

Memorandum



CITY OF DALLAS

DATE: October 31, 2018

TO: Honorable Members of the Government Performance and Financial Management Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT: Office of the City Auditor – Fiscal Year 2018 Services Summary Report and Fiscal Year 2019 First Quarter Update

Carol A. Smith, Interim City Auditor, will provide a briefing to the members of the Government Performance and Financial Management Committee on Monday, November 5, 2018 regarding:

- Office of the City Auditor – Fiscal Year 2018 Services Summary Report and Fiscal Year 2019 First Quarter Update

Respectfully,

A handwritten signature in cursive script that reads "Carol A. Smith".

Carol A. Smith
Interim City Auditor

C: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Christopher Caso, Interim City Attorney
Billerae Johnson, City Secretary
Daniel F. Solis, Administrative Judge
Kimberly Bizzor Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Nadia Chandler Hardy, Assistant City Manager & Chief Resilience Officer
Jon Fortune, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Joey Zapata, Assistant City Manager
Directors and Assistant Directors

Office of the City Auditor – Fiscal Year 2018 Services Summary and Fiscal Year 2019 First Quarter Update

**Government Performance & Financial
Management Committee
November 5, 2018**

**Carol A. Smith, Interim City Auditor
Office of the City Auditor
City of Dallas**



Services Summary Update

Fiscal Year 2018

Government Performance & Financial Management



City of Dallas

Office of the City Auditor

Vision, Mission, and Statement of Values

VISION

Accountability professionals helping Dallas work better

MISSION

Our mission is to promote public trust and advance accountability by providing independent, objective, and useful professional services for the City of Dallas.

STATEMENT OF VALUES

We achieve our mission with PRIDE:

Professionalism

Respect

Integrity

Diversity

Excellence



Fiscal Year 2018 Summary

Staff Tenure with Office

	Percent
Under Two Years	37.5
Two to Five Years	29.2
Six to Ten Years	8.3
More than Ten Years	25.0

Gender

	Percent		
	Office	Dallas Fort-Worth Metropolitan Area	Dallas, Texas
Male	50.0	49.3	49.7
Female	50.0	50.7	50.3

Source: Best Places.net



Fiscal Year 2018 Summary

Ethnicity			
	Percent		
	Office	Dallas Fort-Worth Metropolitan Area	Dallas, Texas
Non-Hispanic White	58.3	47.1	29.3
Non-Hispanic Black	12.5	15.2	24.3
Hispanic	8.4	28.6	41.7
Other Race	20.8	9.1	4.7

* Source: Best Places.net

Fiscal Year 2018 Summary

Education *	
	Percent
Some College, No Degree	4.2
Bachelor's Degree	95.8
Master's Degree	70.8
Doctor in Jurisprudence	4.2

* Does not total to 100 percent as employees with master's degrees also have bachelor's degrees



Fiscal Year 2018 Summary

Professional Certifications/Designations *	
	Percent
Certified Public Accountant (CPA)	41.7
Certified Internal Auditor (CIA)	41.7
Certified Information System Auditor (CISA)	16.7
Certified Fraud Examiner (CFE)	20.8
Certified Financial Forensics (CFF)	4.2
Licensed Attorney	4.2
Other Certifications	12.5

* Does not total 100 percent as all employees do not have professional certifications/designations and some employees have more than one professional certification/designation



Fiscal Year 2018 Summary

	FY 2018 Target	FY 2018 Actual
Outputs		
Performance Audits	16	15
Attestation Engagements	0	2
Investigative Accountability Actions	18	26
Nonaudit Services	16	27
Totals	50	70



Fiscal Year 2018 Summary

	FY 2018 Target	FY 2018 Actual
Outcome Measures Include:		
Efficiency		
Percent of Hours on Direct Projects	75.0	78.0
Hourly Billable Rate	\$92.86	\$84.41*
Percent of Recommendations Management Agrees to Implement	93.0	100.0

* Preliminary Hourly Billable Rate – Final Fiscal Year 2018 Financials are still in progress



Fiscal Year 2018 Summary

Performance Audits – Produced **15** reports which provided coverage of operational risks and produced **124** total recommendations (including sub-recommendations) to which City management agreed to implement to reduce risks or improve operations in areas such as:

- Design of controls for: (1) the Dallas Fire-Rescue’s personnel and training services; and, (2) the Dallas Police Department’s Record Management System
- Internal controls over:
 - Six City departments’ construction-related procurements
 - Housing and Community Service’s homeless response system
 - Dallas Water Utilities’ (DWU) Special Collections Section cash handling and collection of alcoholic beverage license and permit fees



Fiscal Year 2018 Summary

(continued...)

- Office of Environmental Quality's reporting processes, monitoring activities, and internal controls related to the management of environmental spills and scrap tire disposal
- Follow-up of **111** Prior Year Audit Recommendations, including the Follow-up of Continuity of Operations
- Special Audits of the accounts of four former City Council members and former City Secretary, Rosa A. Rios
- Audit of Revenue Estimates in Fiscal Year 2018-19 Proposed Annual Budget for the City of Dallas



Fiscal Year 2018 Summary

Attestation Engagements – Assisted the Dallas City Council and City management in determining compliance with:

- State of Texas laws and Administrative Directive 4-05: *Contracting Policy* relating to a \$206,700,000 construction procurement
- The City Secretary's Office's verification of signatures for a petition referendum



Fiscal Year 2018 Summary

Investigative Services – Closed **121** fraud, waste or abuse complaints during Fiscal Year (FY) 2018 that resulted in **26** accountability actions by City management. These actions included the filing of criminal charges, termination of employment, or the implementation of other disciplinary or administrative control measures.

- Began FY 2018 with **37** open complaints
- Received **207** complaints during FY 2018
- **123** complaints remained open at the end of FY 2018



Fiscal Year 2018 Summary

Other Nonaudit Services* – Completed 27

- Five City Council Members' requests for assistance
- Nine departments' requests for assistance
- Nine presentations to City staff and City Council committees
- Four Office of the City Auditor's Service Updates

** Note: Nonaudit Services refers to any service provided by the Office that is not performed under Government Auditing Standards established by the United States Comptroller General. These standards require the Office to consider whether the performance of the service would pose a potential threat to auditor independence.*



Audit and Attestation Services

Fiscal Year 2019 First Quarter Update

Government Performance & Financial Management



City of Dallas

Reports Issued

Fourth Quarter Fiscal Year 2018 (July 1, 2018 – September 30, 2018)

Performance Audits

- Miscellaneous Permit Fee Revenues – Dallas Water Utilities
- Revenue Estimates – Office of Budget

Attestation Engagement

- Independent Auditor's Report on Applying Agreed-Upon Procedures for Petition Processing – City Secretary's Office



Miscellaneous Permit Fee Revenues

Release Date: September 14, 2018

Objectives: Determine whether controls were adequate/effective to ensure permit fee revenues were collected from business entities required to obtain a permit to operate a business in the City. The audit objective was limited to focus on the City's alcoholic beverage license and permit fees.

Scope: The audit scope included management operations and transactions from October 1, 2014 through March 31, 2017.*

Conclusion: Between October 1, 2014 and March 31, 2017, the City collected approximately \$1.4 million in alcoholic beverage license and permit fees, averaging about \$553,000 per year. Improved internal controls could have resulted in increased revenues of approximately \$341,000, or 25 percent, during this same period.

** Certain other matters, procedures, and transactions occurring outside that period may have been reviewed to understand and verify information related to the audit period.*



Miscellaneous Permit Fee Revenues

Conclusion (continued...)

Specifically:

- Alcoholic beverage license and permit fee processes including duties, responsibilities, and enforcement mechanisms are not clearly defined
- Information about the City's alcoholic beverage license and permit fees and the associated processes, which would encourage voluntary compliance, is limited and not readily available through the City's website
- Billing processes do not identify all businesses required to pay City alcoholic beverage license and permit fees; and the City's Alcoholic Beverage Fee Schedule (Fee Schedule) is not always set at the maximum permitted under State of Texas law as required by City Ordinance 30653



Miscellaneous Permit Fee Revenues

We recommended:

➤ The **City Manager**:

- In consultation with the City Attorney's Office, determines if further updates to the Dallas City Code, Chapter 6 are needed to more clearly address areas such as: (1) the City's duties and responsibilities for application processing, collecting fees, issuing receipts, refunding payments, and enforcing delinquent payments; and, (2) enforcement mechanisms such as penalties, late fees, posting of receipts by businesses, citations, and reporting of non-compliance
- Develops a city-wide policy, such as an Administrative Directive to provide an internal control framework for all City departments involved in the alcoholic beverage license and permit fee processes

Miscellaneous Permit Fee Revenues

(continued...)

- Ensures responsible departments comply with: (1) the newly established requirements in the Dallas City Code, Chapter 6, if deemed appropriate; and, (2) the new city-wide policy
- With the assistance of the Director of the Department of Communication and Information Services and directors from other relevant departments such as DWU and Sustainable Development and Construction (SDC), ensures the City's website is designed to provide a positive user experience and the content is sufficient to effectively communicate with businesses that should apply to pay the City's alcoholic beverage license and permit fees, including the following important information:
 - The City's authorization to charge alcoholic beverage license and permit fees



Miscellaneous Permit Fee Revenues

(continued...)

- The original and renewal application processes for alcoholic beverage license and permit fees, including the required supporting documentation
- The Fee Schedule for different types of alcoholic beverage license and permit fees
- The alcoholic beverage license and permit fee enforcement process and the associated penalties for not paying alcoholic beverage license and permit fees
- Other relevant information as deemed necessary



Miscellaneous Permit Fee Revenues

We recommended:

➤ The **Director of DWU**:

- Reviews systematically the: (1) *Texas Alcoholic Beverage Code*; (2) Texas Alcoholic Beverage Commission's (TABC) *Guide for Tax Assessor Collectors* and information; and, (3) other relevant guidance to update the Fee Schedule as permitted by the TABC
- Improves internal controls such as systematically comparing the population of active licenses and permits issued by the TABC with the population of active license and permit fees issued by the City to ensure the City issues and collects all alcoholic beverage license and permit fees as permitted by the *Texas Alcoholic Beverage Code*
- Revises DWU-PRO-156-RB, *Beer & Liquor* to incorporate the improved internal controls

Miscellaneous Permit Fee Revenues

(continued...)

- Retains documentation of monitoring controls including review of the Fee Schedule updates, identification of original licenses and permits, and comparison of the City's population of active license and permit fees with the TABC's population of active licenses and permits



Revenue Estimates in Fiscal Year 2018–19 Proposed Annual Budget for the City of Dallas

Release Date: September 14, 2018

Objectives: Determine whether the City has effective processes to ensure reasonable revenue estimates are included in the City Manager's *FY 2018-19 Proposed Annual Budget*

Scope: The Major Revenue Sources included in the *FY 2018-19 Proposed Annual Budget* and the associated supporting documentation*

Conclusion: In total, the revenue estimates included in the *FY 2018-19 Proposed Annual Budget* appear reasonable

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** Certain other matters, procedures, and transactions occurring outside that period may have been reviewed to understand and verify information related to the audit period.*



Revenue Estimates in Fiscal Year 2018 – 19 Proposed Annual Budget for the City of Dallas

Conclusion (continued...)

The Office of the City Auditor's assessment included approximately \$2.5 billion of the \$3.1 billion in proposed revenue estimates for the General Fund, Enterprise Funds, and Debt Service Fund, or 80 percent, of the revenue estimates included in the *Fiscal Year 2018-19 Proposed Annual Budget*. The remaining \$608.3 million in revenue estimates, which are mainly derived from department reimbursements, and City employee and retiree contributions for retirement and health benefits, were excluded from the assessment

- *No recommendations associated with this report*

Independent Auditor's Report on Applying Agreed-Upon Procedures for Petition Processing by the City Secretary's Office

Release Date: July 27, 2018

Objective: Assist the City Council and the City Secretary's Office in evaluating the City Secretary's Office's compliance with requirements of the Texas Election Code, the Texas Local Government Code, and the Charter of the City of Dallas, Texas as specified in "*City Secretary's Office Procedures Process for Checking Petition(s) for an Initiative, Referendum, Local Option, Charter Amendment, Council Recall.*"

Outcomes: Performed 14 agreed-upon procedures and noted three exceptions. The City Secretary's Office took subsequent actions to address these exceptions by providing additional staff training and re-examining approximately 36,000 signatures to determine if they were correctly verified.



Investigative Services

Fiscal Year 2019 First Quarter Update



Investigative Services Performed

Fourth Quarter Fiscal Year 2018 (July 1 – September 30)

Investigative Services opened **93** cases during the fourth quarter. Examples of allegations received include:

- Theft of time
- Misuse of City services
- Conflict of interest
- Harassment



Investigative Services Performed

Fourth Quarter Fiscal Year 2018 (July 1 – September 30)

Nineteen cases were closed during the period resulting in two substantiated complaints related to illegal land use and theft of water services. The substantiated complaints led to accountability actions including issuance of:

- Notices of Violation
- Citations



Anticipated Report Releases

First Quarter Fiscal Year 2019 (October 1 – December 31)

Performance Audits

- Business Partners Oversight – Park and Recreation
- Dallas Convention & Visitors Bureau (VisitDallas) – Convention and Event Services
- Off-Duty Employment Administration – Dallas Police Department
- Surveillance Camera Oversight – Multiple Departments



Projects in Progress

Fourth Quarter Fiscal Year 2018 (July 1 – September 30)

Performance Audits

- Water Quality and Safety, Testing, and Monitoring – Dallas Water Utilities
- Business Partner Oversight of White Rock Boathouse – Park and Recreation
- Dallas Police Department Complaint Process
- Management of the City's Surplus Real Properties – Sustainable Development and Construction
- Open Records Request Process – City Secretary's Office



Projects in Progress

Fourth Quarter Fiscal Year 2018 (July 1 – September 30)

Performance Audits (continued...)

- Performance Measurement Process – Multiple Departments
- Security and Safety Protocols for Large Public Venues Owned or Managed by the City – Multiple Departments
- Special Audit of the Accounts of Former City Council Member, Dwaine R. Caraway
- Franchise Fees Review through Third-Party Vendor (*Ongoing*)
- Sales/Use Tax Compliance Review through Third-Party Vendor (*Ongoing*)



Anticipated Project Starts

First Quarter Fiscal Year 2019 (October 1 – December 31)

Performance Audits

- Fiscal Year 2019 Audit Follow-up of Prior Audit Recommendations
- Business Partner Oversight of Texas Horse Park – Dallas Water Utilities
- Economic Development Programs and Incentives – Office of Economic Development
- Special Audit of the Accounts of Former City Attorney, Larry Casto



Appendix – Report Links

Performance Audits

- [Miscellaneous Permit Fee Revenues](#)
- [Revenue Estimates in Fiscal Year 2018-19 Proposed Annual Budget for the City of Dallas](#)

Attestation Engagement

- [Independent Auditor's Report on Applying Agreed-Upon Procedures for Petition Processing by the City Secretary's Office](#)



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**Government Performance & Financial
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November 5, 2018**

**Carol A. Smith, Interim City Auditor
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