

# Memorandum



CITY OF DALLAS

**DATE:** January 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 2014 Second Quarter

The *Audit, Attestation and Investigative Services Update: Fiscal Year 2014 Second Quarter* is presented to provide current information about the results and status of audit, attestation, and investigative service projects of the Office of the City Auditor (Office).

A total of nine audit and attestation reports were issued in the first quarter of Fiscal Year (FY) 2014, including:

- Audit of City of Dallas' Compliance with the Texas Prompt Payment Act
- Audit of MuniServices, LLC Contract Related to the Verification of Sales/Use Tax Receipts and Associated Fees
- Special Audit of the Accounts of Five Former City Council Members
- Audit of the City Dallas' Aircraft Rescue and Firefighting Unit
- Agreed-Upon Procedures: (1) two single bid procurements; (2) two sole source procurements; and, (3) one drug destruction

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 2014 are included in Sections III through V of the Update.

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

Sincerely,

A handwritten signature in blue ink that reads "Craig D. Kinton".

Craig D. Kinton  
City Auditor

Attachment

Honorable Mayor and Members of the City Council  
January 17, 2014  
Page 2 of 2

C: A.C. Gonzalez, Interim 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 2014 – 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 2014 – First Quarter October 1, 2013 to December 31, 2013 (See Section II for Details)

- Audit of City of Dallas' Compliance with the Texas Prompt Payment Act
- Audit of MuniServices, LLC Contract Related to the Verification of Sales/Use Tax Receipts and Associated Fees
- Special Audit of the Accounts of Five Former City Council Members
- Audit of the City of Dallas' Aircraft Rescue and Firefighting Unit
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source – West Complete Library, \$76,224.05
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BHZ1301: Department of Communication and Information Services – SAS Software License and Support, \$107,860
- Independent Auditor's Report on Applying Agreed-Upon Procedures for the Fiscal Year 2013 # 2 Drug Destruction

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\* 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 – First Quarter**  
**October 1, 2013 to December 31, 2013**  
**(See Section II for Details)**

- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # CIZ1420: Department of Equipment and Building Services – City Hall Security Vestibule, \$345,000
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source – Renewal of Lawson Human Resources and Information System Software Maintenance and Support, \$1,727,820.35

**Audit and Attestation Services Anticipated Report Releases**  
**Fiscal Year 2014 – Second Quarter**  
**January 1, 2014 to March 31, 2014**  
**(See Section III for Details)**

- City's Self-Insurance Program – Medical
- Arts and Cultural Program Funding
- Contract Compliance – Office Depot
- Prior Audit Recommendations Follow-Up
- Software Licensing Agreements
- Special Audit of Former City Attorney, Thomas P. Perkins

**Audit and Attestation Services Projects in Progress**  
**Fiscal Year 2014 – Second Quarter**  
**January 1, 2014 to March 31, 2014**  
**(See Section IV for Details)**

- Sales/Use Tax Compliance Review Through MuniServices (*Ongoing*)
- Convention and Event Services – Controls over Cash Receipts and Collections
- Payroll Audit
- Purchasing / Contracting Processes
- South Dallas Fair Park Trust Fund
- Special Audit of Former City Manager, Mary K. Suhm
- Wastewater Collection and Treatment
- Water Customer Billings
- Franchise Fees

**Audit and Attestation Services Anticipated Project Starts**  
**Fiscal Year 2014 – Second Quarter**  
**January 1, 2014 to March 31, 2014**  
**(See Section V for Details)**

- Contract Monitoring
- Parking Management Contract Oversight
- Tracking Firearms and Equipment
- Building Permits
- Maintenance of Infrastructure
- Independent Auditor's Report on Applying Agreed-Upon Procedures (as requested) for:
  - Single Bid Procurements
  - Sole Source Procurements

**Audit and Attestation Services  
Reports Issued  
Fiscal Year 2014 – First Quarter  
October 1, 2013 to December 31, 2013**

**Audit Services**

**Audit of City of Dallas' Compliance with the Texas Prompt Payment Act  
(November 1, 2013)**

- The City of Dallas (City) does not have a formal method to monitor compliance with the Texas Government Code, Chapter 2251 *Payment for Goods and Services* (Prompt Payment Act). As a result, the City cannot easily determine: (1) when vendor payments are not processed in accordance with the Prompt Payment Act; (2) if interest amounts are owed to vendors; and, (3) if valid exceptions to the Prompt Payment Act exist.
- Specifically, the City does not:
  - Have a consistent method to identify and track the actual invoice receipt date
  - Require the actual invoice receipt date to be recorded in the AMS Advantage 3 general ledger accounting system (AMS) prior to invoice processing
  - Identify invoices in dispute in AMS
  - Provide guidance for monitoring compliance with the Prompt Payment Act, including how to use available financial reports, in the annual training conducted by the City Controller's Office

**Audit of MuniServices, LLC Contract Related to the Verification of  
Sales/Use Tax Receipts and Associated Fees (November 15, 2013)**

- In Fiscal Year (FY) 2013, the Office of the City Auditor (Office) verified \$902,218 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 \$225,555 in Consultant invoices received for the period October 1, 2012 through September 30, 2013 for payment of the Consultant's percentage of the amount collected under the contingent fee contract arrangement with the City.



- 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, a one-year renewal option was approved by the City Council on August 14, 2013 extending the contract term through September 7, 2014.
- Through a variety of means, the Consultant identifies businesses operating in the City that are not properly collecting and/or reporting sales/use taxes. Then, the Consultant works directly with the identified businesses to achieve voluntary tax compliance by assisting the businesses with tax code interpretations and preparation of amended tax returns. If businesses do not voluntarily comply, referrals are made to the Texas State Comptroller of Public Accounts requesting audit assistance to achieve compliance.

#### **Special Audit of the Accounts of Five Former City Council Members (December 6, 2013)**

- The Office of the City Auditor (Office) determined that the former accounts for City of Dallas (City) Council Members Angela Hunt, Delia Jasso, Linda Koop, Ann Margolin, and Pauline Medrano were in order; however, certain procedural errors and a processing control issue were noted. The Office issued a Management Letter that included these issues.
- Although no formal responses were requested of management, the Office will follow-up on these issues during subsequent special audits to determine whether corrective actions were taken.

#### **Audit of the City of Dallas' Aircraft Rescue and Firefighting Unit (December 6, 2013)**

- The City of Dallas' (City) Aircraft Rescue and Firefighting Unit (Unit) has designed internal controls to help ensure the Unit consistently complies with certain Federal Aviation Administration (FAA) regulations related to the certification and operation of airports. There are opportunities, however, to improve internal controls in the following areas: documentation of FAA required training; apparatus self-inspections; and, apparatus preventive maintenance.

## **Attestation Services**

### **Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source – West Complete Library, \$76,224.05 (October 17, 2013)**

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 Single Bid # BHZ1301: Department of Communication and Information Services – SAS Software License and Support, \$107,860 (October 22, 2013)**

The procurement followed Administrative Directive (AD) 4-5: *Contracting Policy* provisions for processing single bid items and made reasonable efforts to increase bid participation.

No exceptions were noted.

### **Independent Auditor's Report on Applying Agreed-Upon Procedures for the Fiscal Year 2013 # 2 Drug Destruction (November 11, 2013)**

2,748 drug invoices and associated 4,102 drug articles totaling 3,090 pounds were destroyed according to Agreed-Upon Procedures to assist the Dallas Police Department

#### *Exceptions noted:*

- Eight invoices had Property Tag dates that did not agree to the Property Tag dates documented in *Evidence Manager*.
- One invoice had a Property Tag Number that did not agree to the Property Tag number in *Evidence Manager*.
- Ten invoices had Service Number discrepancies between the Property Tag and what was documented in *Evidence Manager*.
- Eight invoices were removed from the destruction for lack of authorization.
- Thirty eight invoices had 44 discrepancies related to the description and/or quantities on the Property Tag attached to the drug articles that did not agree to the information documented in *Evidence Manager*.

All discrepancies were corrected in *Evidence Manager* and verified by City Auditor personnel prior to the date of destruction.

**Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # CIZ1420: Department of Equipment and Building Services – City Hall Security Vestibule, \$345,000 (November 11, 2013)**

The procurement followed Administrative Directive (AD) 4-5: *Contracting Policy* provisions for processing single bid items and made reasonable efforts to increase bid participation.

No exceptions were noted.

**Independent Auditor's Report on Applying Agreed-Upon Procedures for Sole Source – Renewal of Lawson Human Resources and Information System Software Maintenance and Support, \$1,727,820.35 (November 20, 2013)**

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.

**Audit and Attestation Services  
Anticipated Report Releases  
Fiscal Year 2014 – Second Quarter  
January 1, 2014 to March 31, 2014**

**Audit Services**

**City's Self-Insurance Program – Medical**

- Anticipated Report Date: February 2014
- Project Objective(s): Assess the adequacy of internal controls over the City's Medical Self-Insurance Program which may include claims processing, monitoring, oversight, and eligibility determination

**Arts and Cultural Program Funding**

- Anticipated Report Date: March 2014
- Project Objective(s): To determine the efficiency and effectiveness of the Office of Cultural Affairs funding for arts and cultural programs which may include eligibility, submitting applications within established deadlines, contracting and reimbursement documentation

**Contract Compliance – Office Depot**

- Anticipated Report Date: March 2014
- Project Objective(s): To determine whether Office Depot adhered to contract pricing provisions

**Prior Audit Recommendations Follow-Up**

- Anticipated Report Date: March 2014
- Project Objective(s): To evaluate management implementation of prior audit recommendations

## **Software Licensing Agreements**

- Anticipated Report Date: March 2014
- Project Objective(s): To evaluate the City's management of, and compliance with the terms of, software licensing agreements and determine if the licensing programs are effective

## **Special Audit of Former City Attorney, Thomas P. Perkins**

- Anticipated Report Date: March 2014
- Project Objective(s): 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

**Audit and Attestation Services  
Projects in Progress  
Fiscal Year 2014 – Second Quarter  
January 1, 2014 to March 31, 2014**

**Audit Services**

**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

**Convention and Event Services – Controls over Cash Receipts and Collections**

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

**Payroll Audit**

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

**Purchasing / Contracting Processes**

- Anticipated Report Date: Third Quarter Fiscal Year 2014
- Project Objective(s): To determine whether processing controls for purchasing / contracting for goods / services are adequate

### **South Dallas Fair Park Trust Fund**

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

### **Special Audit of Former City Manager, Mary K. Suhm**

- Anticipated Report Date: Third Quarter Fiscal Year 2014
- Project Objective(s): 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

### **Wastewater Collection and Treatment**

- Anticipated Report Date: Third Quarter Fiscal Year 2014
- Project Objective(s): Assess the adequacy of internal controls over inventories of equipment and supplies

### **Water Customer Billings**

- Anticipated Report Date: Third Quarter Fiscal Year 2014
- Project Objective(s): To determine the efficiency and effectiveness of Dallas Water Utilities' billing adjustments and assess internal controls over billing adjustments

### **Franchise Fees**

- Anticipated Report Date: To be established by a yet-to-be determined independent contractor
- Project Objective(s): To develop a Request for Proposal for contingency fee based franchise fee reviews which may include utilities, cable, and telephone

**Attestation Services**

**Independent Auditor's Reports on Applying Agreed-Upon Procedures**

None Currently



**Audit and Attestation Services  
Anticipated Project Starts  
Fiscal Year 2014 – Second Quarter  
January 1, 2014 to March 31, 2014**

**Audit Services**

**Contract Monitoring**

- Anticipated Report Date: First 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

**Parking Management Contract Oversight**

- Anticipated Report Date: First Quarter Fiscal Year 2015
- Project Objective(s): To evaluate: (1) management's oversight and monitoring controls to assess the third parties compliance with the contract terms; and, (2) the adequacy of internal controls over cash collections and cash equivalents

**Tracking Firearms and Equipment**

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

**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

## **Maintenance of Infrastructure**

- Anticipated Report Date: Second 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**

#### **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*