

Memorandum



CITY OF DALLAS

DATE: May 28, 2004

TO: Honorable Mayor and Members of the City Council

SUBJECT: Follow-up report of the March 15, 2002, *Financial Related and Compliance Audit of the Revenue Sharing Agreement With the City of Irving--Report #354*

We conducted this follow-up audit under the authority of Chapter IX of the City Charter and according to applicable government auditing standards.

Our objective was to determine whether management had implemented the audit's recommendation or taken other acceptable actions to remedy the control weaknesses identified in the original audit report.

The original audit contained four findings, including eight recommendations. Management has not implemented one of the recommendations.

1. **Some information used to determine base year revenues was inaccurate and inadequately documented.** *We recommended that the Director of OFS consult with the City Attorney to determine whether the revenue sharing agreement should be amended to more accurately reflect base year revenues.*

Management's Response:

There are a total of three Revenue Sharing Agreements. The Cities of Dallas and Ft. Worth (in conjunction with D/FW Airport) worked together to negotiate a revenue sharing agreement. The "Base Year Revenues" is a contract term clearly defined as exactly \$618,855 in the interlocal agreement and was supported by an analysis of the base year revenues. These agreements with Irving, Euless and Grapevine are expected to **provide in excess of \$60,000,000 to Dallas** in the first ten years. The agreements are the result of years of effort. The City Manager's Office successfully negotiated through the very contentious and delicate terms of the agreements. Implementation included State Legislative changes. It is not feasible to "re-negotiate" the terms at this point.

Auditor's Comment:

Our recommendation was not to renegotiate the agreement, but to consult with the City Attorney for her opinion on the advisability of attempting to modify it. We spoke with an Assistant City Attorney who was involved in the negotiations of the agreements, including the City of Irving's. She stated that she was not consulted on the recommendations from our first and second finding. If she had been, she would have agreed with the reasoning and conclusion offered by Management, if the negotiated amount of the base year revenues was based on questionable information and confusing definitions, the time to deal with it was during the original negotiations, not later.

2. **The determination of ad valorem tax revenues was not consistent.** *We recommended that the Director of OFS consult with the City Attorney to:*

Ensure that a consistent definition for ad valorem tax is used in all sections of future revenue sharing agreement.

Determine whether the current revenue sharing agreement should be amended to ensure that the determination of ad valorem tax is consistent between *base year revenues* and *increased revenues*.

Management's Response:

As stated above, it is not practical or advisable to renegotiate the interlocal agreements. The terms serve the City of Dallas very well now and will continue to do so in the years to come.

3. **The City of Irving had not adequately determined whether there were increased revenues to be shared.** *We recommended that the Director of OFS consult with the City Manager and request that the City of Irving:*

Coordinate information between Dallas/Fort Worth Regional Airport (D/FW) Real Estate Office and the Dallas Central Appraisal District and provide a complete and reliable listing of businesses operating within the City of Irving boundaries at D/FW. (Implemented)

Provide adequate documentation to support whether there were *increased revenues* to be shared for calendar years ended 1999 and 2000 thereby complying with the terms of the agreement to engage their independent auditor to verify whether there are such revenues to be shared and remitting to the City of Dallas its proportionate share of those revenues. (Not Implemented)

Management's Response:

The City of Irving has paid the City of Dallas \$162,601.48 under the Revenue Sharing Agreement for calendar year 2003. The City of Euless has paid the City of Dallas \$3,367,414.98 under the Revenue Sharing Agreement for calendar year 2003. The City of Euless provided an auditor's "Independent Account's Report" for 2003 and the City of Irving will be requested to do the same.

4. **Some sales tax revenue information was not available.** *We recommended that the Director of OFS request that the D/FW Real Estate Office:*

Revise its lease agreements and require future lessees to provide periodic sales tax information to D/FW management.

Provide total sales tax revenues to Irving's Director of Finance for determination of annual *increased revenues*.

Consider amending current lease agreements and require current lessees to provide periodic sales tax information to D/FW management.

These three have been implemented.

Management's Response:

As recommended, a letter that included the above requests was sent to Kevin Cox on August 28, 2003.

Thomas M. Taylor

Thomas M. Taylor, CPA
City Auditor

c: Teodoro J. Benavides, City Manager
Mary K. Suhm, First Assistant City Manager
David K. Cook, Director of the Office of Financial Services