

Memorandum



CITY OF DALLAS

DATE: August 4, 2017

TO: Honorable Mayor and Members of the City Council

SUBJECT: Office of the City Auditor – Audit, Attestation and Investigative Services Update:
Fiscal Year 2017 Fourth Quarter

The *Audit, Attestation and Investigative Services Update: Fiscal Year 2017 Fourth 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).

Four audit reports were issued in the third quarter of Fiscal Year (FY) 2017, including:

- Special Audit of the Accounts of Former City Manager – A.C. Gonzalez
- Audit of the Design of Internal Controls over the Department of Code Compliance's Neighborhood Code Division
- Audit of Sole Source / Single Bid Procurements
- Audit of the Department of Trinity Watershed Management

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 fourth quarter of FY 2017 are included in Sections III through V of the Update.

Approved Audit Plans allow the City Auditor to amend the plans, when deemed necessary, upon written notification to the City Council. Accordingly, the Office is providing notification of the deletion of the following two projects that were included in the FY 2017 Audit Plan for the Department of Communication and Information Services (CIS):

- 1) Information Technology Processes
- 2) Contract Monitoring – Cloud Computing

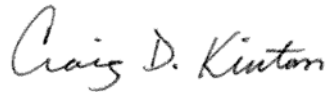
The Office, in collaboration with CIS, has determined a Texas Department of Information Resources (DIR) managed security services contract will offer the professional services required to complete these two audits. The DIR is currently

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evaluating proposals and anticipates finalizing the managed services contract in the fall of 2017 at which time the Office can request services and schedule the start dates. As a result, these two projects were moved to the FY 2018 Proposed Audit Plan for City Council consideration.

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: T.C. Broadnax, City Manager
Larry Casto, City Attorney
Rosa Rios, City Secretary

**City of Dallas
Office of the City Auditor**

**Audit, Attestation and
Investigative
Services Update**

Fiscal Year 2017 – Fourth 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 2017 – Third Quarter
April 1, 2017 to June 30, 2017
(See Section II for Details)**

- Special Audit of the Accounts of Former City Manager – A.C. Gonzalez
- Audit of the Design of Internal Controls over the Department of Code Compliance's Neighborhood Code Division
- Audit of Sole Source / Single Bid Procurements
- Audit of the Department of Trinity Watershed Management

* 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.

**Audit and Attestation Services
Anticipated Report Releases
Fiscal Year 2017 – Fourth Quarter
July 1, 2017 to September 30, 2017
(See Section III for Details)**

- Business Partner Oversight – Arts District
- Cash Management / Collections Processes – Courts Information System
- Construction Related Procurements
- Revenue Estimates – Office of Financial Services

**Audit and Attestation Services
Projects in Progress
Fiscal Year 2017 – Fourth Quarter
July 1, 2017 to September 30, 2017
(See Section IV for Details)**

- Continuity of Operations Audit Follow-Up
- Environmental Compliance – Multiple Departments
- Homeless Response System Effectiveness
- Line-of-Duty Death Report Recommendations – Dallas Fire-Rescue
- Miscellaneous Permit Fee Revenues
- Off-Duty Employment Administration – Dallas Police Department
- Records Management System – Dallas Police Department
- Special Collections Operations – Dallas Water Utilities
- Prior Audit Recommendations Follow-Up
- Special Audit – Four Former City Council Members
- Surveillance Camera Oversight – Multiple Departments
- Dallas Convention & Visitors Bureau (VisitDallas)
- Attestation Engagement: Department of Trinity Watershed Management – Storm Drainage Improvements Mill Creek / Peaks Branch / State-Thomas Drainage Relief Tunnel – Second Procurement
- Franchise Fees Review through Third-Party Vendor (*Ongoing*)
- Sales / Use Tax Compliance Review through Third-Party Vendor (*Ongoing*)

**Audit and Attestation Services
Anticipated Project Starts
Fiscal Year 2017 – Fourth Quarter
July 1, 2017 to September 30, 2017
(See Section V for Details)**

- Water Quality and Safety, Testing, and Monitoring – Dallas Water Utilities

**Audit, Attestation and Investigative Services
Reports Issued
Fiscal Year 2017 – Third Quarter
April 1, 2017 to June 30, 2017**

Audit Services

**Special Audit of the Accounts of Former City Manager – A.C. Gonzalez
(April 28, 2017)**

- The Office of the City Auditor completed the *Special Audit of the Accounts of Former City Manager – A. C. Gonzalez* and determined the accounts of the former City Manager were in order. The former City Manager, who retired on January 31, 2017, was timely removed from access to City of Dallas (City) systems and does not owe any debt to the City. All City items assigned to the former City Manager were substantiated.
- *No recommendations associated with this report.*

Audit of the Design of Internal Controls over the Department of Code Compliance's Neighborhood Code Division (May 12, 2017)

- The Office of the City Auditor evaluated the Department of Code Compliance's (Code) Neighborhood Code Division's (Neighborhood Code) internal control system design as of September 30, 2015. The goal of this pilot project was to heighten the City of Dallas' (City) awareness of the benefits of improving accountability through implementation of an effective internal control system.
- The internal control system design assessment shows Neighborhood Code has documented certain elements of internal control that align with the five components and 17 principles of internal control identified in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book). The assessment also identified opportunities to improve the design and documentation of the internal control system. This design assessment did not include tests of supporting data to evaluate whether established controls are working as intended by management.

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of Code continues to develop and document the internal control system for Neighborhood Code to more clearly align with the five components and 17 principles identified in the Green Book and in Administrative Directive 4-09, <i>Internal Control</i> .	CODE	Agreed with the recommendation to continue to develop and document the internal control system except for Principle 11, <i>Design Activities for the Information System</i>	December 31, 2018

Audit of Sole Source / Single Bid Procurements (June 2, 2017)

- The Department of Business Development and Procurement Services (BDPS) continues to improve certain practices over the administration of sole source / single bid procurements. For example, when BDPS receives a single bid, the procurement is advertised for an additional two-week period to encourage competition. According to BDPS, the number of sole source procurements decreased by 50 percent between Fiscal Year (FY) 2015 and FY 2016 which also indicates BDPS is continuing to encourage departments to obtain bids instead of accepting sole source procurements.
- These practices, however, are not sufficient to ensure proper internal controls are in place and operating as intended. As a result, there is an increased risk that the City of Dallas (City) is not consistently complying with:
 - Texas Local Government Code (TLGC) Chapter 252, *Purchasing and Contracting Authority of Municipalities*
 - Administrative Directive 4-05, *Contracting Policy* (AD 4-05)

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of BDPS ensures the TLGC Chapter 252, <i>Purchasing and Contracting Authority of Municipalities</i> and AD 4-05 requirements are consistently met by:	BDPS	Agreed	December 31, 2018
<ol style="list-style-type: none"> I. Developing and implementing formal policies and procedures (written, approved, and dated) over the sole source / single bid procurement process, including the quality control process 			

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
II. Verifying bid specifications are written clearly and required attachments are provided to the potential bidders when the bid specifications are posted	BDPS	Disagree *	
III. Documenting and including in the procurement files the buyers' analysis of how responsible awards were made at the lowest possible cost to the City	BDPS	Disagree *	
IV. Reviewing bid responses to validate bid specifications information requirements, such as client references, are obtained or reasons for omissions documented	BDPS	Disagree *	
V. Documenting that the buyers performed adequate research to identify potential vendors using appropriate research tools (e.g., Internet, Thomas Register of American Manufacturers)	BDPS	Disagree *	

*** Auditor Follow-Up Comments**

The BDPS disagreed with four of the five recommendations included in this audit stating the exceptions identified in the audit are isolated incidents and BDPS' current processes are sufficient to ensure compliance with TLGC Chapter 252 and AD 4-05. The exceptions noted, however, are comparable to those reported in pre-audits performed by the Office of the City Auditor for the past nine years. Although BDPS has developed checklists and recently implemented a quality review process, these improvements did not identify and correct these exceptions.

While sole source / single bid procurements do not represent the majority of the procurements administered by BDPS, they are inherently riskier. Therefore, it is important that BDPS ensures that each sole source / single bid is administered consistently and that each buyer demonstrates and documents compliance with all steps in the procurement process. If BDPS develops and implements formal policies and procedures, as agreed to in Recommendation I, Recommendations II through V will also be implemented if the policies and procedures are appropriately designed, implemented, and monitored.

Audit of the Department of Trinity Watershed Management (June 9, 2017)

- The Department of Trinity Watershed Management (TWM) has sufficient controls over the reimbursement of \$20 million budgeted in Fiscal Year (FY) 2016 for expenses from the Storm Drainage Management (SDM) Fund to City of Dallas (City) departments / offices. The SDM Fund reimburses 15 City departments / offices for activities in support of compliance with the City's

stormwater permit issued by the Texas Commission on Environmental Quality. Controls over these reimbursements are important as the \$20 million represents 39 percent of the \$51 million budgeted in support of compliance with the City's stormwater permit.

- The TWM can, however, improve the timeliness of reimbursements made to City departments / offices for SDM related expenses.

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
<p>We recommend the Director of TWM ensures Internal Transaction Initiators (ITI) are consistently processed timely by developing formal (written, approved, and dated) policies and procedures that include the following measures to track and / or improve the ITI process:</p> <ul style="list-style-type: none"> • Establish an expectation for the timely completion of ITIs (i.e., within 30 calendar days or other appropriate benchmark to measure timely ITI processing) and adopt standards for timely completion of each step within the ITI process, specifically senior management's review • Compare actual results of ITI processing against the adopted standards to evaluate opportunities to further improve timeliness • Perform a customer satisfaction survey periodically (e.g., annual or biannual) with applicable City departments / offices to monitor expectations of the ITI process and performance of SDM personnel 	TWM	Agreed	December 30, 2018

**Audit and Attestation Services
Anticipated Report Releases
Fiscal Year 2017 – Fourth Quarter
July 1, 2017 to September 30, 2017**

Audit Services

Business Partner Oversight – Arts District

- Anticipated Report Date: August 2017
- Project Objective(s): To evaluate the financial, operational, and other risks for the major business partners operating facilities in the Arts District and the City's oversight / monitoring controls

Cash Management / Collections Processes – Courts Information System

- Anticipated Report Date: August 2017
- 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

Construction Related Procurements

- Anticipated Report Date: September 2017
- Project Objective(s): To determine the effectiveness of internal controls for construction related procurements

Revenue Estimates – Office of Financial Services

- Anticipated Report Date: September 2017
- Project Objective(s): To determine whether the City has effective processes to ensure reasonable revenue estimates are included in the City Manager's proposed operating budget

**Audit and Attestation Services
Projects in Progress
Fiscal Year 2017 – Fourth Quarter
July 1, 2017 to September 30, 2017**

Audit Services

Continuity of Operations Audit Follow-Up

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To evaluate management's implementation of recommendations included in *Audit of the Design of the City of Dallas' Pandemic Influenza Continuity of Operations Basic Plan Report*, issued September 13, 2013

Environmental Compliance – Multiple Departments

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To determine if the City is in compliance with Environmental Protection Agency regulations which may include the Clean Water Act, and / or other Federal / State environmental requirements regarding handling / disposing of hazardous waste

Homeless Response System Effectiveness

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To assess the effectiveness and / or efficiency of the City's homeless response system which may include an evaluation of the contracting procedures for homeless services, including how contracted services meet assessed needs and are monitored for quality performance

Line-of-Duty Death Report Recommendations – Dallas Fire-Rescue

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To determine whether the Department of Dallas Fire-Rescue implemented the Line-of-Duty Death Report recommendations issued

by the Texas Fire Marshal's Office and the National Institute of Occupational Safety and Health pursuant to the Firefighter Fatality Investigations of the death of Firefighter Stanley Wilson on May 20, 2013

Miscellaneous Permit Fee Revenues

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To determine whether controls are adequate / effective to ensure permit fee revenues are collected from business entities required to obtain a permit to operate a business in the City

Off-Duty Employment Administration – Dallas Police Department

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To evaluate (1) the Dallas Police Department's (DPD) internal controls over off-duty employment; and, (2) whether DPD officers adhere to DPD policies related to off-duty employment

Records Management System – Dallas Police Department

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To determine whether the City's goals for implementing the Records Management System achieved anticipated results (specifically cost, project schedule, functions implemented, and shadow systems eliminated) and includes the appropriate controls

Special Collections Operations – Dallas Water Utilities

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To determine whether internal controls are adequate to ensure cash receipts are timely deposited and accounted for properly

Prior Audit Recommendations Follow-Up

- Anticipated Report Date: Second Quarter Fiscal Year 2018
- Project Objective(s): To evaluate management's implementation of prior audit report recommendations

Special Audit – Four Former City Council Members

- Anticipated Report Date: Second Quarter Fiscal Year 2018
- 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

Surveillance Camera Oversight – Multiple Departments

- Anticipated Report Date: Second Quarter Fiscal Year 2018
- Project Objective(s): To determine whether the City adequately / effectively manages and maintains its network of surveillance cameras

Dallas Convention & Visitors Bureau (VisitDallas)

- Anticipated Report Date: Third Quarter Fiscal Year 2018
- Project Objective(s): To evaluate the effectiveness of services provided by the Dallas Convention & Visitors Bureau (VisitDallas), which may include: (1) assessing the reliability and reporting of performance measures; and, (2) determining whether Tourism Public Improvement District Incentive funds were used properly

Attestation Engagement for the Department of Trinity Watershed Management – Storm Drainage Improvements Mill Creek / Peaks Branch / State-Thomas Drainage Relief Tunnel – Second Procurement

- Anticipated Report Date: First Quarter Fiscal Year 2018
- Project Objective(s): To assist the City of Dallas City Council in evaluating the Department of Trinity Watershed Management's and the Department of Business Development and Procurement Services' compliance with the requirements of Administrative Directive 4-05, *Contracting Policy*, and the Texas Local Government Code Chapter 252, *Purchasing and Contracting Authority of Municipalities*, and Government Code, Chapter 2269, *Contracting and Delivery Procedures for Construction Projects*

Franchise Fees Review through Third-Party Vendor (*Ongoing*)

- Anticipated Report Date: Periodic, as warranted
- Project Objective(s): To verify that franchise fees (which may include utilities, cable, and telephone) identified by a third-party vendor are received by the City

Sales / Use Tax Compliance Review through Third-Party Vendor (*Ongoing*)

- Anticipated Report Date: Periodic, as warranted
- Project Objective(s): To identify and collect new and misreported tax revenue identified through a third-party vendor which will conduct Sales and Use Tax Compliance Review and Recovery Services

**Audit and Attestation Services
Anticipated Project Starts
Fiscal Year 2017 – Fourth Quarter
July 1, 2017 to September 30, 2017**

Audit Services

Water Quality and Safety, Testing, and Monitoring – Dallas Water Utilities

- Anticipated Report Date: Third Quarter Fiscal Year 2018
- Project Objective(s): To determine whether the Department of Dallas Water Utilities has: (1) adequate policies and procedures in place for ongoing accuracy testing and monitoring of City water quality and safety; and, (2) effective means of communicating with City residents regular testing and monitoring results