

Management Response to FY 2005-06 External Auditors' Briefing

Finance, Audit and Accountability Committee

February 11, 2008



Purpose

- Provide background information
- Update the Committee on steps taken by the City to address the auditors' findings

Background

- City staff and external auditors discovered accounting errors in prior years financial reports while preparing the Fiscal Year 2004-05 financials
- Financial reports for FY 2004-05 were not issued until November 2006 due to additional audit work required as a result of the errors; Single Audit Reports were issued January 2007
- Changes could not be implemented to improve the FY 2005-06 audit since the FY 2004-05 report was issued after the end of FY 2005-06
- In October 2007, staff received the FY 2005-06 Single Audit Reports
- A memo dated October 19, 2007 was distributed to the City Council regarding the FY 2005-06 findings and statuses (copy attached – see Appendix)

Status Update on Financial Reporting

- Training sessions were conducted with department staff in the areas of:
 - Accounting for capital assets;
 - Inventory processing; and
 - Revenue recognition and accounts receivable
 - Cash receipts training, limited to specific departments with city-wide training planned for later in the year
 - Additional 16 hours of city-wide training to be provided by KPMG is scheduled for April 2008
- City staff identified improvements to reduce errors and improve efficiencies in the grants process utilizing the Zoom Team approach
- Financial reporting controls have been improved to verify the accuracy and completeness of information
- Filled vacant accountant position to work on enterprise funds
- A grants accountant position was added to Community Development Block Grants; the position is currently posted

Status Update on Single Audit Findings

- Procedures to draw down HOME grant funds from HUD have been revised. Draw downs of funds now occur no less than 3 days after the payment date on the check.
- A reconciliation of HOME program income has been completed and submitted to HUD for review. All HOME program income has been receipted into HUD's Integrated Disbursement Information System (IDIS) and will be receipted on a monthly basis going forward. Program income will be utilized to reimburse expenses prior to drawing down additional HOME entitlement funds per federal regulations.
- The Office of Financial Services is currently in the process of hiring a grants compliance coordinator. This position will assist in ensuring that the Consolidated Plan grants are administered in compliance with all applicable regulations, including the Davis Bacon Act.

Appendix

Memorandum



CITY OF DALLAS

DATE October 19, 2007

TO Honorable Mayor and Members of the City Council

SUBJECT Fiscal Year (FY) 2005-06 Single Audit

The FY 2005-06 Single Audits of Federal and State grants are complete. The audits were performed by KPMG, LLP as part of the City's annual audit. Copies of the Single Audits are attached for your information. It is expected that the Council's Finance, Audit and Accountability Committee will be briefed by KPMG on these audits in the near future.

It is important to note the audits found no missing funds or assets, no misappropriation of funds, and no fraud of any manner.

The findings and corrective actions of the audits are briefly outlined below. The City's FY 2004-05 audit indicated similar findings in the grant processes. We immediately implemented changes to address the findings. However, the FY 2004-05 reports were not issued until January 2007. As a result of the timing, the corrective measures were too late to affect the results of the FY 2005-06 audit (FY 2005-06 ended September 30, 2006). The staff met with department directors and set up a grants improvement team to discuss process improvements, as well as stress the need to enforce existing policies. These steps are expected to improve the FY 2006-07 audit results.

In addition to the steps outlined below, the Department of Intergovernmental Services and the City Controller's Office will provide training to staff involved in the grants process, with particular emphasis on weaknesses noted in the audit. A Community Development Block Grant accountant has also been added to the City Controller's Office for Fiscal Year 2008 to ensure adequate reconciliation of activity in certain grants. The City is also working with HUD to engage a consultant to provide the City with technical assistance in the area of grant administration for the Consolidated Plan.

A summary of the findings and management's responses follows:

Federal Audit Findings

Finding #06-01FS – The City does not have adequate internal controls over its financial reporting process to ensure the City's ability to record, process, summarize, and report financial data consistent with the assertions of management within the basic financial statements.

New managers over financial reporting, reconciliations and fixed assets have been hired in the Controller's Office. Professional accountants have been added to areas identified as weaknesses and Controller's Office staff will be required to attend a

minimum of 16 hours training annually (and additional training on proper accounting procedures will be provided to staff throughout the City). The City is in the process of securing a consultant to evaluate and recommend improvements to the City's internal controls.

Finding #06-01 – Failure to maintain sufficient clinic records for the Women, Infants, and Children Program and follow self-audit process.

Management will maintain records on-site for 3 years and an additional 3 years off-site. In addition, staff training will be enhanced.

Finding #06-02 – The Environmental and Health Services (EHS) department does not properly reconcile the reimbursement requests with the amount of funds that were disbursed.

EHS management will reconcile the general ledger and request for reimbursement monthly, and reconcile the Schedule of Expenditures of Federal Awards and expenditures in the Financial Status Report annually.

Finding #06-03 – Lack of approval for request for reimbursement for the Women, Infants, and Children Program.

Management will ensure that all documents are properly approved by an executive and kept on file.

Finding #06-04 – The City is not paying grant program costs before requesting reimbursement for the HOME Investment Partnership Program.

Management will ensure a 3-day delay (from the time a check is issued) before requesting reimbursement.

Finding #06-05 – The City is not considering the actual program income when requesting reimbursement of funds for the HOME Investment Partnership Program.

Program income will be reconciled and receipted quarterly to ensure accurate accounting and reporting in compliance with all requirements.

Finding #06-06 – The City is not inspecting all apartment units before the tenant moves in for HOME Investment Program.

The City has established new internal controls and will enforce those previously in place to ensure future compliance with the Housing Quality Standards requirement.

Finding #06-07 – Failure to properly obtain and review the minimum prevailing wage rates for construction contracts per the Davis Bacon Act for the Community Development Block Grant.

The City will provide ongoing training for staff to ensure compliance with the Davis Bacon Act.

Finding #06-08 – Failure to maintain supporting documentation for required inventory audits Urban Areas Security Initiative Grant.

The City will maintain detailed records for inventory auditing procedures.

Finding #06-09 – Failure to maintain supporting documentation for contractor suspension and debarment requirements of the Urban Areas Initiative Grant.

The City will review and revise its current policies and procedures to ensure that all potential contractors are properly reviewed and documentation is maintained evidencing verification.

Finding #06-10 - Lack of proper review of costs charged to the grant resulted in reimbursement for unallowable costs and a potential requirement to reimburse the federal government for the Hurricane Katrina Grant.

Management worked closely with on-site FEMA personnel to document costs and develop reimbursement requests. The City will review and revise its current policies and procedures to initiate, process, and record expenditures in an emergency situation to ensure compliance with program.

Finding #06-11 – The City did not pay all of the Hurricane Katrina expenditures before request reimbursement.

Management will ensure a 3-day delay (from the time a check is issued) before requesting reimbursement.

Finding #06-12 – Lack of proper review of costs charged to the Hurricane Katrina event could result in reimbursement for unallowable costs and potential requirement to reimburse the federal government.

Management worked closely with on-site FEMA personnel to document costs and develop reimbursement requests. Management will review all cost charged to grants to ensure that the expense qualifies for reimbursement. Management will reevaluate the costs charged to this grant.

Finding #06-13 – Failure to properly obtain and review the minimum prevailing wage rates for construction contracts per the Davis Bacon Act for the Airport Improvement Program.

The City will provide ongoing training for staff to ensure compliance with the Davis Bacon Act.

Finding #06-14 – Failure to perform detailed inspection as required by the Pavement Maintenance Management Program at Dallas Love Field.

The City is in the process of awarding a consultant contract for the detailed inspection of airfield pavements to ensure compliance with the requirements of the Pavement Maintenance Management Program.

State Audit Findings

Finding #06-01 - The City does not have adequate internal controls over its financial reporting process to ensure the City's ability to record, process, summarize, and report financial data consistent with the assertions of management within the basic financial statements.

New managers over financial reporting, reconciliations and fixed assets have been hired in the Controller's Office. Professional accountants have been added to areas identified as weaknesses and Controllers Office staff will be required to attend a minimum of 16 hours training annually (and additional training on proper accounting procedures will be provided to staff throughout the City). The City is in the process of securing a consultant to evaluate and recommend improvements to the City's internal controls.

Finding #06-02 - Failure to maintain supporting documentation for contractor suspension and debarment requirements for the Defense Economic Adjustment Assistance Grant.

The City will review and revise its current policies and procedures to ensure that all potential contractors are properly reviewed and documentation is maintained evidencing verification.

Please contact me if you need additional information.



David Cook
Chief Financial Officer

Attachment

- c: Mary K. Suhm, City Manager
- Debra A. Watkins, City Secretary
- Thomas P. Perkins, Jr., City Attorney
- Craig D. Kinton, City Auditor
- Ryan S. Evans, First Assistant City Manager
- Ramon F. Miguez, P.E., Assistant City Manager
- Charles W. Daniels, Assistant City Manager
- Jill A. Jordan, P.E., Assistant City Manager
- A. C. Gonzalez, Assistant City Manager
- Maria Alicia Garcia, Director, Office of Financial Services