Fraud and Theft by a Public Servant

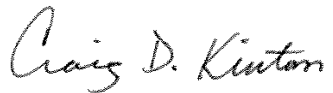
The key points from these reports are included in Section II of the Update. The project objectives for reports scheduled to be released and for projects currently in progress or expected to be started in the first quarter of FY 2015 are included in Sections III through V of the Update.

The approved FY 2014 Audit Plan allows 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 project deletions to the FY 2014 plan:

- Citizen Centric Report – After consultations with the City Manager, the development of a Citizen Centric Report was postponed in FY 2013 and was included in the FY 2014 Audit Plan. Due to experienced delays in issuing the City’s Comprehensive Annual Financial Report (CAFR), the information needed was not available for the Citizen Centric Report.
- Lawson HRIS Application Controls – According to William Finch, Director for the Department of Communication and Information Services, the City is considering a new payroll system.
- Civil Service Department – The objectives for this project would have covered many of the same areas included in the August 25, 2014 report issued by CPS HR Consulting in partnership with Strategic Government Resources.

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 – First 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 2014 – Fourth Quarter July 1, 2014 to September 30, 2014 (See Section II for Details)

- Audit of Revenue Estimates Included in the Fiscal Year 2014-15 Proposed Annual Budget for the City of Dallas
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source Procurement: Red-Light Photo Enforcement Camera System Maintenance and Support Services, \$4,911,300
- Independent Auditor's Report on Applying Agreed-Upon Procedures for the May 11, 2013 Election Costs Invoiced by the Dallas County Elections Department
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BUZ1403: Dallas Police Department – LeadsOnline, \$342,500
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source Procurement: Computronix (U.S.A.), Inc. Five-Year Service Contract for POSSE Software Maintenance, Support, and Professional Services for the Existing System and Estimated Future Products, \$3,294,830
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source Procurement: Electronic Control Weapons, \$3,788,795.23

* 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 Investigations issued by the Council of the Inspectors General on Integrity and Efficiency.

Audit and Attestation Services Reports Issued
Fiscal Year 2014 – Fourth Quarter
July 1, 2014 to September 30, 2014
(See Section II for Details)

- Independent Auditor's Report on Applying Agreed-Upon Procedures for the Patriot's Crossing Development

Investigative Services Reports Issued
Fiscal Year 2014 – Fourth Quarter
July 1, 2014 to September 30, 2014
(See Section II for Details)

- Department of Dallas Water Utilities - Water Meter Fraud
- Department of Communication and Information Services – Insurance Fraud and Theft by a Public Servant

Audit and Attestation Services Anticipated Report Releases
Fiscal Year 2015 – First Quarter
October 1, 2014 to December 31, 2014
(See Section IV for Details)

- Controls over Cash Receipts and Collections (Department of Convention and Event Services)
- South Dallas Fair Park Trust Fund

Audit and Attestation Services Projects in Progress
Fiscal Year 2015 – First Quarter
October 1, 2014 to December 31, 2014
(See Section V for Details)

- Franchise Fees Review through MuniServices (*Ongoing*)
- Sales/Use Tax Compliance Review Through MuniServices (*Ongoing*)
- Parking Management Contract Oversight
- Payroll Audit
- Payroll Processes Related to City of Dallas' Retirement Programs
- Building Permits
- Contract Monitoring

Audit and Attestation Services Projects in Progress
Fiscal Year 2015 – First Quarter
October 1, 2014 to December 31, 2014
(See Section V for Details)

- Fleet Maintenance
- Paving and Maintenance Program / Capital Program Streets and Thoroughfares
- Purchasing / Contracting Processes
- Tracking Firearms and Equipment
- Water Customer Billings
- Courts Information System
- Maintenance of Infrastructure – Department of Dallas Water Utilities

Audit and Attestation Services Anticipated Project Starts
Fiscal Year 2015 – First Quarter
October 1, 2014 to December 31, 2014
(See Section VI for Details)

- Dallas Convention Visitors Bureau
- Performance Measurement Process
- Customer Service / 311 Non-Emergency Services
- Police Personnel and Training Services
- Trinity Watershed Management
- Neighborhood Code Enforcement Services
- 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 2014 – Fourth Quarter
July 1, 2014 to September 30, 2014**

Audit Services

**Audit of Revenue Estimates Included in the Fiscal Year 2014-15
Proposed Annual Budget for the City of Dallas (September 12, 2014)**

- In total, the revenue estimates included in the Fiscal Year (FY) 2014-15 Proposed Annual Budget appear reasonable. The Office of the City Auditor (Office) reviewed approximately \$1.95 billion of the \$2.55 billion in proposed revenue estimates for the General Fund, Enterprise Funds, and Debt Service Fund, or 77 percent, of the revenue estimates included in the FY 2014-15 Proposed Annual Budget.
- Our review did not include the remaining \$597 million in revenue estimates which are mainly derived from department reimbursements and City of Dallas (City), employee, and retiree contributions for retirement and health benefits.
- City management is responsible for preparing reasonable revenue estimates for inclusion in the FY 2014-15 Proposed Annual Budget. In preparing these revenue estimates, City management develops revenue estimate methodologies, such as regression analyses and/or historical trends, and documents the significant assumptions used to support those methodologies. This information is reviewed by the Office for reasonableness; however, neither City management nor the Office guarantees the achievement of the FY 2014-15 revenue estimates.

Attestation Services

**Independent Auditor's Report on Applying Agreed-Upon Procedures for
Sole Source Procurement: Red-Light Photo Enforcement Camera
System Maintenance and Support Services, \$4,911,300 (July 22, 2014)**

The procurement met 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.*

No exceptions were noted.

Independent Auditor's Report on Applying Agreed-Upon Procedures for the May 11, 2013 Election Costs Invoiced by the Dallas County Elections Department (August 13, 2014)

- The Office of the City Auditor (Office) determined that the City of Dallas' (City) allocation of the May 11, 2013 Election Costs increased by 85 percent, or \$382,362.57, from \$449,708.04 to \$832,070.61.
- The increase was due to the partial or full withdrawal of 12 entities that initially planned to participate, decreasing the number of voting locations by 319, from 976 to 657. Of these 319 voting locations, the Dallas County School Board accounted for 273, or 86 percent.
- As a result of these withdrawals, the City's allocated election costs increased from 27.41 percent to 44.84 percent. In addition, the Office determined a total overcharge of \$31,169.66.
- A Management Letter was issued that included certain contract issues related to the Joint Election Contract and Election Services Agreement. No formal management response was requested; however, the Office may follow-up on recommendations during subsequent engagements to determine whether corrective actions were taken.

Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BUZ1403: Dallas Police Department – LeadsOnline, \$342,500 (August 13, 2014)

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

No exceptions were noted.

Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source Procurement: Computronix (U.S.A.), Inc. Five-Year Service Contract for POSSE Software Maintenance, Support, and Professional Services for the Existing System and Estimated Future Products, \$3,294,830 (August 19, 2014)

The procurement met 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.**

Exception noted: Price reasonableness for the proposed total cost of \$3,294,830 for the five-year service contract (which includes the cost of \$1,574,470 for estimated future projects) could not be determined

Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source Procurement: Electronic Control Weapons, \$3,788,795.23 (September 17, 2014)

The procurement met 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.**

No exceptions were noted.

Independent Auditor's Report on Applying Agreed-Upon Procedures for the Patriot's Crossing Development (September 17, 2014)

- City of Dallas (City) Management Review Team's¹ (Team) conclusions supported that in general the Department of Housing/Community Services (HOU) staff: (1) complied with regulations, policies, procedures, and rules; and, (2) followed City Council's direction related to the Patriot's Crossing Development.
- The Team's review, however, was not always complete, accurate, and adequately supported by source documents. As a result, the Office cannot confirm that additional expenditure transactions were not paid on behalf of the Patriot's Crossing Development and/or incorrectly recorded. Specifically: (1) the HOU paid \$990,187 on behalf of Patriot's Crossing Development by recording at least six expenditure transactions in AMS Advantage General Ledger Accounting System (AMS) using an incorrect vendor and encumbrance; and, (2) Patriot's Crossing Development related expenditures reported by HOU exceed City Council authorization by \$66,998. (Note: According to management, \$64,292 of this amount is a possible duplicate payment).
- A Management Letter was issued that included recommendations to address the: (1) AMS and HOU internal control limitations that allowed expenditure transactions to be paid and processed using an incorrect vendor and encumbrance without detection during the normal course of business operations; (2) Absence of HOU policies and procedures for managing City projects; and, (3) Sustainable Development and Construction's noncompliance with Administrative Directive 4-5, *Contracting Policy* by authorizing an appraisal review prior to contract execution. No formal management response was

¹ The Team was comprised of representatives from the City Manager's Office (CMO), Department of Sustainable Development and Construction (SDC), the Office of Financial Services (OFS), and the City Attorney's Office (ATT).

requested; however, the Office may follow-up on recommendations during subsequent engagements to determine whether corrective actions were taken.

Investigative Services

Department of Dallas Water Utilities – Water Meter Fraud (July 7, 2014)

- This investigative report summarized an administrative review of allegations of criminal charges involving Mr. Derick Williams, Water Field Representative, for the Department of Dallas Water Utilities (DWU).
- The DWU Management reported to the Office of the City Auditor and the Dallas Police Department-Public Integrity Unit (DPD-PIU) that a DWU customer reported a DWU employee accepted an unauthorized cash payment to reconnect the customer's water service after the service had been disconnected by DWU for non-payment. The customer provided enough information for DWU Management to determine that the DWU employee was Mr. Williams.
- The DPD-PIU investigated and, in January 2014, DPD-PIU conducted a sting operation at the customer's residence. This operation exposed that Mr. Williams illegally reconnected the customer's service for a fee of \$150 cash. At that time, Mr. Williams was arrested and charged with Abuse of Official Capacity, a State Jail Felony level crime based on the amount of the customer's estimated water bill for the past year.
- The DPD-PIU's investigation uncovered another DWU customer who had their water disconnected for non-payment and whom Mr. Williams assisted by illegally reconnecting their service for a fee of \$60. Based on this information in April 2014, a second Abuse of Official Capacity, Class B Misdemeanor, was filed with the Dallas County District Attorney's Office charging Mr. Williams.
- On January 17, 2014, subsequent to Mr. Williams being charged with Abuse of Official Capacity, DWU Management placed Mr. Williams on paid administrative leave status during the investigation. Mr. Williams terminated his employment with DWU on January 29, 2014, prior to his pre-termination hearing by DWU Management.

Department of Communication and Information Services – Insurance Fraud and Theft by a Public Servant (July 14, 2014)

- This investigaitve report summarized the results of the Dallas Police Department-Public Integrity Unit (DPD-PIU) investigation of Ms. Equeria Coffee, Programmer Analyst II, for the Department of Communication and Information Services (CIS).

- The Office of the City Auditor (Office) received a complaint alleging Ms. Coffee intentionally destroyed a City-owned Dell laptop computer. The Complainant stated that the Dell laptop computer was discarded at Ms. Coffee's request in bushes behind a business on Malcolm X Boulevard.
- The Office Investigative staff and DPD-PIU officers went to the location and retrieved the Dell laptop computer. In the course of the DPD-PIU investigation, it was discovered that Ms. Coffee filed an insurance claim seeking reimbursement for stolen property, including the City-owned Dell laptop computer which she listed as her personal property. The Insurance Company settled Ms. Coffee's insurance claim, and she received \$334.49 for the City-owned Dell laptop computer. Ms. Coffee did not reimburse the City for the City-owned laptop computer.
- Ms. Coffeee was arrested for Insurance Fraud and Theft by a Public Servant These criminal charges are pending. The CIS Management terminated Ms. Coffee's employment with the City effective May 31, 2014.

**Audit and Attestation Services
Anticipated Report Releases
Fiscal Year 2015 – First Quarter
October 1, 2014 to December 31, 2014**

Audit Services

Controls over Cash Receipts and Collections (Department of Convention and Event Services)

- Anticipated Report Date: October 2014
- Project Objective(s): Evaluate the efficiency, effectiveness, or adequacy of internal controls over Convention and Event Services cash receipts and collections

South Dallas Fair Park Trust Fund

- Anticipated Report Date: November 2014
- Project Objective(s): To provide an audit of the Trust Fund and its operations as required by City Council Resolution 06-1833

Attestation Services

Independent Auditor's Reports on Applying Agreed-Upon Procedures

None Currently

**Audit and Attestation Services
Projects in Progress
Fiscal Year 2015 – First Quarter
October 1, 2014 to December 31, 2014**

Audit Services

Franchise Fees Review through MuniServices (*Ongoing*)

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

Sales/Use Tax Compliance Review through MuniServices (*Ongoing*)

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

Parking Management Contract Oversight

- Anticipated Report Date: December 2014
- Project Objective(s): To evaluate: (1) management's oversight and monitoring controls to assess the third party's compliance with the contract terms; and, (2) the adequacy of internal controls over cash collections and cash equivalents

Payroll Audit

- Anticipated Report Date: December 2014
- Project Objective(s): To assess internal controls and processes to determine the accuracy of the payroll system and the adequacy/reliability of controls

Payroll Processes Related to City of Dallas' Retirement Programs

- Anticipated Report Date: December 2014
- Project Objective(s): To evaluate the City's processes for accumulating and transferring employee payroll information to the retirement funds

Building Permits

- Anticipated Report Date: Second Quarter Fiscal Year 2015
- Project Objective(s): To evaluate the adequacy of internal controls over certain building permit processes which may include issuance, billing, cash handling, and cash collections

Contract Monitoring

- Anticipated Report Date: Second Quarter Fiscal Year 2015
- 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

Fleet Maintenance

- Anticipated Report Date: Second Quarter Fiscal Year 2015
- Project Objective(s): To evaluate efficiency and/or effectiveness of selected aspects of Dallas Fire-Rescue's fleet maintenance management

Paving and Maintenance Program / Capital Program Streets and Thoroughfares

- Anticipated Report Date: Second Quarter Fiscal Year 2015
- Project Objective(s): To evaluate the Street Paving and Maintenance Programs which may include administrative and inspection processes

Purchasing / Contracting Processes

- Anticipated Report Date: Second Quarter Fiscal Year 2015

- Project Objective(s): To determine whether processing controls for purchasing / contracting for goods / services are adequate

Tracking Firearms and Equipment

- Anticipated Report Date: Second Quarter Fiscal Year 2015
- Project Objective(s): To evaluate the adequacy of internal controls over tracking firearms and equipment

Water Customer Billings

- Anticipated Report Date: Second Quarter Fiscal Year 2015
- Project Objective(s): To determine the efficiency and effectiveness of Dallas Water Utilities' billing adjustments and assess internal controls over billing adjustments

Courts Information System

- Anticipated Report Date: Third Quarter Fiscal Year 2015
- Project Objective(s): To evaluate the adequacy of the new Court and Detention Services' information systems access controls

Maintenance of Infrastructure – Department of Dallas Water Utilities

- Anticipated Report Date: Fourth Quarter Fiscal Year 2015
- Project Objective(s): To determine whether Dallas Water Utilities adequately maintains and renovates infrastructure to ensure current and future service delivery

Attestation Services

Independent Auditor's Reports on Applying Agreed-Upon Procedures

None Currently

**Audit and Attestation Services
Anticipated Project Starts
Fiscal Year 2015 – First Quarter
October 1, 2014 to December 31, 2014**

Audit Services

Dallas Convention Visitors Bureau

- Anticipated Report Date: Third Quarter Fiscal Year 2015
- Project Objective(s): To evaluate the effectiveness of program services provided to the City by the Dallas Convention and Visitors Bureau

Performance Measurement Process

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

Customer Service / 311 Non-Emergency Services

- Anticipated Report Date: Fourth Quarter Fiscal Year 2015
- Project Objective(s): To evaluate the effectiveness of 311 Customer Service in uniformly addressing and accurately monitoring and reporting citizens' complaints

Police Personnel and Training Services

- Anticipated Report Date: Fourth Quarter Fiscal Year 2015
- 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

Trinity Watershed Management

- Anticipated Report Date: Fourth Quarter Fiscal Year 2015
- Project Objective(s): To evaluate management controls related to Trinity Watershed Management

Neighborhood Code Enforcement Services

- Anticipated Report Date: First 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

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*