

Memorandum



CITY OF DALLAS
(Report No. A09-003)

Date: November 21, 2008

To: Honorable Mayor and Members of the City Council

Subject: Audit Report on Revenue Sharing Agreement with the City of Irving

The City of Irving miscalculated municipal court revenue and did not include any revenue from utility franchise fees resulting in an estimated \$419,615 due to the City of Dallas in revenue sharing for the Calendar Years (CY) 2003 to 2007.

Of this amount, \$165,915 in shared revenue is owed to the City of Dallas for CY 2006 and 2007. Analysis shows the City of Irving used the same methodology to incorrectly calculate shared revenue since CY 2003. Although utility franchise fee financial records are not readily available, we estimate the City of Irving owes an additional \$253,700 in shared revenue to the City of Dallas for CYs 2003 through 2005.

Shared Revenue Remitted and Owed to City of Dallas CY 2003 – CY 2007

Time Period	Revenue Actually Remitted	Revenue That Should Have Been Remitted	Revenue Owed to City of Dallas
CY 2007	\$ 375,264	\$ 458,216	\$ 82,952
CY 2006	152,180	235,143	82,963
CY 2005*	71,804	156,371	84,567
CY 2004*	195,513	280,080	84,567
CY 2003*	162,602	247,168	84,566
Total	\$ 957,363	\$ 1,376,978	\$ 419,615

* CYs 2003-2005 amounts are estimates

The City of Irving timely submitted the shared revenue each year; however, the shared revenue inaccuracies can be attributed to the:

- City of Irving employee's not being familiar with the revenue sharing agreement requirements
- City of Irving management not requesting an annual Independent Audit Report as required by the revenue sharing agreement
- City of Dallas employee's not ensuring that all revenue sources were included in the documentation provided by the City of Irving

Recommendation I

We recommend the City of Dallas Chief Financial Officer initiate actions to collect the actual additional shared revenue of \$165,915 and the estimated shared revenue of \$253,700 from the City of Irving.

Management’s Response

Agree. Following release of this Audit Report, the Chief Financial Officer will send a letter to the City of Irving requesting payment of \$419,615. The Audit Report will be included as an attachment to the letter.

Implementation Date: Within 10 days of release of this Audit Report

Responsible Manager: Chief Financial Officer

Recommendation II

We recommend that the City of Dallas Chief Financial Officer change the reporting format to have the City of Irving show amounts for each revenue source identified in the revenue sharing agreement and remind the City of Irving of the requirement to provide an independent auditor’s report.

Management’s Response

Agree. The letter to the City of Irving will also include a request to revise future reports and remind the City of Irving of the requirement to provide an independent auditor’s report.

Implementation Date: Within 10 days of release of this Audit Report.

Responsible Manager: Chief Financial Officer

We appreciate the cooperation received from the City of Dallas and City of Irving management during the conduct of this audit.

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Assistant City Auditor, at 214-670-5347.

Sincerely,



Craig D. Kinton
City Auditor

Attachments

C: Mary K. Suhm, City Manager
Dave K. Cook, Chief Financial Officer

Background, Scope and Methodology

Background

In February 1998, the City of Irving entered into an Interlocal Agreement (Agreement) with the Cities of Dallas and Fort Worth to encourage economic development within the Dallas/Fort Worth (DFW) International Airport. The Agreement provides for sharing certain tax revenues attributed to Irving property within DFW airport boundaries. The City of Irving retains one-third (1/3) of total “Increased Revenues” with the remaining two-thirds (2/3) shared by the City of Dallas and the City of Fort Worth in proportion to each city’s ownership interest in the DFW Airport (7/11 and 4/11 respectively).

The shared revenue is the sum of the amount either collected, credited, and/or received from the property in any calendar year. The Agreement specifies the following:

- “Increased Revenues”¹, which is the excess of base year (1998) revenues generated from the property, and include the annual maintenance and operation portion of the ad valorem tax; sales and use tax revenue; utility franchise tax revenue; municipal court revenue; mixed beverages tax revenue; all taxes authorized in Chapters 334 and 335 of the Local Government Code; and all other general revenue tax levies

Scope and Methodology

The Office of the Dallas City Auditor determined compliance with the Agreement by:

- Interviewing City of Irving management and evaluating processes used to calculate shared revenue
- Reconciling the property tax, sales and use tax, municipal court revenue, and utility franchise payment revenue to information the City of Irving received from the property appraisal district, utility franchisees, and information submitted to the State of Texas Comptroller
- Validating the City of Irving does not have any revenue authorized in Chapters 334 and 335 of the Local Government Code (short-term motor vehicle rental tax)
- Verifying the revenue was timely remitted by the City of Irving and properly recorded in the City of Dallas accounting system

¹ Revenue does not include ad valorem taxes received for general obligation debt service, sales and use tax dedicated for specific purposes, municipal court revenue dedicated to a specific fund or purpose by state law, and general revenue tax levies dedicated and used for a specific purpose or replacing taxes dedicated and used for a specific purpose under requirements of state law.

**An Audit Report on –
Revenue Sharing Agreement with the City of Irving**

Our audit objective was to verify whether the City of Irving accurately and timely paid shared revenue for CY 2007 in compliance with the Agreement. This audit was conducted under authority of the City Charter, Chapter IX, Section 3.

This performance audit was conducted 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The results of this audit have been discussed with the City of Irving and with the City of Dallas management and we appreciate the cooperation received throughout this audit.

Management's Response to the Report

Memorandum

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CITY AUDITOR'S OFFICE

DATE: November 19, 2008

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report: Audit of Revenue Sharing Agreement with the City of Irving

Our responses to the audit report recommendations are as follows:

Recommendation I:

We recommend the City of Dallas Chief Financial Officer initiate actions to collect the actual additional shared revenue of \$167,915 and the estimated shared revenue of \$251,700 from the City of Irving.

Management Response / Corrective Action Plan

Agree X Disagree Partially Agree

Following release of this Audit Report, the Chief Financial Officer will send a letter to the City of Irving requesting payment of \$419,615. The Audit Report will be included as an attachment to the letter.

Implementation Date

Within 10 days of release of this Audit Report.

Responsible Manager

Chief Financial Officer

Recommendation II:

We recommend that the City of Dallas Chief Financial Officer change the reporting format to have the City of Irving show amounts for each revenue source identified in the revenue sharing agreement and remind the City of Irving of the requirement to provide an independent auditor's report.

Management Response / Corrective Action Plan

Agree X Disagree Partially Agree

The letter to the City of Irving will also include a request to revise future reports and remind the City of Irving of the requirement to provide an independent auditor's report.

Implementation Date

Within 10 days of release of this Audit Report.

Responsible Manager

Chief Financial Officer

A handwritten signature in black ink, appearing to read 'D. Cook'.

David Cook
Chief Financial Officer

C: Mary Suhm, City Manager
Jeanne Chipperfield, Director of Budget and Management Services
Brett Wilkinson, Director of Intergovernmental Affairs

"Dallas: The City That Works: Diverse, Vibrant, and Progressive."