



Audit of the Department of Development Services Expenses

March 17, 2023

Mark S. Swann, City Auditor

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Paul E. Ridley

Jaynie Schultz

Casey Thomas, II

Chad West

Gay Donnell Willis



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Executive Summary

Objective and Scope

The objectives of this audit were to determine: 1) the top ten expense categories (uses) of the Department of Development Services Enterprise Fund; 2) if the uses benefit the public good; and, 3) if any unusual financial transactions were noted where the public good could not be explained.

The scope of the audit included Department of Development Services Enterprise Fund expenses incurred from the period of October 1, 2020, through September 30, 2021 (Fiscal Year 2021).

Recommendations

Management should:

- Enhance review procedures to ensure the accuracy of billings from other City departments.

Background

The Department of Development Services is responsible for the health, safety, and welfare of City of Dallas citizens through the application of City construction codes and other federal and state regulations. This includes issuing construction and trade building permits and performing the related: 1) inspections; and, 2) plan review services for commercial and residential development and redevelopment projects.

The Department of Development Services Enterprise Fund generates revenue through charges for the specific services they provide and is fully self-supporting.

Total expenses for the Development Services Enterprise Fund are as follows:

Fiscal Year 2022	\$54,779,891
Fiscal Year 2021	\$42,723,556
Fiscal Year 2020	\$36,826,817

Observed Conditions

The Fiscal Year 2021 top ten and additional expense categories (uses) of the Development Services Enterprise Fund were incurred for the benefit of the public good.

There were no unusual financial transactions identified; however, there were calculation errors in billings from other City departments.

Objectives and Conclusions

1. Were the Fiscal Year 2021 top ten expense categories (uses) of the Development Services Enterprise Fund identified?

Yes. The top ten expense categories (uses) for Fiscal Year 2021 were identified and reviewed.

Additionally, three other expense categories (uses) were selected for review based on other factors including the account being over budget, payments to outside vendors through auto-disbursements, and a significant concentration of transactions that are charges from other departments. (See [Exhibit 1](#)).

2. Did the uses benefit the public good?

Generally, yes. Nothing reviewed indicates the expenses were not intended for the benefit of the public good..

3. Were there any unusual financial transactions noted where the public good could not be explained?

Generally, no. Twenty financial transactions were identified as unusual financial transactions due to supporting documentation not provided or not agreeing with the financial transaction amount or possible overpayment. Nineteen of the twenty financial transactions (95 percent) were resolved and concluded as not being unusual financial transactions. The remaining transaction was noted as an exception and is discussed in the City Forces expense category (use). (See [City Forces](#)).

Audit Results

The Development Services Enterprise Fund top ten expense categories were identified using a Fiscal Year 2021 YTD Expense Report run from AMS Advantage 3, the City's financial system. Within each expense category, a cursory review of the transaction descriptions (where available) and dollar amounts was performed. However, none of the financial transactions reviewed were identified as unusual financial transactions based solely on the description of the transaction and/or amount.

Sample transactions were randomly or judgmentally selected for a detailed review of the related supporting documentation. However, this review did not include an in-depth analysis of staffing levels, equipment, technology, and professional service needs to determine if they did or did not benefit the public good.

Top Ten Expense Categories

The top ten expense categories (uses) for the Development Services Enterprise Fund totaled \$39.29 million of the \$42.72 million Fiscal Year 2021 total expenses (92 percent). With three additional expense categories (uses) reviewed totaling \$1.14 million, the Fiscal Year 2021 total expenses reviewed was \$40.43 million (94.6 percent). See [Appendix A](#) (Exhibits 8 and 9) for similar data for Fiscal Year 2020 and Fiscal Year 2022.

As shown in [Exhibit 1](#), five of the top ten expense categories (uses) are related to compensation and benefits and accounted for 70 percent of Fiscal Year 2021 total expenses. These categories (uses) are Salary Civilian, GASB Pension Exp – ERF/GASB OPEB Exp, Pension Civilian/Employer, Health Insurance/Employer and Overtime Civilian.

The remaining top ten expense categories (uses) record the following expenses:

- Professional Services – direct payments to outside vendors for goods and services.
- City Forces – activities performed by other City departments.
- General Fund Cost Reimbursement – overhead allocations of citywide administrative and support departments.
- Programming – technology services and equipment expenses.
- Credit Card Fees – merchant fees paid to credit card processing companies.

The three additional expense categories (uses) record the following expenses:

- Rents – facility lease payments.
- Department Support – activities performed by Development Services General Fund employees.
- Communications – telecom and communication expenses.

Exhibit 1:

Fiscal Year 2021 Top Ten and Three Additional Expense Categories (Uses)

Rank	Expense Name	Amount	Total Expenses
1	Salary Civilian	\$17,630,937	41%
2	GASB Pension Exp - ERF/GASB OPEB Exp	7,113,719	17%
3	Professional Services	2,916,054	7%
4	City Forces	2,615,308	6%
5	Pension Civilian/Employer	2,586,706	6%
6	Health Insurance/Employer	2,160,416	5%
7	General Fund Cost Reimbursement	1,772,018	4%
8	Programming	1,390,601	3%
9	Credit Card Fees	662,404	2%
10	Overtime Civilian	447,661	1%
	Total Top Ten Expenses:	\$39,295,825	92%
	Rents	399,183	.9%
	Department Support	385,927	.9%
	Communications	355,128	.8%
	Total Additional Expenses:	\$ 1,140,238	2.6%
	Total Top Ten and Additional Expenses:	\$40,436,063	94.6%
	Fiscal Year 2021 Total Expenses:	\$42,723,556	100%

Source: AMS Advantage 3

Compensation and Benefits

In Fiscal Year 2021, the Development Services Enterprise Fund employed an average of 272 employees at a cost of \$17,630,937 and \$447,661 in the Salary Civilian and Overtime Civilian categories (uses), respectively. Additional compensation and benefits expenses are recorded in the City Forces and Department Support expense categories (uses).

The Pension Civilian/Employer and Health Insurance/Employer expense categories (uses) represent the employer portions paid by the City on behalf of each participating Development Services Enterprise Fund employee.

The Pension Civilian/Employer amounts are calculated by multiplying the employee's compensation for the pay period by 14.14 percent, while the Health Insurance/Employer portion is \$7,510 per full-time employee in Fiscal Year 2021.

Five pay period transactions from Fiscal Year 2021 were selected for review from the Salary/Civilian, Overtime Civilian, Pension Civilian/Employer and Health Insurance/Employer expense categories (uses). All were appropriately reviewed in the Workday payroll system prior to automatic posting to the general ledger, and adequate supporting documentation was provided.

The GASB Pension Exp – ERF and GASB OPEB Exp expense categories (uses) are the Development Services Enterprise Fund Pension – ERF (Employee Retirement Fund) and OPEB (Other Post-Employment Benefits) expense accounts.

The two expense accounts netted to \$7.1 million in Fiscal Year 2021. Transactions posted to the accounts represent adjustments made to the related pension liability accounts.

The City Controller's Office calculates the adjustments needed based on guidance from the Government Accounting Standards Board, Statement 68, *Accounting and Financial Reporting for Pensions* and Statement 75, *Accounting and Financial Reporting for Postemployment Benefits and Pensions*. Two adjusting entries were reviewed (one from each expense account) and both had sufficient supporting documentation and were appropriately approved.

No exceptions noted for samples reviewed.

Professional Services

The Professional Services expense category (use) totaled \$2.91 million in Fiscal Year 2021 and is used to record expenses related to engineering consultations and staffing services, software maintenance fees, file imaging and shredding services, cleaning services, and workplace staffing studies. See [Exhibit 2](#).

Exhibit 3:

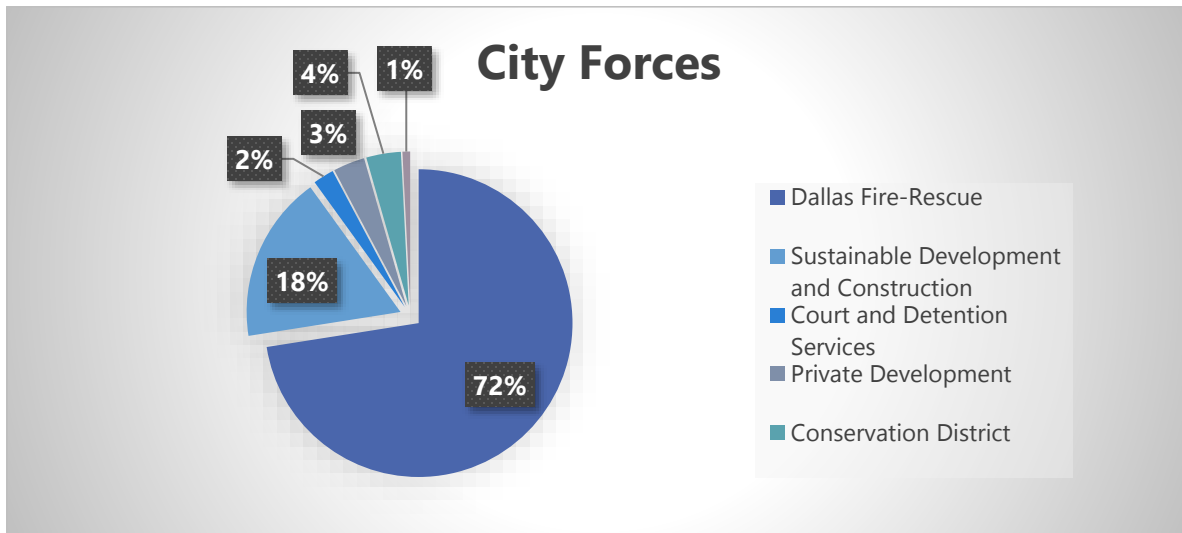
Source of Fiscal Year 2021 City Forces Expenses

Source	Activity	Amount
Dallas Fire-Rescue	New Construction Fire Inspections	\$1,896,502
Sustainable Development and Construction	Plan Review	458,265
Court and Detention Services	Security – Oak Cliff Municipal Center	57,528
Development Services General Fund - Private Development	Building Inspection - Hensley Field	88,817
Development Services General Fund - Conservation District	Chief Planner – Fiscal Year 2020-21	95,120
Public Works	Commercial Paving Inspections	21,075
Total City Forces Expenses:		\$2,615,308

Source: AMS Advantage 3 and Invoice Details

Exhibit 4:

Analysis of Fiscal Year 2021 City Forces Expenses by Source



Source: AMS Advantage 3 and Invoice Details

Exception noted for reviewed sample.

Five City Forces transactions were reviewed, including three from Dallas Fire-Rescue and one each from the Sustainable Development and Construction (Real Estate Cost Recovery) and Court and Detention Services departments. All were appropriately approved and had sufficient supporting documentation. However, a billing exception and a segregation of duties observation were noted and detailed below:

Billing Exception – Overpayment of \$22,612

The Sustainable Development and Construction (Real Estate Cost Recovery) transaction reviewed totaled \$252,828.12 and covered the period of January 1 – October 6, 2020. Five employees in the Sustainable Development and Construction Department Real Estate Division performed services on behalf of the Development Services Enterprise Fund during the period of the transaction. The supporting documentation reviewed included the invoiced amount broken down for each employee by quarter. The detailed breakdown of the invoice amount for each employee indicated that invoiced hours from April 8 – May 5, 2020, for all five employees, were invoiced in the second quarter and duplicated in the third quarter, resulting in an overpayment of \$22,612. Potential billing errors increase the risk that fees charged will not cover the expenses of the Development Services Enterprise Fund.

Additionally, one employee’s hourly rate fluctuated up and down within the same quarter. [Exhibit 5](#) lists the different hourly rates invoiced for this employee.

Exhibit 5:

Employee’s Changing Hourly Rates

Invoiced Period	Hourly Rate	Number of Hours Invoiced
January 7 – 14, 2020	\$40.53	16.0
January 15 – May 5, 2020	55.22	205.5
May 20 – June 2, 2020	43.96	32.5
June 3 – June 16, 2020	50.49	42.5
June 23 – July 7, 2020	55.22	33.0
July 8 – July 10, 2020	110.45	6.0
July 13 – September 30, 2020	55.22	155.5

Source: AMS Advantage 3 Invoice Detail

Criteria

- ❖ Standards for Internal Control in the Federal Government:
 - *Principle 10– Design Control Activities*

Assessed Risk Rating:

Moderate

We recommend the **Director of the Department of Development Services:**

A.1: Enhance review procedures to ensure the accuracy of billings from other City departments.

Segregation of Duties Observation

The Court and Detention Services Department provides security officers to the Oak Cliff Municipal Center and bills the expenses to the Development Services Enterprise Fund monthly. The reviewed transaction totaled \$5,226.28 and covered the period from November 30 to December 31, 2020. The supporting documentation included copies of manually prepared weekly timecards with the days/hours the services were performed and the assigned security officer(s). The name printed at the bottom of each weekly timecard in the Supervisor line was the same as one of the Senior Security Officers working at the Center. With no other approval noted on the timecards provided to Development Services for reimbursement, it appeared that the Senior Security Officer was approving his/her own time. The Court and Detention Service Department Director was made aware of this issue and provided an email response to the Office of the City Auditor.

Per the response, the Court and Detention Services Department's reimbursable assignments invoicing process included multi-step approvals (Senior Security Officer, Lieutenant, and Captain) but it did not address the Senior Security Officer signing off on his own timecard. The Court and Detention Services Department Director has amended the process to require the Lieutenant to sign off on the Senior Security Officer's timecard when appropriate. A subsequent review of the Senior Security Officer's time in Workday showed that the Officer's time was appropriately approved by his Supervisor.

General Fund Cost Reimbursement

The General Fund Cost Reimbursement transaction totaled \$1,772,018 in Fiscal Year 2021 and represents an allocated expense amount that originated from the City of Dallas' *Fiscal Year 2019-20 Full Cost Allocation Plan*. The purpose of the *Full Cost Allocation Plan* is to allocate the expenses incurred by citywide administrative and support departments to the remaining City departments. There are approximately sixteen citywide administrative and support departments whose expenses are allocated to the remaining departments.

The reimbursement transaction reviewed was appropriately approved and agreed to the amount documented in the *Fiscal Year 2019-20 Full Cost Allocation Plan* after a subsequent adjustment made by the Budget and Management Services Department. See [Exhibit 6](#) for the Fiscal Year 2021 citywide administrative and support departments allocations to the Development Services Enterprise Fund.

No exceptions noted for the sample reviewed.

Exhibit 6:

Fiscal Year 2021 Overhead Allocations to Development Services Enterprise Fund

Fund	Dept	Central Service Department Name	Amount
001	ATT	City Attorney	\$ 208,054
	AUD	Office of the City Auditor	57,429
	BMS	Office of Budget (Budget Management)	32,945
	BMS	Office of Budget (Non-Departmental)	17,258
	BSD	Building Services	455,658
	CCO	City Controller's Office	108,423
	CMO	City Manager's Office	81,853
	CTS	Court and Detention Services	17,317
	CVS	Civil Service	40,248
	MCC	Office of the Mayor and City Council	136,917
	MGT	Management Services	162,497
	MGT	Office of Environmental Quality	-
	MGT	Office of Emergency Management	-
	PER	Human Resources	136,620
	POM	Procurement Services	22,492
	SEC	City Secretary's Office	189,206
		Fiscal Year 2021 Total Allocations (as published):	\$1,666,916
		Office of Budget Adjustment:	105,102
		Fiscal Year 2021 Total Allocation:	\$1,772,018

Source: 2019-2020 Full Cost Allocation Plan

Programming

Programming expenses invoiced to the Development Services Enterprise Fund totaled \$1,390,601 in Fiscal Year 2021. Information and Technology Services manages all technology and communications equipment and related services for all City departments.

Each year, during the annual budgeting process, the Information and Technology Services Department assesses each department's current service levels, future service needs and related cost estimates to determine the annual budget amount that will be invoiced to each department throughout the fiscal year.

Once the annual budget is approved, the Information and Technology Services Department prepares a billing document (*Statement of IT Fiscal Year Services and Associated Costs*) that lists the equipment and services the department is receiving and the associated costs for each service.

The associated costs for each service in the billing document are calculated by multiplying the number of full-time equivalents assigned to the department at the time of the budget (288.53 full-time equivalents in Fiscal Year 2021 for the Development Services Enterprise Fund) by the established rate for the service. Additionally, any department specific software or equipment is charged directly to the requesting department.

Calculation of the department specific support costs varies depending on the service provided. Some services are based on the number of full-time equivalents, while others are based on actual usage.

The two transactions reviewed from the Programming expense category were appropriately approved, had sufficient supporting documentation and the service costs agreed back to the *Statement of IT Fiscal Year 2021 Services and Associated Costs*.

No exceptions noted for the reviewed sample.

Credit Card Fees

Services offered to citizens can be paid by cash, check or credit/debit card, and online or in-person at any of the Departments' district offices. All major credit cards including VISA, MC, Discover and AMEX are accepted for payment and batch-processed daily for settlement.

VISA, MC and Discover charge two processing fees: 1) interchange costs (variable percentages determined by the volume of transactions, type of card used and how it was entered); and, 2) service charges (flat costs per transaction to authorize, process and settle card transactions). AMEX charges a flat percentage for all card types.

In Fiscal Year 2021, the Development Services Enterprise Fund was charged \$662,404 in credit card processing fees. Two merchant fee transactions, one each from VISA/MC and AMEX totaled \$55,000 or 8.3 percent of total Credit Card Fees were reviewed.

No exceptions noted for the reviewed sample.

Rents

Development Services leases five facilities in various areas of the City to provide building inspection, plan review, and permit services to customers. The Fiscal Year 2021 rental amounts totaled \$399,193, with monthly rental amounts ranging from \$6,145 to \$10,000 (See [Exhibit 7](#)). See [Exhibit 10](#) for the map of district office locations.

Exhibit 7:

Development Services Rental Locations

Office	Landlord	Monthly Rental Amount	Square Footage	\$/SF
Northeast 11910 Greenville Avenue, Suite 100	SOHO-Davis FG, LLC	\$6,145.43 (11/1/15 – 10/31/22)	4,290	\$1.43
		\$6,324.18 (11/01/22 – 10/31/29)		\$1.47
Northwest 7610 N. Stemmons Freeway Suite 100	LUA, LLC	\$6,416.42	4,162	\$1.54
Southwest 2730 Coombs Creek Drive	SVEA Industrial I, LLC	\$8,951.17	4,996	\$1.79
Southeast 4850 Olsen Drive	Columbia-Colson Corp.	\$10,000	5,000	\$2.00
Training Center 400 South Zang Suite C-95	Lake-Moreno Tower Ltd.	\$7,911.46	5,425	\$1.45

Source: Rental Leases

Six rental transactions (3.7 percent of total rental transactions), which included all lessors, were judgmentally selected for review to ensure all lessors were included in the sample. All were appropriately approved, and the payment amount agreed to the executed contract.

No exceptions noted for reviewed sample.

Department Support

The Department Support expense category (uses) totaled \$385,927 for Fiscal Year 2021 and is for services performed by the Development Services Administrative Services Team (General Fund employees) and billed to the Development Services Enterprise Fund.

Each quarter, the compensation and benefits expenses of the Administrative Services Team are allocated to the various operating units in the Development Services Enterprise Fund based on pre-established percentages of time spent and full-time equivalents assigned. The pre-established percentages of time spent, which were last changed in 2019, range from 10 – 31 percent (depending on the operating unit) and the full-time equivalent factor (3 full-time equivalents are prorated to the various operating units). The Construction Plan Review unit is assigned the highest time-spent percentage (31 percent) and full-time equivalent factor (.90).

The eight transactions reviewed were appropriately approved, had sufficient supporting documentation and were calculated based on the established criteria.

No exceptions noted for reviewed sample.

Communications

Communications expenses totaled \$355,129 in Fiscal Year 2021 and include annual charges for VOIP Phone Lines (426 lines) and Transport & Long-Distance services.

The six transactions reviewed were appropriately approved and agreed to the supporting documentation and the base rates noted in the Statement of IT Fiscal Year 2021, as applicable.

No exceptions noted for reviewed sample.

Appendix A

Exhibit 8:

Fiscal Year 2020 Top Ten and Additional Expense Categories (Uses)

Rank	Expense Name	Amount	Total Expenses
1	Salary Civilian	\$15,005,944	41.0%
2	GASB Pension Exp - ERF/GASB OPEB Exp	3,164,474	9.0%
3	City Forces	3,032,837	8.0%
4	Pension Civilian	2,530,698	7.0%
5	Health Insurance/Employer	2,006,831	5.0%
6	General Fund Cost Reimbursement	1,478,038	4.0%
7	Professional Services	1,392,773	4.0%
8	Programming	1,387,890	4.0%
9	Interest Bond Payments	852,943	2.0%
10	Vacation Civilian	795,647	2.0%
	Top Ten Expenses:	\$31,648,075	86.0%
	Communications	\$ 564,844	1.5%
	Department Support	384,888	1.0%
	Rents	281,679	0.7%
	Additional Expenses	1,231,411	3.2%
	Total Top Ten and Additional Expenses:	\$32,879,486	89.2%
	Fiscal Year 2021 Total Expenses:	\$36,826,817	100.0%

Source: AMS Advantage 3

Exhibit 9:

Fiscal Year 2022 Top Ten and Additional Expense Categories (Uses)

Rank	Expense Name	Amount	Total Expenses
1	Salary Civilian	\$16,454,441	30.0%
2	Property Purchase Price ¹	14,056,158	26.0%
3	City Forces	4,379,007	8.0%
4	Professional Services	4,055,714	7.0%
5	Pension Civilian/Employer	2,524,639	5.0%
6	Health Insurance/Employer	2,007,738	4.0%
7	ERF/GASB	1,838,151	3.0%
8	Programming	1,472,937	3.0%
9	General Fund Reimbursement	1,291,078	2.0%
10	Credit Card Fees	782,133	1.0%
	Top Ten Expenses	\$48,861,995	89.2%
	Communications	\$347,257	0.6%
	Department Support	-	-
	Rents	430,142	0.8%
	Additional Expenses	777,399	1.4%
	Total Top Ten and Additional Expenses	\$49,639,394	90.6%
	Fiscal Year 2022 Total Expenses	\$54,779,891	100.0%

Source: AMS Advantage 3

¹ The Development Services Enterprise Fund purchased a building at 7800 Stemmons Freeway, Dallas, TX to house employees currently located at the Oak Cliff Municipal Center.

Methodology

The audit methodology included: (1) interviewing personnel from the Department of Development Services and other city departments; (2) reviewing policies and procedures, applicable Administrative Directives, and (3) performing various analyses. In addition, all five components of *Standards for Internal Control in Federal Government* were considered.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major Contributors to the Report

Carron Perry, CIA – In-Charge Auditor
Rory Galter, CPA – Engagement Manager

Appendix B: Management's Response

Memorandum



DATE: March 10, 2023
TO: Mark S. Swann – City Auditor
SUBJECT: Response to Audit of the Department of Development Services Expenses

This letter acknowledges the City Manager's Office, and the Department of Development Services received the *Audit of the Department of Development Services Expenses* and submitted responses to the recommendations.

Development Services plays a critical role in providing safe, sustainable, and resilient structures for the City and its residents.

The department has prioritized a culture of "Service First" by removing barriers encountered during the permit process. The department streamlined its process to expedite the issuance of permits and facilitate a more convenient scheduling process for residents and customers. Development Services started a Lunch-and-Learn program to train clients and developers on the permitting process. Pop-Up Saturdays have been implemented, to provide convenient weekend hours to guide homeowners through the permitting process and request a permit. The department has also doubled staff in the call center to help with inbound calls related to permitting requests, demonstrating a commitment to "Service First."

We are pleased the thorough audit concluded the top ten and additional expense categories (uses) of the Development Services Enterprise Fund were incurred for the benefit of the public good.

However, we recognize there are always opportunities for improvement. Management agrees to strengthen review procedures to ensure the accuracy of billings from other City departments.

We appreciate the professionalism and quality of work demonstrated by your staff throughout this engagement.



T.C. Broadnax
City Manager

"Our Product is Service"
Empathy | Ethics | Excellence | Equity

Assessed Risk Rating	Recommendation	Concurrence and Action Plan	Implementation Date	Follow-Up/ Maturity Date
Moderate	We recommend the Director of the Department of Development Services:			
	A.1: Enhance review procedures to ensure the accuracy of billings from other City departments.	Agree: The department will enhance review procedures and make improvements that minimize the manual billing process and identify areas for automated calculations to ensure the accuracy of billings from other City departments.	9/30/2023	3/31/2024