

Memorandum



CITY OF DALLAS

DATE: January 9, 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 Second Quarter

The *Audit, Attestation and Investigative Services Update: Fiscal Year 2015 Second 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 seven audit, attestation, and investigative reports were issued in the first quarter of Fiscal Year (FY) 2015, including:

- Audit of Controls over Department of Convention and Event Services' Cash Receipts and Collections
- Audit of South Dallas Fair Park Trust Fund
- Audit of MuniServices, LLC Contract related to the Verification of Sales/Use Tax Receipts and Associated Fees
- Agreed-Upon Procedures:
 - one single bid / two sole source procurements
- Investigative Reports:
 - Theft of Time – Department of Street Services

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 second quarter of FY 2015 are included in Sections III through V of the Update.

Honorable Mayor and Members of the City Council
January 9, 2015
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Should you have questions or if we can be of assistance, please contact me at 214-670-3222.

Sincerely,

A handwritten signature in cursive script that reads "Craig D. Kinton".

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 – Second 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 – First Quarter October 1, 2014 to December 31, 2014 (See Section II for Details)

- Audit of Controls over Department of Convention and Event Services' Cash Receipts and Collections
- Audit of South Dallas Fair Park Trust Fund
- Audit of MuniServices, LLC Contract related to the Verification of Sales/Use Tax Receipts and Associated Fees
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid #BX1420: City Secretary's Office – Commercial Records Storage, Retrieval and Reference Services, \$1,351,293
- Independent Auditor's Report on Applying Agreed-Upon Procedures Sole Source Procurement: Environmental Systems Research Institute Software Maintenance and Support, \$1,523,589.70
- Independent Auditors Report on Applying Agreed-Upon Procedures for Sole Source Procurement: Department of Communication and Information Services - FuelFocus M5 Application Service Provider and Software Maintenance and Support, \$518,962.75

* 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 2014 – First Quarter
October 1, 2014 to December 31, 2014
(See Section II for Details)**

- Theft of Time – Department of Street Services

**Audit and Attestation Services Anticipated Report Releases
Fiscal Year 2015 – Second Quarter
January 1, 2015 to March 31, 2015
(See Section III for Details)**

- Payroll Processes Related to City of Dallas' Retirement Programs
- Building Permits – Cash Handling / Collections
- Parking Management Contract Oversight
- Payroll Audit
- Paving and Maintenance Program / Capital Program Streets and Thoroughfares
- Tracking Firearms and Equipment
- Water Customer Billings

**Audit and Attestation Services Projects in Progress
Fiscal Year 2015 – Second Quarter
January 1, 2015 to March 31, 2015
(See Section IV for Details)**

- Franchise Fees Review through MuniServices (*Ongoing*)
- Sales/Use Tax Compliance Review Through MuniServices (*Ongoing*)
- Contract Monitoring – Public Works and Transportation
- Courts Information System – Access Controls
- Fleet Maintenance
- Performance Measurement Process
- Purchasing / Contracting Processes
- Customer Service / 311 Non-Emergency Services
- Maintenance of Infrastructure – Department of Dallas Water Utilities

Audit and Attestation Services Projects in Progress
Fiscal Year 2015 – Second Quarter
January 1, 2015 to March 31, 2015
(See Section IV for Details)

- Police Personnel and Training Services
- Neighborhood Code Enforcement Services

Audit and Attestation Services Anticipated Project Starts
Fiscal Year 2015 – Second Quarter
January 1, 2015 to March 31, 2015
(See Section V for Details)

- Courts Information System – Cash Management / Collections Processes
- Trinity Watershed Management
- Building Permits – Customer Service / Satisfaction
- Contract Monitoring – Housing
- 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 – First Quarter
October 1, 2014 to December 31, 2014**

Audit Services

**Audit of Controls over Department of Convention and Event Services’
Cash Receipts and Collections (October 31, 2014)**

- The Department of Convention and Event Services’ (CES) does not have sufficient monitoring controls over the Centerplate Contract (Contract) for food and beverage services. Specifically:
 - The CES does not have formal documented contract monitoring policies and procedures
 - The CES does not have sufficient contract monitoring activities
 - Not all Contract payment provisions are followed consistently
 - The CES contract administration was not timely and in accordance with City of Dallas (City) Administrative Directives
- The CES cannot ensure Centerplate complies with Contract terms, the City receives all revenue due, and Centerplate’s requests for expense reimbursement are accurate and in accordance with the Contract terms.

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of CES develop and implement formal documented policies and procedures for Contract monitoring that provide guidance to CES personnel on their Contract monitoring duties.	CES	Agree	March 31, 2015

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
<p>We recommend the Director of CES improve and document monitoring activities to assess Centerplate's internal control effectiveness and Contract compliance by periodically: (1) observing and reconciling financial transactions performed by Centerplate; (2) validating expenses claimed as allowable; (3) validating compliance with Section XXII, Payments in the RFCSP; and, (4) validating the accuracy and completeness of food and beverage revenue and allowable expenses by requiring Centerplate to periodically submit independent financial or performance audits as authorized by the Contract.</p>	CES	Agree	March 31, 2015
<p>We recommend the Director of CES monitor to ensure that Centerplate complies with Contract terms by depositing amounts equal to all checks and credit card charges net of any sales or alcoholic beverage taxes into a City bank account on a weekly basis.</p>	CES	Agree	March 31, 2015
<p>We recommend the Director of CES implement effective contract administration procedures to ensure contracts are timely renewed, properly executed, and in accordance with Administrative Directive 4-5, <i>Contracting Policy</i>.</p>	CES	Agree	March 31, 2015

Audit of South Dallas Fair Park Trust Fund (October 31, 2014)

- The South Dallas Fair Park Trust Fund (Trust Fund) performance measures do not include *outcome* measures to evaluate whether: (1) the Trust Fund grants and loans facilitate new or sustained economic and community development; and, (2) continuous public support of the same grant recipients is achieving the desired results.
- The Trust Fund has not consistently managed grants and loans according to Trust Fund Policies and Guidelines. Specifically:
 - Applications were approved without required documentation
 - Certain grant procedures were not completely met
 - Grant policies and checklists are not updated and consistently followed

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of the Department of Economic Development (ECO) develop outcome performance measures which address whether the Trust Fund grants and loans facilitate new or sustained economic and community development in the South Dallas Fair Park community and whether continuous public support of the same grant recipients is achieving the desired results.	ECO	Agree	January 2015
We recommend the Director of ECO ensure that all required documentation is obtained and verified for accuracy and completeness prior to approval of grant and loan applications.	ECO	Agree	Immediately
We recommend the Director of ECO identify third party solutions, including the IRS, to obtain timely verification on applicant's non-profit status.	ECO	Agree	Immediately
We recommend the Director of ECO reassess the objective of the on-site notification letters and make the necessary procedural changes.	ECO	Agree	November 2014
We recommend the Director of ECO ensure the Policies and grant checklists are updated and consistently followed. For example, update the Grant Application/File Content Checklist to include separate sections to show which documents are: (1) required for all grants; (2) required for each specific grant (Challenge Grant, Public Safety Grant, and Community-Based Non Profit Grant); and, (3) optional and obtained based on certain unique grant applicant situations.	ECO	Agree	November 2015
We recommend the Director of ECO ensure that the Trust Fund retain sufficient evidence to show reimbursement workshops were held for the approved grantees.	ECO	Agree	Immediately

Audit of MuniServices, LLC Contract related to the Verification of Sales/Use Tax and Associated Fees (December 5, 2014)

- In Fiscal Year (FY) 2014, the Office of the City Auditor (Office) verified \$1,792,993 in sales tax receipts collections that MuniServices, LLC (Consultant) identified as owed to the City of Dallas (City) from businesses operating in the City. The Office also verified the accuracy of \$455,032 in Consultant invoices received for the period October 1, 2013 through September 30, 2014 for payment of the Consultant's percentage of the amount collected under the contingent fee contract arrangement with the City. (Note: The Consultant invoices are not paid until the Office verifies that the City has received the additional sales/use taxes).
- In 2010, the Office, in conjunction with City management, sought proposals for sales/use tax compliance review services. The City entered into a three-year contract with the Consultant to identify businesses operating in the City that are not properly collecting and/or reporting sales/use taxes. The contract ended on September 7, 2013; however, two one-year renewal options were approved by the City Council on August 14, 2013 and August 13, 2014, respectively, extending the contract term through September 7, 2015.

No associated recommendations with this report.

Attestation Services

Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BX1420: City Secretary's Office – Commercial Records Storage, Retrieval and Reference Services, \$1,351,293 (November 19, 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 Sole Source Procurement: Environmental Systems Research Institute Software Maintenance and Support, \$1,523,589.70 (November 26, 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 Auditors Report on Applying Agreed-Upon Procedures for Sole Source Procurement: Department of Communication and Information Services - FuelFocus M5 Application Service Provider and Software Maintenance and Support, \$518,962.75 (December 8, 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.

Investigative Services

Theft of Time – Department of Street Services (December 9, 2014)

- This investigative report provided results of an investigation by the Office of the City Auditor (Office) of an allegation involving a Department of Streets Services (STS) Electronic Signal Technician taking excessive breaks at the employee's residence during the work day.
- On August 11, 2014, STS Management reported to the Office that an Electronic Signal Technician had been observed in a STS van at the employee's apartment on numerous occasions during the work day.
- The Office's investigation included monitoring the STS employee for 14 work days and obtained the following results:
 - Excessive breaks (average of 88 minutes/day, excluding lunch breaks) for seven days (50 percent)
 - Absent for six days (42 percent)
 - Full eight hours of work for one day (eight percent)
- The evidence obtained is sufficient to support the finding that the Electronic Signal Technician's actions violated City Personnel Rules, specifically: indifference towards work, dishonesty, theft, misconduct, and disregard of public trust.
- The STS Management discharged the Electronic Signal Technician's employment with the City of Dallas effective November 25, 2014.

**Audit and Attestation Services
Anticipated Report Releases
Fiscal Year 2015 – Second Quarter
January 1, 2015 to March 31, 2015**

Audit Services

Payroll Processes Related to City of Dallas' Retirement Programs

- Anticipated Report Date: January 2015
- Project Objective(s): To evaluate the City's processes for accumulating and transferring employee payroll information to the retirement funds

Building Permits – Cash Handling / Collections

- Anticipated Report Date: February 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

Parking Management Contract Oversight

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

Paving and Maintenance Program / Capital Program Streets and Thoroughfares

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

Tracking Firearms and Equipment

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

Water Customer Billings

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

Attestation Services

Independent Auditor's Reports on Applying Agreed-Upon Procedures

None Currently

**Audit and Attestation Services
Projects in Progress
Fiscal Year 2015 – Second Quarter
January 1, 2015 to March 31, 2015**

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

Contract Monitoring – Public Works and Transportation

- Anticipated Report Date: Third 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

Courts Information System – Access Controls

- 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

Fleet Maintenance

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

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

Purchasing / Contracting Processes

- Anticipated Report Date: Third Quarter Fiscal Year 2015
- Project Objective(s): To determine whether processing controls for purchasing / contracting for goods / services are adequate

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

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

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

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

None Currently

**Audit and Attestation Services
Anticipated Project Starts
Fiscal Year 2015 – Second Quarter
January 1, 2015 to March 31, 2015**

Audit Services

Courts Information System – Cash Management / Collections Processes

- Anticipated Report Date: Fourth Quarter Fiscal Year 2015
- 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

Trinity Watershed Management

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

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 – 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

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*