

Memorandum



DATE: February 16, 2012

TO: Honorable Members of the Budget, Finance & Audit Committee –
Jerry R. Allen, Chair; Tennell Atkins, Vice-Chair;
Monica Alonzo; Scott Griggs; Ann Margolin

SUBJECT: Presentation to the Budget, Finance & Audit Committee:
Audit of City's Ethics Program

I will provide a briefing to the members of the Budget, Finance & Audit Committee on Tuesday, February 21, 2012 regarding:

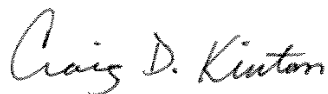
- Audit of City's Ethics Program

The City of Dallas' (City) elected officials and management have made a commitment to further develop and maintain an acceptable City-wide ethical culture, promote ethics education, and report on ethical misconduct.

The Office of the City Auditor analyzed the design of the City's Ethics Program by comparing the Program to the seven elements specified in the Federal Sentencing Guidelines for Organizations.

If you have additional questions, please contact me at 214-670-3222.

Sincerely,



Craig D. Kinton
City Auditor

Budget, Finance & Audit Committee

Audit of City's Ethics Program

City of Dallas
Office of the City Auditor
February 21, 2012



Background

- Audit is included in the Fiscal Year (FY) 2012 Audit Plan
- Audit objective – To assess and evaluate the design of the City’s Ethics Program for FY 2010 and FY 2011
- Applied the seven Federal Sentencing Guidelines for Organizations (FSGO) as the criteria and considered other best practices

Federal Sentencing Guidelines

- Federal Sentencing Guidelines for Organizations (FSGO) are:
 - 1) Establish standards, policies, and procedures to prevent and detect unethical or unlawful conduct
 - 2) Exercise oversight, assign responsibilities, and delegate day-to-day operations of ethics and compliance
 - 3) Exercise due diligence and avoid delegation of authority to unethical individuals
 - 4) Communicate and educate individuals on ethics and compliance

Federal Sentencing Guidelines

- 5) Monitor, audit, and evaluate Ethics Program effectiveness periodically, including mechanisms for reporting on ethical misconduct
- 6) Enforce ethical standards and design appropriate disciplinary actions
- 7) Prevent future occurrences and respond to identified, unethical behavior

Audit Results

- Overall, the City has many of the components of the seven FSGO elements in place; however, there are opportunities to strengthen the Ethics Program
- Out of the seven elements, the City:
 - Satisfied or Partially Satisfied *four* of the elements
 - Did not Satisfy *three* of the elements

Audit Results

- **FSGO Element # 1: Establish standards, policies, and procedures to prevent and detect unethical or unlawful conduct**

The City has established certain ethical standards, policies, and procedures (Ethical Standards) and satisfies this element.

- **FSGO Element # 2: Exercise oversight, assign responsibilities, and delegate day-to-day operations of ethics and compliance**

The City does not satisfy the FSGO element:

- No City-designated ethics officer
- Limited jurisdiction for the Ethics Advisory Commission's (EAC)

Audit Results

- **FSGO Element # 3: Exercise due diligence and avoid delegation of authority to unethical individuals**

The City satisfies a significant portion of the FSGO element:

- Possible inconsistent applicant reference process
- Candidate's character (new hire or promotions) not accessed through interview questions

- **FSGO Element # 4: Communicate and educate individuals on ethics and compliance**

The City does not satisfy the FSGO element:

- Lack of comprehensive ethics training program
- Over reliance on New Employee Orientation

Audit Results

- **FSGO Element # 5: Monitor, audit, and evaluate Program effectiveness periodically, including mechanisms for reporting on ethical misconduct**

The City partially satisfies this element:

- Lack of monitoring of ethical culture (baseline assessment and regular reassessment)
- Administrative Directive 2-14 *Fraud, Waste and Abuse Procedures* shows incorrect Fraud Hotline number
- Whistle-blower protections not explicitly stated
- Fraud Hotline is not available directly from the City's internet home page

Audit Results

- **FSGO Element # 6: Enforce ethical standards and design appropriate disciplinary actions**

The City partially satisfies this element:

- Periodic reinforcement of ethical standards not practiced

Audit Results

- **FSGO Element # 7: Prevent future occurrences and respond to identified, unethical behavior**

The City does not meet this element.

No established process to:

- Avoid repeated incidents
- Revise Ethical Standards for prevention of repeated incidents
- Report on ethical violations
- Self-report for know violations

Questions?

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