

# Memorandum



CITY OF DALLAS  
(Report No. M14-002)

**DATE:** September 17, 2014

**TO:** A.C. Gonzalez, City Manager  
Theresa O'Donnell, Interim Assistant City Manager

**SUBJECT:** Independent Auditor's Report on Applying Agreed-Upon Procedures for the Patriot's Crossing Development

Attached for your review is the *Independent Auditor's Report on Applying Agreed-Upon Procedures for the Patriot's Crossing Development*. The exceptions noted as a result of performing these procedures are described in Attachment I and were communicated to the City Manager's Office (CMO).

The agreed-upon procedures showed the City of Dallas (City) Management Review Team's<sup>1</sup> (Team) conclusions supported that in general the Department of Housing/Community Services (HOU) staff: (1) complied with regulations, policies, procedures, and rules; and, (2) followed City Council's direction related to the Patriot's Crossing Development. The Team's review, however, was not always complete, accurate, and adequately supported by source documents.<sup>2</sup> For example:

- The Office of the City Auditor (Office) was unable to confirm the completeness of Patriot's Crossing Development expenditures (as compiled by the Team) using the AMS Advantage General Ledger Accounting System (AMS). Specifically:
  - The HOU paid \$990,187 on behalf of Patriot's Crossing Development by recording at least six expenditure transactions in AMS using an incorrect vendor and encumbrance.
  - Patriot's Crossing Development related expenditures reported by HOU exceed City Council authorization by \$66,998. (Note: According to management, \$64,292 of this amount is a possible duplicate payment).

As a result, the Office cannot confirm that additional expenditure transactions were not paid on behalf of the Patriot's Crossing Development and/or incorrectly recorded.

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<sup>1</sup> The Team was comprised of representatives from the CMO, Department of Sustainable Development and Construction (SDC), the Office of Financial Services (OFS), and the City Attorney's Office (ATT).

<sup>2</sup> In general, the agreed-upon procedures required the Office to obtain the Team's results, trace to supporting documentation, and, if possible, validate to an independent source. As a result, many of the exceptions noted in the report affect more than one procedure.

The Office issued a Management Letter that included recommendations to address the: (1) AMS and HOU internal control limitations that allowed expenditure transactions to be paid and processed using an incorrect vendor and encumbrance without detection during the normal course of business operations; (2) Absence of HOU policies and procedures for managing City projects; and, (3) SDC's noncompliance with Administrative Directive 4-5, *Contracting Policy* by authorizing an appraisal review prior to contract execution.

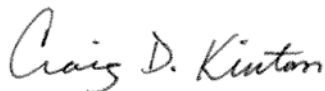
Although no formal response to these issues was requested of the CMO, the Office may follow-up on these issues during subsequent engagements to determine whether corrective actions were taken.

We have performed these agreed-upon procedures solely to assist the Team comprised of representatives from the CMO, ATT, OFS, and SDC, in determining whether HOU staff: (1) complied with regulations, policies, procedures, and rules; and, (2) followed City Council's direction related to the Patriot's Crossing Development.

The Dallas City Charter Chapter IX, Section 3, and the Office of the City Auditor's Fiscal Year 2014 Annual Audit Plan approved by the City Council authorized these agreed-upon procedures projects.

If you have any questions, please contact me at 214-670-3222 or, Carol A. Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,



Craig D. Kinton  
City Auditor

#### Attachments

- C: Honorable Members of the Budget, Finance & Audit Committee
  - Jeanne Chipperfield, Chief Financial Officer
  - Warren M.S. Ernst, City Attorney
  - Jack Ireland, Director – Office of Financial Services
  - David Cossum, Director – Department of Sustainable Development and Construction
  - Edward Scott, City Controller

**City of Dallas Office of the City Auditor  
Independent Auditor's Report on Applying Agreed-Upon Procedures**

*Patriot's Crossing Development*

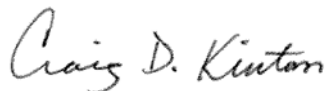
We have performed the procedures described in Attachment I, which were agreed to by the City of Dallas (City) Review Team (Team) comprised of representatives from the City Manager's Office (CMO), the City Attorney's Office (ATT), the Office of Financial Services (OFS), and the Department of Sustainable Development and Construction (SDC), solely to assist the City in determining whether Department of Housing/Community Services (HOU) staff: (1) complied with regulations, policies, procedures, and rules; and, (2) followed City Council's direction related to the Patriot's Crossing Development. The exceptions noted as a result of performing these procedures are described in Attachment I.

The City is responsible for the establishment of policies and procedures for real estate acquisition and the City's compliance with State of Texas (State) and Federal regulations.

These agreed-upon procedures were conducted in accordance with United States generally accepted government auditing standards, which incorporate attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I, either for the purpose for which these procedures were requested or for any other purpose.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Dallas City Council and City management and is not intended to be, and should not be, used by anyone other than these specified parties; however, the report is a matter of public record and its distribution is not limited.



Craig D. Kinton, CPA  
City Auditor

September 17, 2014

**Agreed-Upon Procedures and Results of Procedures**

*Patriot's Crossing Development  
September 17, 2014*

Agreed-Upon Procedures	Results of Procedures
<p>1. Obtain from the Review Team (Team) a list of applicable City of Dallas (City) regulations, policies, procedures, and rules related to the Patriot's Crossing Development with references to the source documents.</p>	<p><b>Exceptions Noted</b></p> <p>The Team did not provide references to source documents for the following City policies included on the Team's list:</p> <ul style="list-style-type: none"> <li>• <i>"Expenditure of general obligation bond funds requires City Council authorization."</i></li> <li>• <i>"City Manager's Office policy requires that Council Committees be briefed prior to placing action on the City Council agenda."</i></li> </ul>
<p>2. Obtain source documents referenced by the Team as noted in procedure 1.</p>	<p><b>Exceptions Noted</b></p> <p>The Team did not provide source documents for the following City policies included on the Team's list:</p> <ul style="list-style-type: none"> <li>• <i>"Expenditure of general obligation bond funds requires City Council authorization".</i></li> <li>• <i>"City Manager's Office policy requires that Council Committees be briefed prior to placing an action on the City Council agenda."</i></li> </ul>

Agreed-Upon Procedures	Results of Procedures
<p>3. Agree the information identified by the Team to the source documents.</p>	<p><b>Exceptions Noted</b></p> <p>The following City policies quoted by the Team were not traceable to source documents:</p> <ul style="list-style-type: none"> <li>• <i>“Expenditure of general obligation bond funds requires City Council authorization”.</i></li> <li>• <i>“City Manager’s Office policy requires that Council Committees be briefed prior to placing an action on the City Council agenda.”</i></li> </ul> <p>The Team also did not include the Loan Agreement and Department of Housing and Community Development Policies and Procedures in their list of applicable City regulations, policies, and rules related to the Patriot’s Crossing Development.</p>
<p>4. Obtain from the Team a timeline and a list of all City Council and Committee briefings and associated actions related to the Patriot’s Crossing Development with references to the source documents.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p>5. Obtain source documents for items referenced by the Team in procedure 4.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p>6. Verify the accuracy of the timeline and the list of City Council meetings, Committee briefings, and associated actions by tracing each meeting, briefing, and associated action on the list to the relevant source document.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p>7. Confirm the completeness of the list by independently researching other sources, such as the City Secretary’s website.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>

<b>Agreed-Upon Procedures</b>	<b>Results of Procedures</b>
<p><b>8.</b> Obtain from the Team a timeline and a list of all City staff discussions with, and/or documents provided to, the City Council related to the Patriot's Crossing Development with references to the source documents.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>9.</b> Obtain the source documents identified by the Team in procedure 8.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>10.</b> Verify the accuracy of the timeline and the list of all City staff discussions with, and/or documents provided to, the City Council related to the Patriot's Crossing Development by tracing each item on the list to the relevant source document.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>11.</b> Confirm the completeness of the timeline and list noted in procedure 8 by independently researching other sources, such as the City Secretary's website.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>12.</b> Obtain from the Team documentation that shows by date a comparison of formal actions taken by the City Council and/or directions to City staff relating to the Patriot's Crossing Development and the City staff's response with references to the source documents.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>13.</b> Obtain source documents identified by the Team in procedure 12.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>14.</b> Verify the accuracy of the dates and the accuracy of the list of formal actions taken by the City Council and/or directions to City staff relating to the Patriot's Crossing Development and the City staff's response by tracing each item on the list to the relevant source document.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>15.</b> Confirm the completeness of the list noted in procedure 12 by independently researching other sources, such as the City Secretary's website.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>

<b>Agreed-Upon Procedures</b>	<b>Results of Procedures</b>
<p><b>16.</b> Obtain from the Team the name of the independent appraiser retained to evaluate the Patriot's Crossing Development appraisals and verify that the independent appraiser is licensed by the Texas Appraiser Licensing and Certification Board (TALCB).</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>17.</b> Obtain from the Team the independent appraiser's report regarding the Patriot's Crossing Development appraisals.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>18.</b> Confirm the independent appraiser evaluated whether Uniform Standards of Professional Appraisal Practice (USPAP) were followed for the appraisals obtained by the developer of the Patriot Crossing Development.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>19.</b> Confirm the independent appraiser evaluated whether the original appraiser's methodology and assumptions were appropriate and valid for the Patriot's Crossing Development.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>20.</b> Confirm that the appraiser evaluated the appropriateness of the use of comparable properties by the Patriot's Crossing Development's original appraiser.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>

Agreed-Upon Procedures	Results of Procedures
<p>21. Obtain from the Team a spreadsheet with the following information (including references to source documents) about each property purchased as part of the Patriot's Crossing Development: (1) property size; (2) whether or not the property was improved or vacant; (3) zoning; (4) the Dallas Central Appraisal District (DCAD) value at the time of acquisition; (5) the current DCAD value with references to relevant source documents; (6) acquisition costs; (7) soft costs paid at closing; (8) to whom the soft costs were paid; (9) soft costs allowable by the contract; (10) contracts documenting the relationship of the developer to the third parties receiving payment; (11) sales price; (12) seller's name; and, (13) purchase agreement price.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>



Agreed-Upon Procedures	Results of Procedures
<p>22. Obtain source documents for items identified by the Team in procedure 21. Agree the spreadsheet information to the source documentation.</p>	<p><b>Exceptions Noted</b></p> <p>The Team's spreadsheet:</p> <ul style="list-style-type: none"> <li>• Does not include the DCAD value at the time of acquisition for properties located at 4622 S. Denley Drive and 4634 S. Denley Drive. The DCAD records show values of \$32,090 and \$38,130, respectively.</li> <li>• Shows "<i>improved property</i>" for: <ul style="list-style-type: none"> <li>○ 4526 S. Denley Drive as "Yes". The DCAD records show no improvements since 2010. The closing date for the property was January 12, 2011.</li> <li>○ 4631 and 4635 S. Lancaster Road as "No". The DCAD records show improvement in 2010 and 2011. The closing date for the property was February 4, 2010.</li> </ul> </li> <li>• Does not state that supporting documents for some soft costs, such as consultant fees, were not included in the project files for the following properties: <ul style="list-style-type: none"> <li>○ 4515, 4523, and 4527 S. Lancaster Road</li> <li>○ 4518 S. Denley Drive</li> <li>○ 4610 S. Denley Drive</li> <li>○ 4634 S. Denley Drive</li> </ul> </li> <li>• Includes the seller's portion of the property taxes as part of the City's acquisition costs for some properties.</li> </ul>

Agreed-Upon Procedures	Results of Procedures
<p>23. Confirm the completeness of the list noted in procedure 21 by independently researching other sources.</p>	<p><b>Exceptions Noted</b></p> <ul style="list-style-type: none"> <li>• The Office of the City Auditor (Office) was unable to confirm the completeness of Patriot's Crossing Development expenditures (as compiled by the Team) using the AMS Advantage General Ledger Accounting System (AMS): <ul style="list-style-type: none"> <li>○ The Department of Housing / Community Services (HOU) paid \$990,187 on behalf of Patriot's Crossing Development by recording at least six expenditure transactions in AMS using an incorrect vendor and encumbrance.</li> <li>○ The AMS internal controls did not prevent or detect the incorrect processing of these transactions.</li> <li>○ The Office cannot confirm that additional expenditure transactions were not paid on behalf of the Patriot's Crossing Development and / or incorrectly recorded.</li> </ul> </li> </ul> <p>In addition, the Team excluded approximately \$302,000 soft costs paid outside of closing from their review.</p>
<p>24. Obtain from the Team a spreadsheet with a listing of payments for environmental assessments and a listing of environmental assessment reports present in the Patriot's Crossing Development files, including references to source documents.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p>25. Obtain source documents for items identified by the Team in procedure 24.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>

Agreed-Upon Procedures	Results of Procedures
<p>26. Agree the environmental assessment information to the source documentation.</p>	<p><b>Exceptions Noted</b></p> <p>The Team’s report showed no payment for an environmental assessment for 4602 S. Denley Drive. Documentation in the file shows a payment was made for an environmental assessment of this property.</p> <p>Also, source documents for environmental assessments consist of memos from City staff who reviewed the assessments and letters from the developer that accompanied the assessments. The project files contain an actual environmental assessment document for only one purchase of properties at 4501, 4507, 4615, 4619, and 4703 S. Lancaster Road.</p>
<p>27. Obtain from the Team a spreadsheet with a listing of all acquisition files related to the Patriot’s Crossing Development, and a checklist of the following items, including references to source documents:</p> <ul style="list-style-type: none"> <li>• A properly recorded deed</li> <li>• A properly recorded deed of trust</li> <li>• Properly recorded deed restrictions</li> <li>• A title policy issued in borrowers’ name</li> </ul>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p>28. Obtain source documents for items identified by the Team in procedure 27.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>

Agreed-Upon Procedures	Results of Procedures
<p>29. Agree the information in procedure 27 to the source documents.</p>	<p><b>Exceptions Noted</b></p> <p>The Team's report showed:</p> <ul style="list-style-type: none"> <li>• No title policy in borrower's name was available for the following properties: <ul style="list-style-type: none"> <li>○ 4501, 4507, 4615, 4619, 4703 S. Lancaster Road</li> <li>○ 4623 and 4631 S. Lancaster Road</li> <li>○ 4502 S. Denley Drive</li> <li>○ 4622 S. Denley Drive</li> </ul> </li> </ul> <p>Documentation in the files shows title policy in borrower's name is available for the aforementioned properties.</p> <ul style="list-style-type: none"> <li>• No properly recorded deed was available for the following properties: <ul style="list-style-type: none"> <li>○ 4602 S. Denley Drive</li> <li>○ 4626 S. Denley Drive</li> </ul> </li> </ul> <p>Documentation in the files shows a properly recorded deed is available for the aforementioned properties.</p>
<p>30. Obtain from the Team a comparison of all funding sources and amounts used for reimbursement of property acquisitions and associated soft costs to all funding sources and amounts authorized by City Council with references to source documents.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p>31. Obtain source documents for the information identified by the Team in procedure 30.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>

<b>Agreed-Upon Procedures</b>	<b>Results of Procedures</b>
<p><b>32.</b> Agree the information obtained in procedure 30 to supporting documents.</p>	<p><b>Exceptions Noted</b></p> <ul style="list-style-type: none"> <li>• The Team's comparison of all funding sources and amounts used for reimbursement of property acquisitions and associated soft costs to all funding sources and amounts authorized by City Council does not include approximately \$302,000 in soft costs paid outside of closing.</li> <li>• The Team's analysis is limited to the amounts recorded in project files and does not include transactions recorded in AMS.</li> <li>• The AMS may include additional expenditure transactions that were paid on behalf of the Patriot's Crossing Development and recorded using an incorrect vendor and encumbrance.</li> </ul>
<p><b>33.</b> Obtain from the Team a timeline of key activities in the Patriot's Crossing Development with a comparison to standard acquisition and funding processes, including references to source documents.</p>	<p><b>Exception Noted</b></p> <p>The Team did not provide a description of a standard acquisition and funding process for situations where a developer acquires land for a private development using a forgivable loan from the City.</p>
<p><b>34.</b> Obtain source documents for items identified by the Team in procedure 33.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>35.</b> Agree the information obtained in procedure 33 to supporting documents.</p>	<p><b>Exceptions Noted</b></p> <p>The Team's timeline of key activities in the Patriot's Crossing Development does not include a comparison to the City's standard acquisition and funding processes.</p>

<b>Agreed-Upon Procedures</b>	<b>Results of Procedures</b>
<p><b>36.</b> Obtain from the Team a list of all Patriot’s Crossing Development related contracts, to which the City is a party, including the following:</p> <ul style="list-style-type: none"> <li>• Date of approval</li> <li>• Reference to the approval by Administrative Action or City Council resolution</li> <li>• Date signed by the City Manager and City Attorney</li> </ul>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>37.</b> Obtain source documents for information identified by the Team in procedure 36.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>38.</b> Agree the information obtained in procedure 36 to source documents.</p>	<p><b>No exceptions were found as a result of applying the procedure.</b></p>
<p><b>39.</b> Obtain from the Team a list of all material terms of agreements between the City and developer and the results of developer compliance with these terms, including references to source documents.</p>	<p><b>Exceptions Noted</b></p> <p>The Team’s list of material terms of agreements between the City and developer and the results of developer compliance with these terms does not include:</p> <ul style="list-style-type: none"> <li>• The Team’s analysis of developer compliance with 55 out of 77 material terms</li> <li>• References to source documents for 55 out of 77 material terms</li> </ul>
<p><b>40.</b> Obtain source documents for information identified by the Team in procedure 39.</p>	<p><b>Exceptions Noted</b></p> <p>The Team did not provide source documents for 64 out of 77 material terms of the agreements between the City and the developer.</p>

<b>Agreed-Upon Procedures</b>	<b>Results of Procedures</b>
<p><b>41.</b> Confirm the completeness of the list by independently researching other sources, such as the City Secretary’s website.</p>	<p><b>Exceptions Noted</b></p> <p>The Team’s list does not include:</p> <ul style="list-style-type: none"> <li>• Nine material terms of agreements specified in the City Council resolutions.</li> <li>• The HOU policies and procedures for situations where a developer acquires land for a private development using a forgivable loan from the City.</li> </ul>
<p><b>42.</b> Agree the information obtained in procedure 39 to source documents.</p>	<p><b>Exceptions Noted</b></p> <p>The information obtained in procedure 39 does not agree to source documents for 64 out of 77 material terms of agreements provided by the Team.</p>