

Memorandum



DATE: February 27, 2014

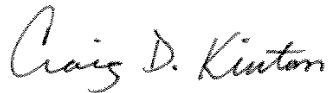
TO: Honorable Members of the Budget, Finance & Audit Committee –
Jerry R. Allen (Chair); Jennifer Staubach Gates (Vice Chair);
Tennell Atkins, Mayor Pro Tem; Sheffie Kadane; Philip T. Kingston

SUBJECT: Presentation to the Budget, Finance & Audit Committee:
Office of the City Auditor Fiscal Year 2014 – Second Quarter Update

I will provide a briefing to the members of the Budget, Finance & Audit Committee on Monday, March 3, 2014 regarding:

- Office of the City Auditor Fiscal Year 2014 – Second Quarter Update

Sincerely,



Craig D. Kinton
City Auditor

Budget, Finance and Audit Committee

Office of the City Auditor Fiscal Year 2014 – Second Quarter Update



City of Dallas
Office of the City Auditor
March 3, 2014



Audit and Attestation Services Reports Issued

First Quarter, Fiscal Year 2014

- Audit City of Dallas' Compliance with the Texas Prompt Payment Act
- Audit of MuniServices, LLC Contract Related to the Verification of Sales/Use Tax Receipts and Associated Fees
- Special Audit of the Accounts of Five Former City Council Members
- Audit of the City of Dallas' Aircraft Rescue and Firefighting Unit

Audit and Attestation Services Reports Issued

First Quarter, Fiscal Year 2014

- Independent Auditor's Reports on Applying Agreed-Upon Procedures
 - Single Bid – SAS Software License and Support
 - Single Bid – City Hall Security Vestibule
 - Sole Source – West Complete Library
 - Sole Source – Lawson Human Resources and Information System Software Maintenance and Support
 - Fiscal Year 2013 # 2 Drug Destruction

Summary Reports Issued

First Quarter, Fiscal Year 2014

- Services Summary Report for Fiscal Year 2013
- Audit, Attestation and Investigations Services Update: FY 2014 First Quarter
- FY 2013 Investigative Services Activity Report

Audit and Attestation Services Reports Issued

Second Quarter (through February 28), Fiscal Year 2014

- Audit City of Dallas' Self-Insured Medical Program
- Audit of Arts and Cultural Program Funding
- Independent Auditor's Reports on Applying Agreed-Upon Procedures
 - Fiscal Year 2013 # 3 Weapons Destruction (January 15, 2014)
- Audit, Attestation and Investigative Services Update: FY 2014 Second Quarter

Audit and Attestation Services

Anticipated Report Releases

Second Quarter, Fiscal Year 2014

- Special Audit of the Accounts of Former City Attorney, Thomas P. Perkins, Jr.
- Contract Compliance – Office Depot
- Prior Audit Recommendations Follow-Up
- Software Licensing Agreements

Audit and Attestation Services Projects In-Progress

Second Quarter, Fiscal Year 2014

- Sales/Use Tax Compliance Review Through MuniServices (*Ongoing*)
- Convention and Event Services – Controls over Cash Receipts and Collections
- Payroll Audit
- Purchasing / Contracting Processes
- South Dallas Fair Park Trust Fund
- Special Audit of Former City Manager, Mary K. Suhm
- Wastewater Collection and Treatment
- Water Customer Billings
- Franchise Fees



Audit and Attestation Services

Anticipated Project Starts

Second Quarter, Fiscal Year 2014

- Contract Monitoring
- Parking Management Contract Oversight
- Tracking Firearms and Equipment
- Building Permits
- Maintenance of Infrastructure
- Agreed-Upon Procedures for Single Bid and Sole Source Engagements
(as requested)

Services Summary Report Highlights

Fiscal Year 2013

- Performance Audit Reports (12)
- Attestation Engagements (21)
- Fraud, Waste and Abuse Hotline Complaint Closures (130)
- Peer Review – Clean Opinion
- Leadership Roles in Professional Organizations

Investigative Services Activity Report Highlights

Fiscal Year 2013

- New Complaints Received (117)
- Complaints Closed (130)
- Complaint Resolution Actions
 - Investigated by Office (65) 50%
 - Referred to City Department (32) 25%
 - No Action Warranted (33) 25%
- Complaints Investigated Resolution
 - Unsubstantiated or Cleared (38) 58%
 - Substantiated (27) 42%

Audit and Attestation Services Highlights

First Quarter, Fiscal Year 2014

- **Audit on City of Dallas' Compliance with the Texas Prompt Payment Act (November 1, 2013)**
 - The City does not have a formal method to monitor compliance with the Texas Government Code, Chapter 2251 *Payment for Goods and Services* (Prompt Payment Act).
 - The City cannot easily determine: (1) when vendor payments are not processed in accordance with the Prompt Payment Act; (2) if interest amounts are owed to vendors; and, (3) if valid exceptions to the Prompt Payment Act exist.
 - Specifically, the City does not:
 - Have a consistent method to identify and track the actual invoice receipt date
 - Require the actual invoice receipt date to be recorded in the AMS Advantage 3 general ledger accounting system (AMS) prior to invoice processing
 - Identify invoices in dispute in AMS
 - Provide guidance for monitoring compliance with the Prompt Payment Act, including how to use available financial reports, in the annual training conducted by the City Controller's Office

Audit and Attestation Services Highlights

First Quarter, Fiscal Year 2014

- **Audit of MuniServices, LLC Contract Related to the Verification of Sales/Use Tax Receipts and Associated Fees (November 15, 2013)**
 - Verified \$902,218 in sales tax receipts collections that MuniServices, LLC (Consultant) identified as owed to the City of Dallas (City) from businesses operating in the City
 - Verified the accuracy of \$225,555 in Consultant invoices received for the period October 1, 2012 through September 30, 2013 for payment of the Consultant's percentage of the amount collected under the contingent fee contract arrangement with the City

Audit and Attestation Services Highlights

First Quarter, Fiscal Year 2014

- **Special Audit of the Accounts of Five Former City Council Members (December 6, 2013)**
 - Accounts were in order for five former City Council Members: Angela Hunt, Delia Jasso, Linda Koop, Ann Margolin, and Pauline Medrano
 - Certain procedural errors and a processing control issue were noted; Management Letter issued that included these issues

Audit and Attestation Services Highlights

First Quarter, Fiscal Year 2014

- **Audit of the City of Dallas' Aircraft Rescue and Firefighting Unit (December 6, 2013)**
 - Aircraft Rescue and Firefighting Unit (Unit) has designed internal controls to help ensure the Unit consistently complies with certain Federal Aviation Administration (FAA) regulations related to the certification and operation of airports.
 - Opportunities to improve internal controls were noted in the following areas:
 - Documentation of FAA required training
 - Apparatus self-inspections
 - Apparatus preventive maintenance

Audit and Attestation Services Highlights

First Quarter, Fiscal Year 2014

■ Independent Auditor Reports on Applying Agreed-Upon Procedures

□ Sole Source – West Complete Library, \$76,224.05 (October 17, 2013)

- The procurement met the exemptions from competitive bidding as specified in the State of Texas Local Government Code, Chapter 252.022, **General Exemptions** (a) (7) – *a procurement of items that are available from only one source.*

No exceptions were noted.

□ Single Bid – SAS Software License and Support, \$107,860 (October 22, 2013)

- The procurement followed Administrative Directive (AD) 4-5: *Contracting Policy* provisions for processing single bid items and made reasonable efforts to increase bid participation.

No exceptions were noted.

Audit and Attestation Services Highlights

First Quarter, Fiscal Year 2014

■ Independent Auditor Reports on Applying Agreed-Upon Procedures

□ Fiscal Year 2013 # 2 Drug Destruction (November 11, 2013)

- 2,748 drug invoices and associated 4,102 drug articles totaling 3,090 pounds were destroyed according to Agreed-Upon Procedures to assist the Dallas Police Department.

Exceptions Noted:

- Eight invoices had Property Tag dates that did not agree to the Property Tag dates documented in *Evidence Manager*.
- One invoice had a Property Tag Number that did not agree to the Property Tag number in *Evidence Manager*.
- Ten invoices had Service Number discrepancies between the Property Tag and what was documented in *Evidence Manager*.
- Eight invoices were removed from the destruction for lack of authorization.
- Thirty eight invoices had 44 discrepancies related to the description and/or quantities on the Property Tag attached to the drug articles that did not agree to the information documented in *Evidence Manager*.

All discrepancies were corrected in *Evidence Manager* and verified by City Auditor personnel prior to the date of destruction.

Audit and Attestation Services Highlights

First Quarter, Fiscal Year 2014

■ Independent Auditor Reports on Applying Agreed-Upon Procedures

□ Single Bid – City Hall Security Vestibule, \$345,000 (November 11, 2013)

- The procurement followed Administrative Directive (AD) 4-5: *Contracting Policy* provisions for processing single bid items and made reasonable efforts to increase bid participation.

No exceptions were noted.

□ Sole Source – Lawson Human Resources and Information System Software Maintenance and Support, \$1,727,820.35 (November 20, 2013)

- The procurement met the exemptions from competitive bidding as specified in the State of Texas Local Government Code, Chapter 252.022, **General Exemptions** (a) (7) – a *procurement of items that are available from only one source*.

No exceptions were noted.

Audit and Attestation Services Highlights

Second Quarter through February 28, Fiscal Year 2014

■ Audit of City of Dallas' Self-Insured Medical Program (February 14, 2014)

- The City of Dallas' (City) Department of Human Resources (HR) has opportunities to improve administration and internal controls over the Self-Insured Medical Program (Program). Specifically:
 - Independent audits are not completed timely to verify Third Party Administrators (TPA) processed and paid medical and pharmacy claims in accordance with Program guidelines.
 - The HR does not have written procedures to ensure administrative fee payments are processed accurately and consistently.
 - Checks received in the benefits area are not routinely deposited by the next business day as required by Administrative Directive 4-13, Cash and Debt Management Policies and Procedures.
 - The HR does not always receive and review the TPAs' performance guarantee reports timely.
 - The City has not performed ongoing compliance monitoring activities and cannot ensure Protected Health Information (PHI) is properly protected as required by law.

Audit and Attestation Services Highlights

Second Quarter through February 28, Fiscal Year 2014

■ Audit of Arts and Cultural Program Funding (February 21, 2014)

- The Office of Cultural Affairs (OCA) has designed a process to demonstrate applications for funding are evaluated objectively and available funds are distributed fairly for the two main Cultural Contracts Programs: the Cultural Organization Program and the Cultural Projects Program.
- This process includes: (1) application submission; (2) eligibility determination; (3) funding recommendations; (4) contracting; and, (4) expenditure reimbursement.
- Monitoring controls, segregation of duties, and documentation for the Cultural Programs funding processes, however, can be improved to maximize efficiency and effectiveness.

Audit and Attestation Services Highlights

Second Quarter through February 28, Fiscal Year 2014

■ Independent Auditor Reports on Applying Agreed-Upon Procedures

□ Fiscal Year 2013 # 3 Weapons Destruction (January 15, 2014)

- 1,024 weapons were destroyed according to Agreed-Upon Procedures to assist the Dallas Police Department.

Exceptions Noted:

- Seven weapons (invoice numbers 308348, 307997, 308003, 307384, 327908, 328049, and 307207) had incorrect serial numbers recorded in *Evidence Manager*. The serial numbers were re-run through the National Crime Information Center (NCIC) with no match.
- Two weapons (invoice numbers 268670 and 326414) had incorrect blue tag seal numbers.
- One weapon (invoice number 327738) had an incorrect description.
- One weapon (invoice 279713) had an incorrect service number.

All discrepancies were corrected in *Evidence Manager* and verified by City Auditor personnel prior to the destruction.



Office of the City Auditor

Recommendations to the Charter Review Commission

■ **Sec. 1 Selection of City Auditor**

- ❑ Expand title and section to improve consistency with other similar sections
- ❑ State purpose of the office to serve as independent, objective appraisal activity, and state reporting relationship to Council
- ❑ Enhance independence, remove two-yea term, clearly state at-will employment and require two-thirds city council vote for removal
- ❑ Council to set compensation

■ **Sec. 2 Assistants and Employees**

- ❑ Expand title and section to improve consistency with other similar sections



Office of the City Auditor

Recommendations to the Charter Review Commission

- **Sec. 3 Duties of the City Auditor**
 - ❑ Modernize language
 - ❑ Eliminate list of duties
 - ❑ Require city auditor to organize and administer office without interference or influence that could adversely affect independence or objectivity
 - ❑ Require annual risk based audit plan
 - ❑ Move requirement for special audits to this section and limit definition of officer



Office of the City Auditor

Recommendations to the Charter Review Commission

- **Sec. 4 Special Audit**

- Rename as Access to Records and Property

- Clarify auditor's right of access to records, property, operations
 - Add requirement for "right to audit" clause in all contracts and specify right of access to contractors employees, records and property for audit purposes

QUESTIONS?



**City of Dallas
Office of the City Auditor
March 3, 2014**

