

## Memorandum



DATE: February 4, 2010

TO: Honorable Members of the Budget, Finance & Audit Committee –  
Jerry R. Allen, Chair; Ann Margolin, Vice-Chair; Delia Jasso; Vonciel Jones Hill;  
Angela Hunt; Ron Natinsky; David A. Neumann

SUBJECT: Presentation to the Budget, Finance & Audit Committee:  
Office of the City Auditor Fiscal Year 2010 – Second Quarter Update

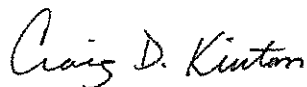
The Office of the City Auditor (Office) is an independent appraisal activity for the review of operations as a service to the City Council and to City management. Audit work carried out by the Office functions as a general control by measuring and evaluating the effectiveness of other controls.

The objective of audit work carried out by the Office is to assist the City Council in fulfilling its governance responsibilities and City management in the effective discharge of their responsibilities by furnishing analyses, appraisals, recommendations, and pertinent comments concerning activities reviewed.

I will provide a short briefing to the members of the Budget, Finance & Audit Committee on Monday, February 8, 2010 regarding:

1. An overview of the Office of the City Auditor
2. Fiscal Year 2010 Audit Plan Status Update – Second Quarter

Sincerely,



Craig D. Kinton  
City Auditor

# Budget, Finance and Audit Committee

## Office of the City Auditor Fiscal Year 2010 – Second Quarter Update



City of Dallas  
Office of the City Auditor  
February 8, 2010





# Objectives

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- Overview of the Office of City Auditor
- Fiscal Year 2010 Audit Plan Status Update
  - Second Quarter



# Overview of Office of the City Auditor

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*“The principles of transparency and accountability for the use of public resources are key to our nation's governing processes.”*

*“Government officials and recipients of federal moneys are responsible for carrying out public functions efficiently, economically, effectively, ethically, and equitably, while achieving desired program objectives.”*

*“High-quality auditing is essential for government accountability to the public and transparency regarding linking resources to related program results.”*

**David M. Walker**  
**Comptroller General of the United States**  
**July 2007**



# Overview of Office of the City Auditor

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*“The Office of the City Auditor is an independent appraisal activity within the City organization for the review of operations as a service to the City Council and to management. Audit work carried out by the Office functions as a general control by measuring and evaluating the effectiveness of other controls.”*

*“The objective of audit work carried out by the Office is to assist all members of the City Council and City management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, and pertinent comments concerning activities reviewed.”*

**Council Resolution 904027**



# Overview of Office of the City Auditor

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The Office of the City Auditor is established by the City Charter. Chapter IX. City Auditor is comprised of four sections:

- Sec. 1. Selection of City Auditor
- Sec. 2. Assistants and Employees
- Sec. 3. Duties of the City Auditor
- Sec. 4. Special Audit

# Overview of Office of the City Auditor

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The City Charter, Chapter IX. City Auditor is comprised of four sections:

- **Sec. 1. Selection of City Auditor**
  - Creates the office of the City Auditor
  - Establishes a two-year term of office
  - Requires the City Council to establish nominating procedures by ordinance
  - Requires the City Council to appoint the City Auditor after being nominated
  - Establishes qualifications of the City Auditor
    - Must be a licensed Certified Public Accountant (CPA)
    - Must be knowledgeable in public administration, public financial and fiscal theory, municipal accounting, and auditing
    - Must be a City of Dallas resident or move into City

# Overview of Office of the City Auditor

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The City Charter, Chapter IX. City Auditor is comprised of four sections:

- **Sec. 2. Assistants and Employees**
  - Requires Council to provide assistants as it deems necessary
  - Allows the Council to establish compensation levels for assistants
  - Grants City Auditor right to discharge assistants “at any time”
  - Allows City Auditor to delegate all powers and duties to Assistant City Auditors



# Overview of Office of the City Auditor

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The City Charter, Chapter IX. City Auditor is comprised of four sections:

- **Sec. 3. Duties of the City Auditor**
  - Conduct financial, compliance, economy and efficiency, special audits, and investigations
  - Audit or investigate entities receiving City funds (at Council direction)
  - Ensure, monitor, evaluate, examine, and appraise:
    - The quality and accuracy of information used for business decision making
    - Processes and controls used to manage City resources
    - Accounting and property records
  - Report to the City Council, the Budget, Finance and Audit Committee, and the City Manager “any irregularities or failures to maintain adequate and accurate records.”
  - Serve as liaison to external auditing agencies for Federal or State funds

# Overview of Office of the City Auditor

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The City Charter, Chapter IX. City Auditor is comprised of four sections:

- **Sec. 4. Special Audit.**

Requires:

- The City Auditor to audit and investigate accounts of City officers upon separation
- The City Manager to audit and investigate accounts of the City Auditor upon separation

# Overview of Office of the City Auditor

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## **City Code establishes additional authorities and responsibilities for the City Auditor including:**

### **City Code, Chapter 40a – Retirement**

Creates the Employees' Retirement Fund of the City of Dallas and establishes the City Auditor as one of seven trustees (three appointed by City Council, three elected City employees)

## **City Council Rules of Procedure establish responsibility for the City Auditor:**

### **Sec 2.9 City Auditor Participation**

The City Auditor or designated Assistant City Auditor shall be available in City Hall during all City Council meetings to respond to inquiries made by the City Council. Upon request of any City Council member, the City Auditor shall attend the briefing or deliberation of any specific agenda item.

# Overview of Office of the City Auditor

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Council Resolutions establish additional authorities and responsibilities for the City Auditor, including:

**Council Resolution 904027 – City Auditor Responsibilities and Administrative Procedures** establishes responsibilities and administrative procedures for the City Auditor, including:

- Exercising **due professional care**
- Submitting **annual audit plans** to the City Council for approval
- Reporting of violations of law**, misfeasance or nonfeasance to the Mayor, the Chairman of the Budget, Finance and Audit Committee, and the City Attorney
- Preparing and **submitting audit reports** to the City Council
- Obtaining and **including management written responses** to audit reports
- Conducting **follow-up reviews**
- Retaining records**
- Reviewing and **verifying reasonableness of revenue estimate** included in City Manager's proposed budget
- Granting City Auditor **access to City records**, City property, equipment and facilities

# Overview of Office of the City Auditor

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Council Resolutions establish additional authorities and responsibilities for the City Auditor including:

***Council Resolution 920779*** – Authorizes the City Auditor to implement and operate the City of Dallas **Fraud Hotline**.

***Council Resolution 980751*** – Adopts the City of Dallas Policy and Procedures Regarding Fraud, Waste and Abuse as official policy (published as Administrative Directive 2-14):

- Establishes the City Auditor's Office with the **primary responsibility for investigation of all suspected fraudulent activity** as defined in this policy
- Grants **authority to make investigations**, subpoena witnesses, administer oaths, and compel the production of books, papers, and other evidence material relevant to investigations
- **Treats all information received as confidential**, to the extent allowed by law
- Requires all City departments / employees and officers to comply with this policy

# Overview of Office of the City Auditor

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The Grants Compliance Group was established as a separate function within the Office of the City Auditor through City Council action in 1998.

Responsibilities include monitoring of contracts/grants awarded and administered by City departments to fund projects/activities under the U.S. Department of Housing and Urban Development (HUD) **Consolidated Plan**.

The following programs are included in the Consolidated Plan:

- CDBG                      Community Development Block Grant
- HOME                     Home Investment Partnership Program
- ESG                        Emergency Shelter Grant
- HOPWA                    Housing Opportunity for Persons With AIDS
- Section 108              Loan Guarantee



# Overview of Office of the City Auditor

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The Grants Compliance Group is also providing monitoring services for funding received under the American Recovery and Reinvestment Act (ARRA).

Programs monitored under ARRA include:

- HPRP      Homeless Prevention and Rapid Rehousing
- CDBG–R    Community Development Block Grants – Recovery
- State Weatherization Program




# Overview of Office of the City Auditor

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The Grants Compliance Group monitoring activities include:

- Reviews of recipient reports and supporting documentation
- On-site monitoring visits
- Written reports to departmental management regarding compliance of Federal, State and Local regulations





# Overview of Office of the City Auditor

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## Strategic Direction

The City Auditor's Office statements of vision, mission and values address our responsibilities and acknowledge the core values that guide our work:

### Vision

A dynamic audit organization that is a catalyst for accountable, efficient, and effective government for the citizens of Dallas

### Mission

To promote public trust and advance accountability by providing independent, objective, and useful professional services for the City of Dallas

### Statement of Values

We achieve our mission with:

Professionalism

Respect

Integrity

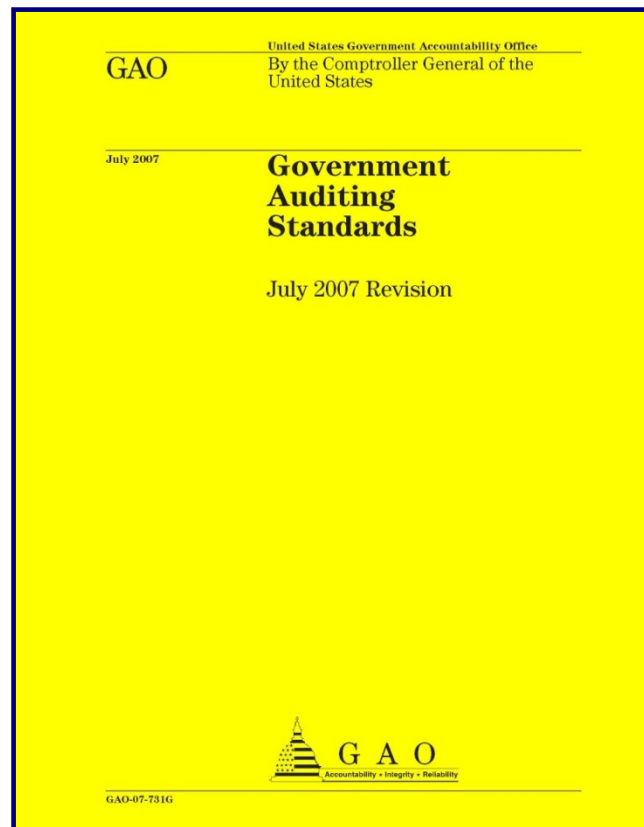
Diversity

Excellence

# Overview of Office of the City Auditor

## Generally Accepted Government Auditing Standards


The requirement to exercise “due professional care” requires the City Auditor to establish standards, policies, and procedures consistent with generally accepted professional practice. The Office of the City Auditor conducts all audit work under government auditing standards established by the Comptroller General of the United States.



# Overview of Office of the City Auditor

## Generally Accepted Government Auditing Standards

Government Auditing standards establish: ethical principles; general standards applicable to all government audits; and, fieldwork and reporting standards for financial audits, attestation engagements, and performance audits.



By the Comptroller General of the United States  
July 2007

### Government Auditing Standards


July 2007 Revision  
GAO-07-731G (PDF, 867 KB)

Letter

- Chapter 1: Use and Application of GAGAS
- Chapter 2: Ethical Principles in Government Auditing
- Chapter 3: General Standards
- Chapter 4: Field Work Standards for Financial Audits
- Chapter 5: Reporting Standards for Financial Audits
- Chapter 6: General, Field Work, and Reporting Standards for Attestation Engagements
- Chapter 7: Field Work Standards for Performance Audits
- Chapter 8: Reporting Standards for Performance Audits

The July 2007 revision of Government Auditing Standards supersedes the 2003 revision and updates the January 2007 revision. The July 2007 revision represents the complete 2007 revision of Government Auditing Standards, and is the version that should be used by government auditors until further updates and revisions are made. An electronic version of this document can be accessed on GAO's Yellow Book Web page at <http://www.gao.gov/govaud/yb101.htm>.

The July 2007 revision of Government Auditing Standards will be effective for financial audits and attestation engagements for periods beginning on or after January 1, 2008, and for performance audits beginning on or after January 1, 2008. Early implementation is permissible and encouraged. For financial audits, certain standards of the Auditing Standards Board (ASB) that affect Government Auditing Standards become effective prior to these dates.





# Overview of Office of the City Auditor

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## Generally Accepted Government Auditing Standards Ethical Principals in Government Auditing

The ethical principles that guide the work of the office of the City Auditor are:

**a. The Public Interest;**

*“The public interest is defined as the collective well-being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust.”*

**b. Integrity;**

*“Integrity includes auditors' conducting their work with an attitude that is objective, fact-based, non-partisan, and non-ideological with regard to audited entities and users of the auditors' reports.”*

**c. Objectivity;**

*“Objectivity includes being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest.”*



# Overview of Office of the City Auditor

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## Generally Accepted Government Auditing Standards Ethical Principals in Government Auditing

The ethical principles that guide the work of the office of the City Auditor are:

**d. Proper Use of Government Information, Resources, and Position; and,**

*“Government information, resources, or positions are to be used for official purposes and not inappropriately for the auditor's personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization.”*

**e. Professional Behavior**

*“High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient.”*



# Overview of Office of the City Auditor

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## Generally Accepted Government Auditing Standards General Standards

General standards along with the overarching ethical principles establish a foundation for credibility of auditors' work.

General standards **emphasize** the **independence** of the audit organization and its individual auditors; the exercise of **professional judgment** in the performance of work and the preparation of related reports; the **competence** of audit staff; audit **quality control** and assurance; and, **external peer reviews**.

# Overview of Office of the City Auditor

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## Generally Accepted Government Auditing Standards General Standards – Independence

In all matters relating to the audit work, the audit organization and the individual auditor, must be free from personal, external, and organizational impairments to independence and must avoid the appearance of such impairments of independence.

- **Personal Impairments** – Auditors participating on an audit assignment must be free from personal impairments to independence
- **External Impairments** – Audit organizations must be free from external impairments to independence. External impairments to independence occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations.
- **Organizational Independence** – The ability of audit organizations in government entities to perform work and report the results objectively can be affected by placement within government and the structure of the government entity being audited.

# Overview of Office of the City Auditor

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## Generally Accepted Government Auditing Standards General Standards

**Professional Judgment** – Professional judgment includes exercising reasonable care and professional skepticism.

- Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles.
- Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence.

**Competence** – The staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required.

- Audit organizations should have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce.
- Competence is derived from a blending of education and experience.



# Overview of Office of the City Auditor

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## Generally Accepted Government Auditing Standards General Standards

**Continuing Professional Education** – Auditors performing work under GAGAS should maintain their professional competence through continuing professional education (CPE).

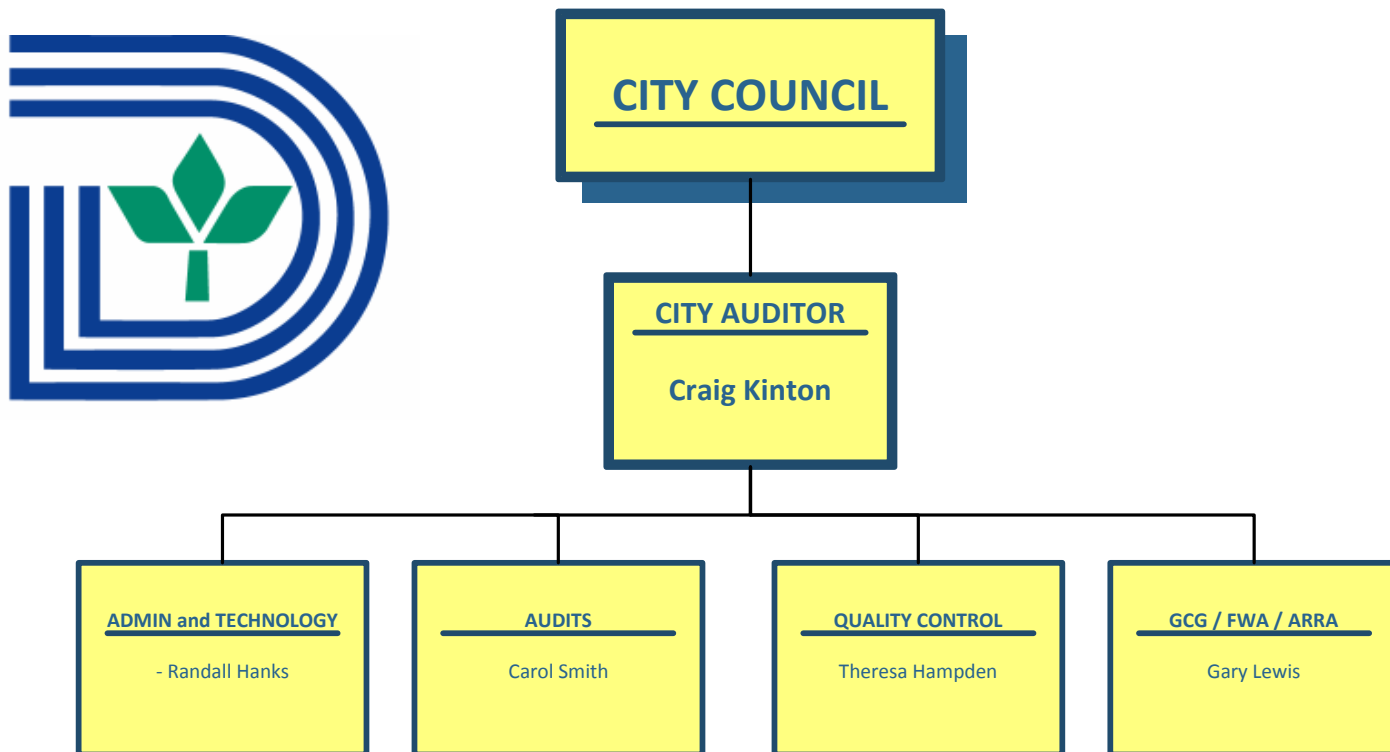
- Complete, every two years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates
- Obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every two-year period)

### Quality Control and Assurance

- Establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements
- Have an external peer review at least once every three years

# Overview of Office of the City Auditor

The structure of the Office is designed to meet its responsibilities and ensure applicable professional standards are followed.



# Overview of Office of the City Auditor

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## Staff Qualifications

The Office of the City Auditor employs a professional staff whose qualifications are evidenced by educational and professional achievements.

Current staff hold the following degrees and professional certifications:

### **Education**

Undergraduate Degrees	26
Graduate Degrees	<u>10</u>
Total Degrees	<u>36</u>

### **Professional Certifications**

Certified Public Accountants	8
Certified Internal Auditors	9
Certified Fraud Examiners	5
Certified Information Systems Auditors	3
Other Professional Certifications	<u>13</u>
Total Professional Certifications	<u>38</u>



**Office of the City Auditor  
Fiscal Year 2010 –  
Second Quarter Update**



# Office of the City Auditor

## Audit and Attestation Services Update

### Fiscal Year 2010 – Second Quarter

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## Audit Reports Released

### First Quarter

- Audit Reports
  - Inappropriate Tax Exemptions and Delinquent Property Taxes
  - Accounts Payable Application Controls
  - Implementation of the American Recovery and Reinvestment Act
  - Revenue Sharing with the City of Grapevine
  - Maintenance of City-Owned Buildings
  
- Follow-Up Audits
  - Multi-Occupancy Structure Program
  - South Dallas Fair Park Trust Fund



# Office of the City Auditor

## Audit and Attestation Services

### Update Fiscal Year 2010 – Second Quarter

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## Attestation Reports Released

### First Quarter

- Agreed-Upon Procedures
  - Fiscal Year 2010 # 1 Drug Destruction
  - Fiscal Year 2010 # 2 Weapons Destructions
  
- Single Bid Reviews
  - Mortgage Assistance Program (Department of Housing)
  - Virtual Viewer Software (Dallas Police Department)
  - UPS and Emergency Power Distribution Equipment Preventive Maintenance, Testing and Repair (Equipment and Building Services)
  
- Sole Source Procurement
  - Software Maintenance Locution Systems (Dallas Fire-Rescue)
  - Software and Hardware Maintenance Custom Logic Design, Inc. (Communication and Information Services)
  - Fiserv Bank Reconciliation Software Upgrade (Office of Financial Services / Communication and Information Services)



# Office of the City Auditor

## Audit and Attestation Services

### Update Fiscal Year 2010 – Second Quarter

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## Audit Highlights

### First Quarter

#### ■ Inappropriate Tax Exemptions and Delinquent Property Taxes

- Property tax exemptions compared to death records identifying 35 properties with potential inappropriate exemptions. Results provided to Dallas County Appraisal District for follow-up.
- Vendor payment files compared to delinquent property tax records identifying 12 vendors receiving payments. Results provided to City Controller for possible action.

#### ■ Implementation of the American Recovery and Reinvestment Act (ARRA)

- Preliminary risk assessment of internal control systems conducted to ensure compliance with ARRA
- Key transparency and accountability requirements and applicable City internal controls to ensure compliance identified and status of controls determined as either established, in-progress, or recommended

#### ■ Revenue Sharing with the City of Grapevine

- City of Grapevine was found to have accurately determined and timely paid the City of Dallas \$68,356.73 which is its portion of the Fiscal Year 2007 shared revenue related to Dallas/Fort Worth Airport



# Office of the City Auditor

## Audit and Attestation Services

### Update Fiscal Year 2010 – Second Quarter

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## Audit Highlights

### First Quarter

#### ■ Accounts Payable Application Controls

- Data was adequately protected during transmission to bank and no transactions were identified that were not completely and accurately processed
- The City faces increased risk that fraud could occur and remain undetected due to:
  - System security control weaknesses
  - Security logging feature not enabled
  - Use of a bypass feature to circumvent controls and speed processing
  - Transmission of electronic funds transfers prior to obtaining or documenting required management approvals
- Early payment discounts missed due to slow invoice processing

#### ■ Maintenance of City-Owned Buildings

- Facility condition assessment completed in Calendar Year 2008 was a major accomplishment
- Equipment and Building Services does not contain a complete inventory of City-owned buildings and is not consistent in identifying their building maintenance responsibilities





**Office of the City Auditor  
Audit and Attestation Services  
Update Fiscal Year 2010 – Second Quarter**

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**Follow-up Audit Highlights**

**First Quarter**

■ **Multi-Occupancy Structure Program (Code Compliance)**

- Five of nine recommendations from two previous audit reports were implemented. Recommendations not addressed included: (1) developing a complete and accurate list of properties subject to registration and inspection; (2) checking for outstanding inspection fees prior to issuance of certificates of registration; and, (3) taking action to establish minimum fines for other City code violations by owners of multi-occupancy structures.

■ **South Dallas Fair Park Trust Fund**

- One of four recommendations was implemented, but risk remained from not revising loan underwriting guidelines to provide sufficient criteria to evaluate the likelihood of loan repayments and inconsistent application of Loan Delinquency Management/Reserve Guidelines.



**Office of the City Auditor  
Audit and Attestation Services  
Update Fiscal Year 2010 – Second Quarter**

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**Attestation Highlights**

**First Quarter**

■ **Fiscal Year 2010 - Drug Destruction # 1**

- 3,033 drug invoices and associated 5,357 drug articles totaling 2,369.4 pounds destroyed according to Agreed-Upon Procedures to assist the Dallas Police Department

■ **Fiscal Year 2010 - Weapons Destruction # 1**

- 400 Weapons destroyed according to Agreed-Upon Procedures to assist the Dallas Police Department



**Office of the City Auditor  
Audit and Attestation Services  
Update Fiscal Year 2010 – Second Quarter**

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**Single Bid / Sole Source Highlights**

**First Quarter**

■ **Single Bid Reviews**

Three single bid procurements (total of \$5,593,765) reviewed and determined to comply with Administrative Directive (AD) 4-5 provisions for processing single bid items and making reasonable efforts to increase bid participation. No information was available to determine the price reasonableness for one procurement (Virtual Viewer Software - \$202,400)

■ **Sole Source Reviews**

Three sole source procurements (total of \$738,577) reviewed and determined to meet the exemptions from competitive bidding as specified in the State of Texas Local Government Code, Chapter 252.022. For one procurement, the reasonableness of continuing to upgrade software for 11 years rather than seek competitive bids for new software was not clear and no information was available to determine the price reasonableness for the upgrade (Fiserv Bank Reconciliation Software - \$218,000)



**Office of the City Auditor  
Audit and Attestation Services  
Update Fiscal Year 2010 – Second Quarter**

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**Anticipated Report Releases  
Second Quarter**

- Dallas Police Department Employee Morale Fund
- American Recovery and Reinvestment Act (ARRA) –  
October 1, 2009 to December 31, 2009
- Audit Follow-Up of Dallas Police Department Cash Handling
- Police Crime and Information Statistics and Studies
- Sole Source and Single Bid Reviews (as requested)



**Office of the City Auditor  
Audit and Attestation Services  
Update Fiscal Year 2010 – Second Quarter**

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**Projects In-Progress**  
Second Quarter

- General Computer Controls (Dallas Police Department / Dallas Fire-Rescue)
- Zoo Transfer
- Reduction-in-Force Employee Processing Controls
- Uniform Overtime (Dallas Police Department / Dallas Fire-Rescue)
- American Recovery and Reinvestment Act (ARRA) –  
January 1, 2010 to March 31, 2010
- Fleet Management



**Office of the City Auditor  
Audit and Attestation Services  
Update Fiscal Year 2010 – Second Quarter**

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**Anticipated Project Starts  
Second Quarter**

- Music Hall at Fair Park Contract
- Points of Sale (Park and Recreation Department)
- Special Audit – Chief Financial Officer (Retirement)
- Confiscated Funds (Dallas Police Department)
- Assistance to City Attorney's Office
- Single Bid and Sole Source Reviews (as requested)
- Drug and Weapons Destructions (as requested)
- Sales Tax Audits (contracted services)
- Franchise Fee Audits (contracted services)

# QUESTIONS?



City of Dallas  
Office of the City Auditor  
February 8, 2010

