

Memorandum



DATE: May 15, 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 – Third Quarter Update

I will provide a briefing to the members of the Budget, Finance & Audit Committee on Monday, May 19, 2014 regarding:

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

Sincerely,



Craig D. Kinton
City Auditor

Budget, Finance and Audit Committee

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



City of Dallas
Office of the City Auditor
May 19, 2014



Audit and Attestation Services Reports Issued

Second Quarter, Fiscal Year 2014

- Audit of City of Dallas' Self-Insured Medical Program
- Audit of Arts and Cultural Program Funding
- Special Audit of the Accounts of Former City Attorney, Thomas P. Perkins, Jr.
- Audit of Contract Compliance – Office Depot
- Independent Auditor's Reports on Applying Agreed-Upon Procedures: Fiscal Year 2013 # 3 Weapons Destruction

Audit and Attestation Services Reports Issued

Third Quarter to date, Fiscal Year 2014

- Audit of the Department of Dallas Water Utilities' Wastewater Collection and Treatment Operations – Internal Controls over Chemical Supplies
- Confidential Limited Use Report: Audit of the Department of Dallas Water Utilities' Wastewater Collection and Treatment Operations – Internal Controls over Chemical Supplies
- Audit of Software License Compliance
- Special Audit of the Accounts of Former City Manager, Mary K. Suhm
- Fiscal Year 2013 Audit Follow-Up of Prior Audit Recommendations for Fiscal Years 2010 to 2012

Audit and Attestation Services Reports Issued

Third Quarter to date, Fiscal Year 2014

- Independent Auditor's Reports on Applying Agreed-Upon Procedures
 - Sole Source Procurement: AirIT Content Management Application – Renewals for Software License, Hardware Warranty and Support

Investigative Services Reports Issued

Third Quarter to date, Fiscal Year 2014

- Department of Sustainable Development and Construction – Harassment of Citizen

Audit and Attestation Services

Anticipated Report Releases

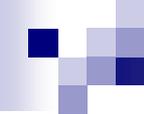
Third Quarter, Fiscal Year 2014

- May 11, 2013 Election Costs Invoiced by Dallas County Elections Department
- Patriot's Crossing Development

Audit and Attestation Services Projects In-Progress

Third Quarter, Fiscal Year 2014

- Franchise Fees Review Through MuniServices (*Ongoing*)
- Sales/Use Tax Compliance Review Through MuniServices (*Ongoing*)
- Convention and Event Services – Controls over Cash Receipts and Collections
- South Dallas Fair Park Trust Fund
- Water Customer Billings
- Contract Monitoring
- Employees' Retirement Fund / Dallas Police Fire Pension System
- Parking Management Contract Oversight
- Payroll Audit
- Purchasing / Contracting Processes
- Tracking Firearms and Equipment
- Building Permits
- Fleet Maintenance
- Maintenance of Infrastructure
- Paving and Maintenance Program / Capital Program Streets and Thoroughfares



Audit and Attestation Services

Anticipated Project Starts

Third Quarter, Fiscal Year 2014

- Revenue Estimates – Budgeted Revenues for Fiscal Year 2014-2015
- Agreed-Upon Procedures for Single Bid and Sole Source Engagements (as requested)

Audit and Attestation Services Highlights

Second Quarter, Fiscal Year 2014

■ **Audit 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, 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.
 - The 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, Fiscal Year 2014

- **Special Audit of the Accounts of Former City Attorney, Thomas P. Perkins, Jr. (February 28, 2014)**
 - Accounts were in order
 - Access to the City of Dallas (City) systems was timely removed
 - No debt was owed to the City
 - All City items assigned were substantiated
 - Management Letter was issued that included certain compliance issues noted during the Special Audit; no formal response to these issues was requested of management and the Office will follow-up on these issues during subsequent audits to determine whether corrective actions were taken

Audit and Attestation Services Highlights

Second Quarter, Fiscal Year 2014

■ Audit of Contract Compliance – Office Depot (February 28, 2014)

- Between January 2006 and August 2010, the City of Dallas (City) incurred financial losses estimated to be between \$1.3 million to \$3.6 million resulting from Office Depot's non-compliance with certain terms of Master Agreement Number 42595 (contract). (Note: Office Depot disagreed with this conclusion.)
- The Department of Business Development and Procurement Services (BDPS) did not have formal contract monitoring policies and procedures in place to guide BDPS personnel in establishing monitoring oversight responsibilities and conducting routine monitoring activities to verify that Office Depot and City departments complied with the contract.
- Between June 2009 and August 2010, BDPS increased the Office Depot contract by approximately \$900,000 (14 percent of the original \$6.5 million contract) by processing 35 individual change orders. While allowable under Administrative Directive 4-5, Contracting Policy, the total result was a significant increase in purchasing authority under the contract without additional oversight or approval by the City Council.
- The City also paid \$272,373 for 941 office products which each exceeded the authorized limit of \$150 per Council Resolutions.

Audit and Attestation Services Highlights

Second Quarter, 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 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 had incorrect blue tag seal numbers.
- One weapon had an incorrect description.
- One weapon had an incorrect service number.

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

Audit and Attestation Services Highlights

Third Quarter to date, Fiscal Year 2014

- **Audit of the Department of Dallas Water Utilities' Wastewater Collection and Treatment Operations – Internal Controls over Chemical Supplies (April 11, 2014)**
 - The Department of Dallas Water Utilities (DWU) Wastewater Collection and Treatment facilities have established certain controls over chemical supplies used in the wastewater treatment process.
 - Central and Southside facilities personnel do not have a formal receiving process to independently determine the reasonableness of the amount of chemical supplies received. As a result, DWU cannot readily determine that the City only pays for amounts received.
 - In Fiscal Year (FY) 2013, Budget versus Actual Reports showed expenditures for chemical supplies totaled \$4,024,442, or 27 percent, of the \$14,770,335 total supply expenditures at the wastewater facilities.

Audit and Attestation Services Highlights

Third Quarter to date, Fiscal Year 2014

- **Confidential Limited Use Report: Audit of the Department of Dallas Water Utilities' Wastewater Collection and Treatment Operations – Internal Controls over Chemical Supplies (April 11, 2014)**
 - The report issues and associated recommendations related to security over chemical supplies are omitted from the publicly released report based upon:
 - Government Auditing Standards, December 2011, Revision, Section 7.39 – 7.43, *Reporting Confidential and Sensitive Information*

Audit and Attestation Services Highlights

Third Quarter to date, Fiscal Year 2014

■ **Audit of Software License Compliance (April 11, 2014)**

- The City of Dallas (City) does not have an effective software asset management plan for the acquisition, use, and disposal of software. The City also cannot properly track software and assess software license compliance. Specifically:
 - Software licenses' usage and compliance cannot be readily identified
 - Administrative Directives are not consistently followed or clear
 - Annual software licenses' costs are not readily identifiable
 - Software license policy is not communicated effectively

Audit and Attestation Services Highlights

Third Quarter to date, Fiscal Year 2014

- **Special Audit of the Accounts of Former City Manager, Mary K. Suhm (May 2, 2014)**
 - Accounts were in order except for the following payroll software application calculation errors:
 - The employee's contribution amount to the Employees' Retirement Fund (ERF) (13.06 percent of the employee's final regular payroll and applicable lump sum payment) was incorrectly calculated. As a result, Ms. Suhm's ERF contribution was \$4,823.90 less than required.
 - The City of Dallas' (City) ERF contribution amount (12.94 percent of the employee's final regular payroll and applicable lump sum payment) was also incorrectly calculated. As a result, the City's ERF contribution was \$1,516.83 more than required.
 - Access to City systems was timely removed
 - All City items assigned were substantiated
 - Management Letter was issued that included an issue noted related to compliance with an Administrative Directive; no formal was requested of management and the Office will follow-up during subsequent audits to determine whether corrective actions were taken

Audit and Attestation Services Highlights

Third Quarter to date, Fiscal Year 2014

■ **Fiscal Year 2013 Audit Follow-Up of Prior Audit Recommendations for Fiscal Years 2010 to 2012 (May 9, 2014)**

- The City of Dallas (City) does not have adequate internal controls in place to ensure that audit recommendations (recommendations) are timely implemented and that identified financial, compliance, and operational risks are appropriately mitigated.
- The 38 percent implementation rate for the recommendations evaluated during the Fiscal Year (FY) 2013 follow-up audit was consistent with the two previous years' implementation rates of 35 percent (FY 2011) and 19 percent (FY 2012).
- The City is not adequately improving: (1) accountability through stronger financial controls; (2) compliance with laws and regulations; and, (3) service delivery by becoming more efficient and effective.
- While overall implementation rates were low, certain departments demonstrated commendable efforts to implement recommendations:
 - Equipment and Building Services
 - Aviation
 - Business Development and Procurement Services
 - Public Works

Audit and Attestation Services Highlights

Third Quarter to date, Fiscal Year 2014



COMMITTEE OF SPONSORING
ORGANIZATIONS OF THE TREADWAY COMMISSION

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Audit and Attestation Services Highlights

Third Quarter to date, Fiscal Year 2014

- **Independent Auditor Reports on Applying Agreed-Upon Procedures**
 - **Sole Source Procurement: AirIT Content Management Application – Renewals for Software License, Hardware Warranty and Support, \$286,751 (April 10, 2014)**
 - 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.

Investigative Services Highlights

Third Quarter to date, Fiscal Year 2014

- **Department of Sustainable Development and Construction – Harassment of Citizen (April 2, 2014)**
 - Summarizes the results of an investigation of an allegation involving a Department of Sustainable Development and Construction (SDC) Senior Inspector harassing a City of Dallas (City) citizen.
 - Allegations were investigated by the Dallas Police Department – Public Integrity Unit (DPD-PIU); however, the citizen did not want to press charges. The Office of the City Auditor began its investigation and concluded that the Senior Inspector’s conduct violated numerous City Personnel Rules.
 - The SDC: (1) reviewed the allegations and evidence; (2) considered the seriousness of the allegations along with other concerns about the Senior Inspector’s job performance; and, (3) determined the appropriate disciplinary action was termination of employment.
 - The SDC and the Department of Human Resources initiated the termination procedure and, upon receiving the pre-termination hearing letter, the employee decided to retire as of March 18, 2014.

QUESTIONS?



**City of Dallas
Office of the City Auditor
May 19, 2014**

