

City of Dallas

Internal Controls –

What are they and why
should we care?

FWA Greatest Hits

Probationers paid off ex-Dallas County officer for early release, travel permits, prosecutors say

A former Dallas County probation officer has been accused of demanding bribes from his charges in exchange for granting early release from probation and issuing travel permits, among other things.

Tim Jones, 46, worked as a probation officer for the Dallas County community supervision and corrections department from 2012 to 2015, according to court records. He was arrested on Thursday in Irving and faces eight counts of use of interstate facility to commit travel act.

Prosecutors say that between January and October 2015, Jones solicited payments from eight probationers.

"You know what to do," Jones allegedly told one probationer who had asked for permission to travel.

The probationer paid Jones cash to secure a travel permit, according to a criminal complaint.

Prosecutors described other alleged bribes solicited by Jones:

- \$250 in cash from a probationer to avoid the issuance of a warrant based on unsatisfied conditions of probation
- \$300 in cash from a probationer in lieu of completing community service and probation
- \$60 from a probationer who reportedly received a request from Jones to get money from an ATM in exchange for a travel permit
- \$60 from a probationer who was discharged from probation despite unpaid fees and unfinished community service

The FBI is investigating.

If convicted, Jones faces up to five years in federal prison and a \$250,000 fine.

FWA Greatest Hits (cont'd)

Former Garland ISD HR director sentenced in visa scam

Victor Leos, a former Garland ISD human resources director and a central figure in a scheme to abuse work visas to recruit hundreds of teachers, was sentenced to two years in federal prison and ordered to pay \$317,482 in restitution Monday.

"Garland ISD is appalled by the actions of Mr. Leos," school district attorney Alaina Smith said in a victim impact statement read before sentencing in federal court. "Mr. Leos betrayed the trust that the district, the community and the teachers he recruited placed in him."

Leos, 64, plead guilty to receiving kickbacks, travel and other benefits while using H-1B visas to attract bilingual teachers from Mexico, Central and South America and the Philippines. From about 2007 to 2012, he recruited and hired foreign teachers that Garland ISD did not necessarily need.

Teachers said they were assured they would get permanent U. S. residency if they came to Garland ISD, but neither Leos nor the district had the authority to provide that status.

"Some former teachers had to return to home countries," Smith said. "Sometimes in the middle of the school year, disrupting the lives of the teachers, their families and our students."

Reputation 'put in jeopardy'

Smith told the court that the school district's total cost from the scandal is about \$3.2 million. Half has been spent on immigration counsel to ensure compliance with the law and to continue applications for visas and permanent residency for teachers brought to the district by Leos.

"Our reputation as a valued and respected employer was put in jeopardy," Smith said in the victim impact statement. "People have a choice as to where they work and where to send their children to school."

FWA Greatest Hits (cont'd)

Dallas pharmacy exec admits to selling soldiers unneeded scripts in \$50 million kickback fraud

A Dallas pharmacy executive has pleaded guilty to taking part in a massive kickback scheme that allegedly scammed the military's insurance program out of more than \$50 million, authorities said.

Andrew Joseph Baumiller, 38, of Dallas, pleaded guilty last week to conspiracy to commit health care fraud in connection with Trilogy Pharmacy. He faces up to 10 years in federal prison and a maximum fine of \$250,000, and also will be ordered to pay restitution, the U.S. attorney's office said.

Baumiller admitted to conspiring with doctors, marketers and other pharmacies to defraud Tricare, the military health care system, out of more than \$50 million from May 2014 through February 2016, court records show.

The defendants paid kickbacks to physicians for prescribing soldiers expensive and unnecessary compounded pain creams, scar creams and vitamin supplements, court records show. Prosecutors say the pharmacy owners paid kickbacks to their marketers to drum up business. Tricare picked up the tab for the medications.

The Trilogy case was one of the first federal indictments in Texas in connection with the government's nationwide crackdown on compounding pharmacies and their illegal kickback operations. Similar prosecutions across the U.S. have resulted in numerous convictions, and many others are underway. Tricare stopped paying for compounded pain creams in 2016 due to high costs and questions about the effectiveness of the medications.

Also charged in the case are: Walter Neil Simmons, an Arizona physician; William F. Elder-Quintana, an El Paso physician; Jeffrey Eugene Fuller, of Dallas; Richard Robert Cesario, of Plano; John Paul Cooper, of Southlake; Jeffrey Dobbs Cockerell, of Houston; Steven Bernard Kuper, of Burleson; Ravi Morisetty, of Irving; Joe Larry Straw, of Frisco; Luis Rafael Rios, of Killeen; and Michael John Kiselak, of Southlake.

FWA Greatest Hits (cont'd)

Audit reveals misappropriation of public funds in Hartshorne totaling more than \$1.7 million

HARTSHORNE, Okla. - A state audit of a small Pittsburg county city found more than \$1.7 million in cash utility payments submitted by residents never made it to the bank over several years, along with tens of thousands of dollars charged to a city credit card for personal use.

The investigation by the Oklahoma State Auditor and Inspector into Hartshorne, the second-largest city in Pittsburg County with a little more than 2,100 residents, began in early 2016 when a small number of citizens requested a special audit after their concerns weren't being addressed by the city council.

The audit says from July 2009 to July 2016, former city treasurer Shirley Day did not deposit more than \$1.7 million of utility payments into the city's bank account. The audit doesn't detail where the money went. Day, who worked for the city for 36 years, resigned in September 2016.

Former City Clerk Dawn Dunkin used the city's credit card to purchase more than \$80,000 of materials and goods for personal use between July 2011 and July 2016. Dunkin resigned in August of last year after working for the city for more than 22 years.

According to the report, Dunkin charged more than \$8,500 to the city credit card for sporting event and concert tickets to Dallas Cowboy and Oklahoma City Thunder games, more than \$7,800 in cell phone service for Dunkin and her family, and more than \$6,550 in Amazon purchases including video cameras, TV shows, a 3D Blu-Ray home-theater system, hunting equipment and a Coach diaper bag.

Thousands of dollars was spent on trips to amusement parks, water parks, baseball games, hotel rooms, rental cars, as well as clothes, lawn equipment and furniture, car loans and car insurance.

The audit found Dunkin, along with 13 others, took a trip to Cozumel, Mexico in June 2016 for an all-inclusive stay in a luxury Cozumel Hotel. The total cost for the 14-person trip, including airfare, a submarine tour and deep sea fishing trip, was more than \$14,000.

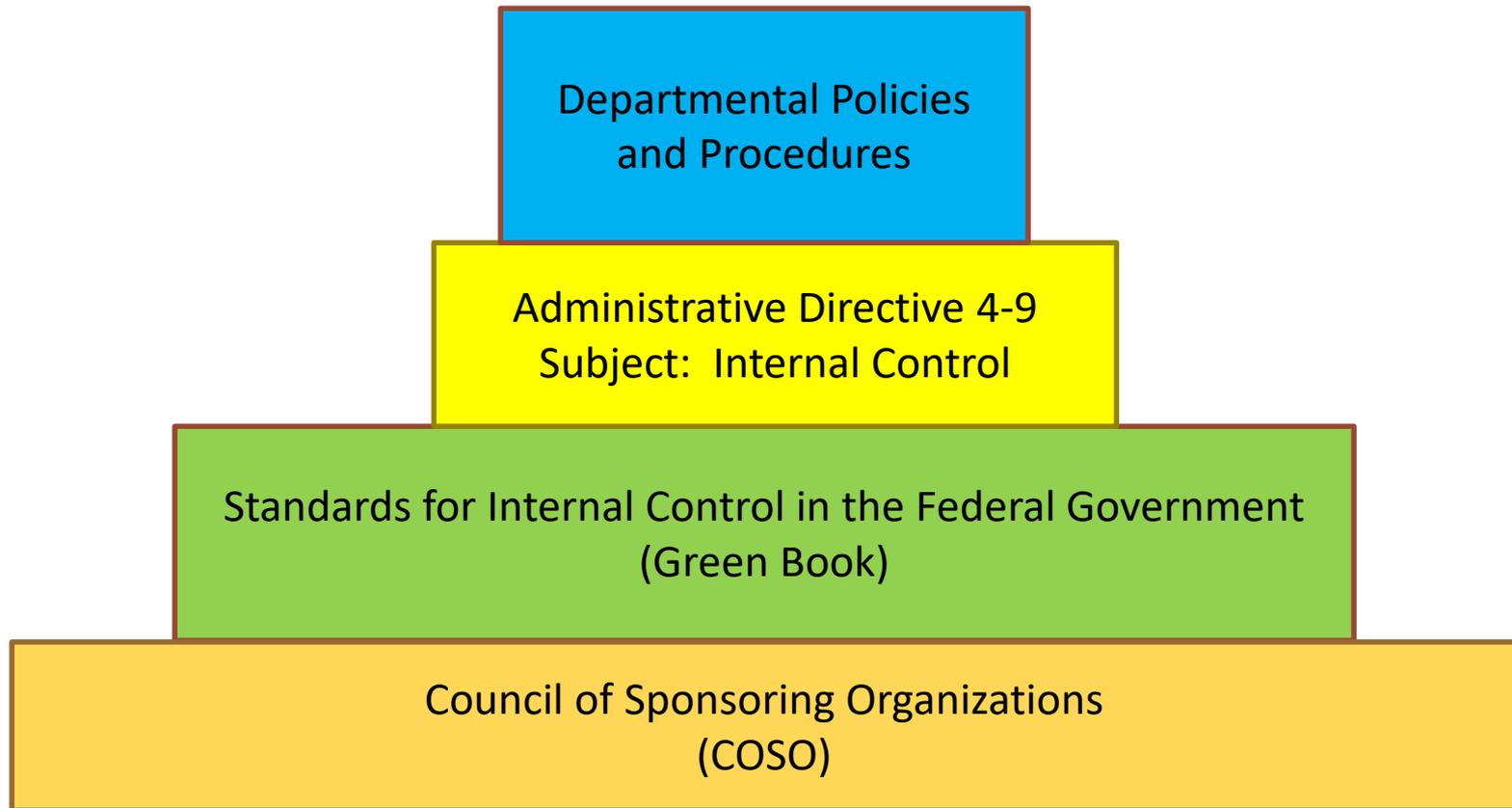
FWA Greatest Hits (cont'd)

County DA's office looks into missing \$1.2M of purchases

The Cameron County District Attorney's Office has a beef with one Juvenile Justice Department employee, alleging he stole \$1.2 million worth of fajitas during the past nine years. The Cameron County Juvenile Justice Department does not serve fajitas. "If it wasn't so serious, you'd think it was a Saturday Night Live skit. But this is the real thing," District Attorney Luis V. Saenz said. On Aug. 7, Gilberto Escamilla took a day off to go to a medical appointment. A driver from Labatt Food Service in Harlingen - the Juvenile Justice Department's meat vendor - called the kitchen to inform it of an 800-pound delivery of fajitas. The woman who answered the phone said the driver was mistaken, and that the kitchen did not serve fajitas. That was when the driver told her he had been delivering fajitas to the Juvenile Justice Department for the past nine years. "The receiver of the call rushes off to the supervisor and conveys to her the discussion that had been had, and that breaks the case," Saenz said. "When Mr. Escamilla reports to work the next day, he is confronted with the discussion and he admits he had been stealing fajitas for nine years." When officers searched Escamilla's house, they found packets of fajitas in his refrigerator. After gathering documents from Labatt Food Service and the County Auditor's Office, which included invoices, vouchers and purchase orders, the investigations unit concluded that Escamilla had stolen \$1,251,578 worth of fajitas. "He would literally, on the day he ordered them, deliver them to customers he had already lined up," Saenz said. "We've been able to uncover two of his purchasers, and they are cooperating with the investigation."

In a statement, Chief Juvenile Probation Officer Rose Gomez of the Cameron County Juvenile Justice Department said Escamilla's actions have led to a review of department policy. "The Juvenile Justice Department is working to institute procedures, controls and safeguards to avoid a recurrence of this type of situation. The Department expects that wrongdoers will be punished and assures that new procedures and protocols have been established."

Hierarchy of Internal Control Guidance City of Dallas



Who is COSO?

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of five private sector organizations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

<https://www.coso.org/Pages/default.aspx>

The COSO Cube



Components and Principles

Control Environment

1. Oversight body and management should demonstrate a commitment to integrity and ethical values.
2. Oversight body should oversee the internal control system.
3. Management should establish an organizational structure, assign responsibilities, and delegate authority to achieve the entity objectives.
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Components and Principles

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Components and Principles

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Components and Principles

Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Components and Principles

Monitoring Activities

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.

The Green Book & Internal Controls

Internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. *Standards for Internal Control in the Federal Government*, known as the "Green Book," sets the standards for an effective internal control system for federal agencies.

<https://www.gao.gov/greenbook/overview>

Definition Reflects Fundamental Concepts

1. Geared to the **achievement of objectives** (operations, reporting, and compliance)
2. **A process** consisting of ongoing tasks and activities – a means to an end, not the end in itself
3. **Effected by people** – not just policies and procedures but about people and the actions they take
4. Provides **reasonable assurance** – not absolute assurance to senior management and governance body
5. **Adaptable** to the entity structure – flexible in application for the entire entity or for a particular subsidiary, division, operating unit, or business process

Internal Control Guidance for the City of Dallas

Administrative Directive 4-9

Subject: Internal Control

POLICY

It is the policy of the City of Dallas to establish and maintain an internal control system designed to ensure:

- A. Each department achieves their goals and objectives relating to operations, reporting, and compliance.
- B. Policies and procedures are efficient and effective.
- C. Resources are safeguarded against fraud, waste, abuse, and inefficiency and used in accordance with applicable laws and policies.
- D. Reliable and complete data is obtained, safely maintained, and reported.

AD 4-9 Responsibilities

Department Directors **shall**:

Control Environment

- Establish and maintain an environment with a positive and supportive attitude towards internal control and conscientious management.
- Establish a department wide control environment with internal controls imbedded in daily activities. The control environment should: provide structure, set a tone of integrity, stress the importance of ethical behavior, value professional competence, be reflective of management's philosophy and operating style, and consider the department's organizational structure.
- Establish an organizational structure, assign responsibility, and **delegate authority** to achieve the City's objectives.
- Demonstrate a commitment to recruit, develop, and retain competent individuals.
- Evaluate performance and hold individuals accountable for their internal control responsibilities.

AD 4-9 Responsibilities (cont'd)

Department Directors shall:

Risk Assessment

- Define management objectives clearly to enable the identification of risks and define risk tolerances.
- Identify, analyze, and respond to risks related to achieving the defined objectives.
- Consider the potential for fraud, waste, or abuse when identifying, analyzing, and responding to risks.
- Identify, analyze, and respond to significant changes that could impact the internal control system.

AD 4-9 Responsibilities (cont'd)

Department Directors shall:

Control Activities

- Design control activities to achieve objectives and respond to risks. Controls should be designed to provide reasonable assurance commensurate with the likelihood and magnitude of risk exposure. In other words, the benefit of the control must exceed its cost.
- Design the City's information system and related control activities to achieve objectives and respond to risks. Information system objectives may include completeness, accuracy and validity of transactions.
- Implement control activities through written policies and procedures that include documenting the internal controls.

AD 4-9 Responsibilities (cont'd)

Department Directors shall:

Information and Communications

- Record and communicate information to management and others within the City who need the information in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

Monitoring

- Create a process to regularly assess the effectiveness of internal control by comparing actual results to expectations. Document the decision making process used to determine the scope, materiality, and testing results.
- Promptly evaluate findings from audits and other reviews to determine if enhancements or corrective actions are necessary to improve a process.
- Remediate identified internal control deficiencies on a timely basis.

The Fraud Triangle

Pressure
Motivation or Incentive to
Commit Fraud

Rationalization
Justification of Dishonest
Actions



Opportunity
The Knowledge and Ability
to Carry Out Fraud

Real Life Example – City of Dallas

**7 Current, Former Dallas City Employees
Arrested in Suspected Theft Ring**

<https://www.dallasnews.com/news/dallas-city-hall/2017/11/30/7-current-former-dallas-employees-arrested-suspected-theft-ring>

Movie Examples of Fraudsters

Owning Mahowney:

<https://www.youtube.com/watch?v=LQ-NFgWiDTA>

Office Space:

<https://www.youtube.com/watch?v=dMlrIP61Z9s>

Catch Me If You Can:

<https://www.youtube.com/watch?v=71rDQ7z4eFg>

Thank you for your attention!

Questions?



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