

Memorandum



CITY OF DALLAS

DATE: April 16, 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 Third Quarter

The *Audit, Attestation and Investigative Services Update: Fiscal Year 2015 Third 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 second quarter of Fiscal Year (FY) 2015, including:

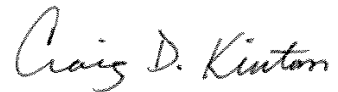
- Audit of Payroll Processes related to City of Dallas' Retirement Programs
- Audit of Parking Management Contract Oversight
- Audit of Building Permits Cash Collections Internal Controls
- Agreed-Upon Procedures:
 - Three single bid procurements
- Investigative Reports:
 - Theft of Time – Department 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 third quarter of FY 2015 are included in Sections III through V of the Update.

Honorable Mayor and Members of the City Council
April 16, 2015
Page 2 of 2

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 – Third 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 – Second Quarter January 1, 2015 to March 31, 2015 (See Section II for Details)

- Audit of Payroll Processes related to City of Dallas' Retirement Programs
- Audit of Parking Management Contract Oversight
- Audit of Building Permits Cash Collections Internal Controls
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BK1423: Department of Dallas Water Utilities and Department of Street Services – Barricading Services, \$117,675
- Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BT1429: Department of Dallas Public Library – Purchase and Physical Processing of Library Audio Visual Materials, \$8,434,200
- Independent Auditors Report on Applying Agreed-Upon Procedures for Single Bid # CIZ1505 Cedar Crest Golf Course Improvements – Department of Park and Recreation, \$845,430

* 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 – Second Quarter
January 1, 2015 to March 31, 2015
(See Section II for Details)**

- Theft of Time – Department of Street Services

**Audit and Attestation Services Anticipated Report Releases
Fiscal Year 2015 – Third Quarter
April 1, 2015 to June 30, 2015
(See Section III for Details)**

- Tracking Firearms and Equipment
- Fleet Maintenance
- Payroll Audit
- Paving and Maintenance Program / Capital Program Streets and Thoroughfares
- Purchasing / Contracting Processes
- Water Customer Billings

**Audit and Attestation Services Projects in Progress
Fiscal Year 2015 – Third Quarter
April 1, 2015 to June 30, 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
- Customer Service / 311 Non-Emergency Services
- Maintenance of Infrastructure – Department of Dallas Water Utilities
- Performance Measurement Process
- Police Personnel and Training Services
- Building Permits – Customer Service / Satisfaction
- Courts Information System – Cash Management / Collections Processes
- Neighborhood Code Enforcement Services

Audit and Attestation Services Projects in Progress
Fiscal Year 2015 – Third Quarter
April 1, 2015 to June 30, 2015
(See Section IV for Details)

- Service Contract Monitoring
- Contract Monitoring – Housing

Audit and Attestation Services Anticipated Project Starts
Fiscal Year 2015 – Third Quarter
April 1, 2015 to June 30, 2015
(See Section V for Details)

- Trinity Watershed Management
- Contract Monitoring – Dallas Convention and Visitors Bureau
- Prior Audit Recommendations Follow-Up
- 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 – Second Quarter
January 1, 2015 to March 31, 2015**

Audit Services

Audit of Payroll Processes related to City of Dallas' Retirement Programs (January 16, 2015)

- The City of Dallas' (City) process for accumulating and transferring pension data to the Employees' Retirement Fund of the City of Dallas (ERF) and the Dallas Police and Fire Pension System (DPFP) is accomplished with minimal errors.
- There are, however, opportunities for improvement that would provide additional assurance to the ERF and DPFP regarding data completeness and accuracy. Specifically:
 - Developing a data interface¹ design document for ERF and DPFP
 - Modifying the data interface design
 - Reviewing File Transfer Protocol (FTP) user security access regularly
- These improvements would also increase efficiency by: (1) minimizing the number of meetings between the City and the pension funds to discuss and resolve errors in the pension data; and, (2) reducing the need for the City, ERF, and DPFP to research and take corrective actions.

¹ The City exports detailed employee pension data from the City's payroll application and places the files on a FTP server. The ERF and DPFP import these files manually to account for employee contributions to the ERF and DPFP. For this report, this process is referred as an interface.

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of the Department of Communication and Information Services (CIS), in consultation with ERF and DPFP, develop a data interface design document, specific to ERF and DPFP, including validation and edits, ownership of interface processes, and responsibilities for error correction and communication methods.	CIS	Agree	September 30, 2015
We recommend the Director of Human Resources (HR) and the City Controller work with the Director of CIS, in consultation with ERF and DPFP, to: (1) evaluate and document whether modifications to the current data interface design would improve pension data completeness and accuracy and increase efficiency; and, (2) implement modifications resulting from the evaluation.	HR / CCO	Agree	September 30, 2015
We recommend the Director of CIS grant access to the File Transfer Protocol server at an individual user level to ensure that only authorized personnel are accessing the folders and contents within.	CIS	Agree	September 30, 2015
We recommend the Director of CIS periodically review user access and permissions for the File Transfer Protocol server to ensure access is limited to appropriate users.	CIS	Agree	September 30, 2015

Audit of Parking Management Contract Oversight (February 13, 2015)

- The Dallas Police Department's (DPD) oversight and contract monitoring activities over the *Acquisition Contract for Services Related to Meter Operations and a Parking Management Information System* (Parking Management Contract) and cash collections do not sufficiently reduce the risk of financial loss or vendor noncompliance.
- While DPD performs certain contract monitoring activities related to cash, the DPD does not:
 - Have formal (documented) policies and procedures to guide DPD personnel's contract monitoring activities
 - Sufficiently monitor the third party vendor's (ACS/Xerox) parking management activities to detect errors or potential fraud

- Have a process for monitoring Supplemental Agreement No. 3 which calls for specific credits and refunds to the vendor/City based on a payment rate calculation
- Ensure ACS/Xerox consistently follows City of Dallas (City) policy which requires cash to be deposited within one business day of receipt

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Chief of Police develop and implement formal documented policies and procedures for contract monitoring activities that provide guidance to DPD personnel on their Parking Management Contract monitoring duties.	DPD	Agree	12/31/2015
We recommend the Chief of Police improve and document monitoring activities to periodically validate: (1) ACS/Xerox's internal control effectiveness; (2) compliance with Parking Management Contract terms; and, (3) the City receives the appropriate parking revenue from ACS/Xerox.	DPD	Disagree	12/31/2015
We recommend the Chief of Police develop a process to monitor ACS/Xerox compliance with Supplemental Agreement No. 3, Exhibit A, 2 of the Parking Management Contract.	DPD	Disagree	N/A
We recommend the Chief of Police establish a monitoring activity for daily cash deposits and designate the DPD personnel responsible for monitoring ACS/Xerox's compliance with City policy.	DPD	Disagree	N/A

Audit of Building Permits Cash Collections Internal Controls (March 20, 2015)

- The Department of Sustainable Development and Construction (SDC) has established internal controls over cash handling and collections (cash collections) for building permit fees.
- The SDC, however, could improve internal controls over cash collections for building permit fees by addressing the following:
 - User access to the iNovah cashiering software application is not properly controlled and monitored

- Policies and procedures for cash collections and reconciliations are incomplete and not approved
- Training curriculum for cashiers and cashier supervisors is not documented and evidence to show the dates training occurred and the personnel who attended training is not retained
- The SDC has also not established adequate internal controls over cash collections in the Current Planning and Real Estate Divisions as follows:
 - Current Planning Division's cashier activities are not properly segregated for recording, authorizing, and approving transactions
 - Real Estate Division has not developed adequate internal controls over cash collections and reconciliations
 - Current Planning and Real Estate Divisions' documented policies and procedures for cash collections and reconciliations are incomplete and not approved in accordance with City of Dallas (City) policy

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
<p>We recommend the Director of SDC properly control and monitor the iNovah cashiering software application user access to ensure: (1) personnel duties are properly segregated; (2) access is granted only after verifying the request is valid and appropriately approved by authorized SDC personnel, and is submitted on a Security Authorization Request (SAR) form; (3) only active users have access; and, (4) compliance with Administrative Directive (AD) 2-24, <i>Computer Security</i> by monitoring privileged user accounts for unauthorized activity.</p>	SDC	Agree	06/30/2015
<p>We recommend the Director of the Department of Communication and Information Services (CIS) comply with AD 2-24, <i>Computer Security</i> and CIS' Information Security Standard by: (1) ensuring that the SAR form is used prior to granting access; and, (2) identifying and implementing an appropriate security strategy(ies) for iNovah to allow SDC to monitor application privileged user access.</p>	CIS	Agree	06/30/2015
<p>We recommend the Director of SDC review and update the cash collections policies and procedures.</p>	SDC	Agree	06/30/2015

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of SDC obtain formal approval of the policies and procedures from the Treasurer or City Controller's Office in accordance with AD 4-20, <i>Cash Handling and Cash Receipts</i> , Section 5.1.1.	SDC	Agree	06/30/2015
We recommend the Director of SDC document the training curriculum for cashiers and cashier supervisors and retain evidence to show the dates training occurred and the personnel who attended training.	SDC	Agree	06/30/2015
We recommend the Director of SDC implement segregation of duties controls over the cash collections process for the Current Planning Division.	SDC	Agree	09/30/2015
We recommend the Director of SDC implement proper internal controls for the Real Estate Division to ensure completeness and timeliness of cash collections.	SDC	Agree	09/30/2015
We recommend the Director of SDC ensure the policies and procedures for the Current Planning and Real Estate Divisions are complete and include best practices for internal controls over cash collections and reconciliations.	SDC	Agree	06/30/2015
We recommend the Director of SDC obtain formal approval of the Current Planning and Real Estate Divisions' policies and procedures from the Treasurer or City Controller's Office.	SDC	Agree	06/30/2015

Attestation Services

Independent Auditor's Report on Applying Agreed-Upon Procedures for Single Bid # BK1423: Department of Dallas Water Utilities and Department of Street Services – Barricading Services, \$117,675 (January 26, 2015)

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 for Single Bid # BT1429: Department of Dallas Public Library – Purchase and Physical Processing of Library Audio Visual Materials, \$8,434,200 (January 29, 2015)

The procurement followed Administrative Directive (AD) 4-5: Contracting Policy provisions for processing single bid items.

No exceptions were noted.

Independent Auditors Report on Applying Agreed-Upon Procedures for Single Bid # CIZ1505 Cedar Crest Golf Course Improvements – Department of Park and Recreation, \$845,430 (March 24, 2015)

The procurement followed Administrative Directive (AD) 4-5: Contracting Policy provisions for processing single bid items.

Exceptions noted:

- The bid specifications shown in the Project Manual included “Instructions to Bidders” which:
 - Stated “all bids shall include” nine specific documents. After the bid closing, Department of Park and Recreation (PKR) stated all nine documents were not required to be received as of bid closing. The bid specifications allow the City to waive any minor irregularities in a bid; however, these documents were identified in the bid specifications as required to be submitted with the bid.
 - Directed bidders to contact the consulting architect (architect) for any questions concerning the project or enclosed plans and specifications. The architect’s contract indicated that the architect cannot be an agent, servant, employee, or representative of the City in the performance of the services under the contract.

The City’s Vendor Self-Service webpage for this solicitation shows online responses are not prohibited. The Project Manual and Addendum No. 1 also included language that implied electronic bid submissions would be accepted. A bid submitted via e-mail, however, was not accepted.

- The architect limited the notice of the bid revision to only the potential bidders who obtained project plans rather than to all potential bidders.
- Due to weather-related delays, two bids were not considered received by the specified bid closing deadline. A potential bidder notified the architect via e-mail prior to the bid closing deadline that its hardcopy sealed bid

would be late “due to circumstances beyond our control”. The bid was attached to the e-mail and a link to the bid was also provided.

- The single bidder's response package did not include four of the nine documents specified as required in the “Instructions to Bidders”.

Investigative Services

Theft of Time – Department of Street Services (March 26, 2015)

- 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 traveling to an Irving, Texas (Irving) business park during the work day.
- On September 15, 2014, STS Management reported to the Office that an Electronic Signal Technician had been observed in a STS van at an Irving business park during the work day.
- The Office's investigation uncovered evidence that: (1) the STS employee visited the Irving business park during the work day approximately two to three times a week over a four to five month time frame; and, (2) the time the employee spent at the Irving business park, during which he was being paid to conduct STS-related duties, was not reflected on his daily activity logs.
- 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 suspended the Electronic Signal Technician without pay for ten working days. The STS Management also cautioned this employee that future occurrences of this nature would not be tolerated and would be cause for severe disciplinary measures, up to and including discharge.

**Audit and Attestation Services
Anticipated Report Releases
Fiscal Year 2015 – Third Quarter
April 1, 2015 to June 30, 2015**

Audit Services

Tracking Firearms and Equipment

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

Fleet Maintenance

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

Payroll Audit

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

Purchasing / Contracting Processes

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

Water Customer Billings

- Anticipated Report Date: June 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 – Third Quarter
April 1, 2015 to June 30, 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: Fourth 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: Fourth Quarter Fiscal Year 2015
- Project Objective(s): To evaluate the adequacy of the new Court and Detention Services' information systems access controls

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

Performance Measurement Process

- Anticipated Report Date: Fourth 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

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

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

Courts Information System – Cash Management / Collections Processes

- Anticipated Report Date: First Quarter Fiscal Year 2016

- 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

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

Service Contract Monitoring

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To evaluate whether the City effectively monitors various service contracts to ensure compliance with contract terms and conditions

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

None Currently

**Audit and Attestation Services
Anticipated Project Starts
Fiscal Year 2015 – Third Quarter
April 1, 2015 to June 30, 2015**

Audit Services

Trinity Watershed Management

- Anticipated Report Date: First Quarter Fiscal Year 2016
- Project Objective(s): To evaluate management controls related to Trinity Watershed Management

Contract Monitoring – Dallas Convention and Visitors Bureau

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To evaluate the effectiveness of program services provided to the City by the Dallas Convention and Visitors Bureau

Prior Audit Recommendations Follow-Up

- Anticipated Report Date: Second Quarter Fiscal Year 2016
- Project Objective(s): To evaluate management implementation of prior audit report recommendations

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*