

Memorandum



DATE: April 20, 2011

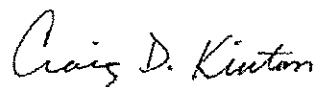
TO: Honorable Members of the Budget, Finance & Audit Committee –
Jerry R. Allen, Chair; Ann Margolin, Vice-Chair; Delia Jasso; Vonciel Jones Hill;
Angela Hunt; Ron Natinsky; David A. Neumann

SUBJECT: Presentation to the Budget, Finance & Audit Committee:
Office of the City Auditor Fiscal Year 2011 – Third Quarter Update

I will provide a briefing to the members of the Budget, Finance & Audit Committee on
Monday, April 25, 2011 regarding:

- Fiscal Year 2011 Audit Plan Status Update – Third Quarter

Sincerely,



Craig D. Kinton
City Auditor

Budget, Finance and Audit Committee

Office of the City Auditor Fiscal Year 2011 – Third Quarter Update



City of Dallas
Office of the City Auditor
April 25, 2011



Reports Issued

Second Quarter, Fiscal Year 2011

- Sanitation Franchise Fee Audit of a Selected Solid Waste Collection and Hauling Company
- American Recovery and Reinvestment Act (ARRA) – Summary Report for October 1, 2009 to September 30, 2010
- Audit of South Dallas Fair Park Trust Fund
- Independent Auditor's Reports on Applying Agreed-Upon Procedures
- Fiscal Year 2011 # 2 Drug Destruction

Reports Issued

Third Quarter, Fiscal Year 2011

- Audit Follow-Up of Prior Year Audit Recommendations – Fiscal Years 2007 to 2009 – *Released April 8, 2011*

- Independent Auditor’s Reports on Applying Agreed-Upon Procedures
 - Fiscal Year 2011 # 2 Drug Destruction
 - Sole Source Review: Renewal of GangNet Software Maintenance and Support



Anticipated Report Releases

Third Quarter, Fiscal Year 2011

- Uniform Overtime – Dallas Fire-Rescue

Projects In-Progress

Third Quarter, Fiscal Year 2011

- Sales/Use Tax Compliance Review Through MuniServices
- Former Mayor Tom Leppert – Special Audit Upon Resignation
- Sanitation Landfill Collections
- Aviation Regulatory Compliance
- Controls Over Lease Equipment
- Fire Building Inspections
- American Recovery and Reinvestment Act (ARRA) – Fiscal Year 2011
- Fleet Management Fuel Usage
- Capital Programs
- Contract Compliance – Office Depot

Anticipated Project Starts

Third Quarter, Fiscal Year 2011

- Revenue Estimates – Budgeted Revenues for Fiscal Year 2012
- Former City Council Member(s) – Special Audit(s)
- Fines / Fees Processing and Effectiveness – Special Permits and Fees
- Drug Articles and Weapons Destructions (as requested)
- Single Bid and Sole Source Reviews (as requested)

Cancelled Projects

Fiscal Year 2011

The following two projects were cancelled from the Fiscal Year 2011 Audit Plan as a result of discussions with City Manager and the City's anticipated hiring of an external consulting firm to develop a City-wide Business Continuity Plan.

- Emergency Management Operations and Business Continuity Plan
- Information Technology Disaster Recovery

Audit Highlights

Second Quarter, Fiscal Year 2011

■ Sanitation Franchise Fee Audit of Selected Solid Waste Collection and Hauling Company

- Identified \$165,147 in underpaid franchise fees
- As a result, the company remitted \$165,147 to the City of Dallas on December 28, 2010

Audit Highlights

Second Quarter, Fiscal Year 2011

■ American Recovery and Reinvestment Act (ARRA) – Summary Report for October 1, 2009 to September 30, 2010

- The City continued efforts to ensure that funds were awarded and distributed in a prompt, fair, and reasonable manner
- Fund recipients and uses of funds were reported clearly and timely, but reporting requirements caused inaccuracies in reports
- The City established processes to ensure funds were used for authorized purposes and fraud, waste, and abuse were mitigated
- The Weatherization Assistance Program and the Energy Efficiency and Conservation Block Grant Program experienced delays
- Overall ARRA goal achievements and outcomes will not be known until program completion

Audit Highlights

Second Quarter, Fiscal Year 2011

■ **Audit of South Dallas Fair Park Trust Fund**

- Loan guidelines were not followed
- Loan payments were not accurately monitored
- Applications were approved without required documents

■ **Independent Auditor Reports on Applying Agreed-Upon Procedures**

□ **Fiscal Year 2011 # 2 Drug Destruction**

- 3,112 drug invoices and associated 4,565 drug articles totaling 485.0 pounds destroyed

Audit Highlights

Third Quarter, Fiscal Year 2011

■ Audit Follow-Up of Prior Year Audit Recommendations – Fiscal Years 2007 to 2009 – *Released April 8, 2011*

□ City management improved accountability and operations by implementing 34 of 59, or 58 percent, of the prior audit recommendations tested during this follow-up audit; however, financial, operational, and compliance risks continue where recommendations were not adequately addressed

□ Accountability and operational improvements were accomplished through the implementation of recommendations. The extent to which City management agrees to and timely implements audit recommendations improves accountability through stronger control procedures and more efficient and effective service delivery.

□ Accountability and operational improvements were not accomplished and risks were not reduced where recommendations were not adequately implemented

□ The bank reconciliation process improved; however, it is still not a fully effective control for the timely detection and correction of bank and accounting system errors or potential fraudulent activity. Management also did not make sufficient progress formally documenting policies and procedures; a control activity designed to communicate employees' job responsibilities and help ensure operational consistency.

□ Management has communicated that although many recommendations remain outstanding, efforts to implement recommendations are in process

Audit Highlights

Third Quarter, Fiscal Year 2011

■ Independent Auditor Reports on Applying Agreed-Upon Procedures

□ Fiscal Year 2011 # 2 Weapons Destruction – *Released April 4, 2011*

- 198 weapons destroyed

□ Sole Source Review

The following Sole Source Bid Reviews 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*

- Renewal of GangNet Software Maintenance and Support \$100,000 – Department of Communication and Information Services / Dallas Police Department

MuniServices, LLC

Sales and Use Tax Audit Update

■ Audit Process Overview

- Initial review of City boundaries utilizing multiple sources to include zoning maps, information by provided Comptroller, and reviewing portions of the City outside of Dallas County within Denton, Collin, and Rockwall Counties

- Physical Canvassing –
 - Initial canvassing done for commercial/industrial areas with specific focus on warehousing
 - Over 400 businesses identified with approximately ½ reviewed to date confirming sales tax registration
 - Balance still in review with further canvassing to be done to include City borders, high density retail, airport, and additional industrial areas

- Thorough review of existing business sales tax registrations for possible jurisdictional errors. This is an on-going process with specific emphasis each month on new sales tax permits.

MuniServices, LLC

Sales and Use Tax Audit Update

■ **Audit Process Overview, *continued***

□ **Payment Data Analysis –**

- All payments are analyzed to detect any anomalies to include missing payments, reduced payments, or payments showing significant increases
 - Taxpayers will be contacted as appropriate to investigate and identify any possible misallocations
 - All payment history obtained to include 2008 data has been reviewed up through most current payments for January 2011
 - This review is initiated any time new payment data is received
- #### □ **Additional resources used to identify possible sales tax registration and/or payments errors include multiple newspaper publications, property tax information, telephone directory listings, various websites, and third party business lists**

MuniServices, LLC

Sales and Use Tax Audit Update

■ Audit Reviews in Progress

- List Filers – Thorough analysis of all taxpayers by business category reporting sales and use tax to identify taxpayers who may be misreporting the local tax based on their specific business model. Currently, 100+ businesses under review.
- Use Tax – Utilizing multiple data sources to review possible use tax reporting errors
- Both of these reviews will include additional canvassing with specific focus of warehousing and shipping points

MuniServices, LLC

Sales and Use Tax Audit Update

■ Errors Identified

- Nine errors submitted to Comptroller with correction confirmed
- Five additional errors submitted, still awaiting confirmation of correction from Comptroller
 - These 14 accounts are estimated to be worth approximately \$40,000*/quarter
- Four outstanding payment anomaly issues outstanding, estimated to be worth approximately \$100,000* in local tax to the City, are still under investigation

* Revenue estimates only include those accounts meeting current revenue threshold limit for taxpayers reporting \$25,000 or more in total tax annually. Updated revenue results will be provided if current legislation reducing threshold to \$5,000 is passed.



MuniServices, LLC

Sales and Use Tax Audit Update

■ Key Legislative Issues

- SB 758 – Sales and Use Tax information provided local governmental entities
- SB 1798 – Retailers engaged in business for the purpose of use tax (Amazon issue)

QUESTIONS?



**City of Dallas
Office of the City Auditor
April 25, 2011**

