

## Memorandum



**DATE:** August 5, 2010

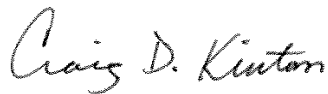
**TO:** Honorable Members of the Budget, Finance & Audit Committee –  
Jerry R. Allen, Chair; Ann Margolin, Vice-Chair; Delia Jasso; Vonciel Jones Hill;  
Angela Hunt; Ron Natinsky; David A. Neumann

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

I will provide a briefing to the members of the Budget, Finance & Audit Committee on Tuesday, August 10, 2010 regarding:

- Fiscal Year 2010 Audit Plan Status Update – Fourth Quarter

Sincerely,



Craig D. Kinton  
City Auditor

# Budget, Finance and Audit Committee

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



City of Dallas  
Office of the City Auditor  
August 10, 2010



# Reports Issued

## *Third Quarter*

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- Audit of Dallas Police Department Crime Statistics
- American Recovery and Reinvestment Act (ARRA) – January 1, 2010 to March 31, 2010
- Audit of Reduction in Force Employee Processing Controls
- Audit of Selected General Computer Controls for the Dallas Police Department and the Dallas Fire-Rescue Primarily Administered by the Department of Communication and Information Services
- Confidential Security Administration Limited Used Report – Audit of Selected General Computer Controls for the Dallas Police Department and the Dallas Fire-Rescue Primarily Administered by the Department of Communication and Information Services

# Reports Issued

## *Third Quarter*

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- Special Audit of the Accounts of Mr. David K. Cook, Chief Financial Officer
- Audit of Dallas Zoo Transition
- Bonds Review
  - City of Dallas (Dallas, Denton, Collin, and Rockwall Counties) Waterworks and Sewer System Revenue Refunding Bonds, Series 2010 – (\$295.85M)
- Single Bid Review
  - Greenhouse Lease (\$45,000 in-kind)

# Anticipated Report Releases

## Fourth Quarter

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- Agreed-Upon Procedures: Social Media/Social Networking Administrative Directive (Department of Communication and Information Services) – **Released July 13, 2010**
  - The proposed AD needs revision to ensure that industry best practices are addressed in the AD in a complete, accurate, robust, and grammatically correct manner. The City may also want to consider the risks and potential for increased costs associated with implementing and maintaining the use of Social Media/Social Networking.
  
- Weapons Destruction # 3 (Dallas Police Department) – **Released July 13, 2010**
  - 71 weapons destroyed according to Agreed-Upon Procedures to assist DPD

# Anticipated Report Releases

## Fourth Quarter

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### ■ Sole Source Reviews:

- SAS Software Renewal, \$102,030 (Department of Communication and Information Services) – ***Released July 13, 2010***
- Systems Innovators Software Support \$35,224 (Dallas Water Utilities) – ***Released July 29, 2010***

The two procurements met the exceptions 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.*

### ■ Drug Articles Destruction # 3 (Dallas Police Department) – ***Released August 3, 2010***

- 71 drug invoices and associated 260 drug articles totaling 739.20 pounds destroyed according to Agreed-Upon Procedures to assist DPD

# Anticipated Report Releases

## Fourth Quarter

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- American Recovery and Reinvestment Act (ARRA) – April 1, 2010 to June 30, 2010
- Confiscated Funds Audit Follow-Up (Dallas Police Department)
- Revenue Audit of Fair Park Music Hall Parking (Department of Park and Recreation)
- Uniform Overtime (Dallas Police Department)
- Selected General Computer Controls Over Various Revenue Sources (Department of Park and Recreation)
- Fleet Management (Department of Equipment and Building Services)
- Revenue Estimates Fiscal Year 2011 Budget (Budget Management Services)



# Projects In-Progress

## Fourth Quarter

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- American Recovery and Reinvestment Act (ARRA) – July 1, 2010 to September 30, 2010
- Solid Waste Hauler Franchise Fees (Department of Sanitation)
- South Dallas Fair Park Trust Fund (Department of Economic Development)
- Status of Outstanding Prior Year Audit Recommendations (Multiple Departments)
- No Smoking Ordinance (City Attorney's Office)



# Anticipated Project Starts

## Fourth Quarter

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- Uniform Overtime (Dallas Fire-Rescue)
- Sales/Use Tax Compliance Review Services (Budget Management Services)
- Single Bid and Sole Source Reviews (as requested)
- Drug Articles and Weapons Destructions (as requested)

# Audit Highlights

## Third Quarter

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### ■ Audit of Dallas Police Department's Crime Statistics

- DPD makes good faith effort to comply with the Uniform Crime Reporting (UCR) guidelines provided by the United States Department of Justice, Federal Bureau of Investigation
- The offenses reported on the *Form Return A – Monthly Return of Offenses Known to the Police*, filed with the Texas Department of Public Safety by DPD for calendar year 2008 appear substantially correct
- Opportunities for DPD to improve include: (1) UCR compliance and crime reporting; (2) information technology internal controls; and, (3) the efficiency with which DPD accumulates crime data

# Audit Highlights

## Third Quarter

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### ■ American Recovery and Reinvestment Act (ARRA) – January 1, 2010 to March 31, 2010

- ❑ As of March 31, 2010, the City of Dallas has been awarded funds of \$135,766,771 by Federal and State agencies. Of the \$59.0 million awarded directly to the City, \$3.4 million, or approximately six percent, has been expended.
- ❑ The City was experiencing delays in the Energy Efficiency and Conservation Block Grant program because the Department of Energy (DOE) had not approved the \$2.4 million contract
- ❑ An information technology system interface issue has caused the City's ARRA fund payroll expenditures not to always be properly recorded and accounted for in the City's financial accounting system
- ❑ 2009 Service Incentive Pay (SIP) was not pro-rated between ARRA funds and other funds according to the service provided by employees
- ❑ Quarterly ARRA status reports prepared by the City do not contain detailed and timely information
- ❑ The City's ARRA website does not show either the City's monthly ARRA Status Report which includes expenditures or the City Auditor's Office reports on ARRA

# Audit Highlights

Third Quarter

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## ■ Audit of Reduction in Force Employee Processing Controls

- City of Dallas processed terminating and transferring employees affected by the Reduction in Force in a decentralized manner which reduced accountability and increased risks
- Human Resources' policies, procedures, and forms do not adequately clarify departmental roles and responsibilities to ensure departments process terminating and transferring employees consistently and appropriately
- No single department has the responsibility to monitor whether the processes for terminating and transferring employees were consistently followed

# Audit Highlights

Third Quarter

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- **Audit of Selected General Computer Controls for the Dallas Police Department and the Dallas Fire-Rescue Primarily Administered by the Department of Communication and Information Services**
  - Change management, security administration, and computer operations general controls for the DPD and DFR are generally not well designed or operating effectively
  - Significant general computer controls are not in place to prevent, detect, and monitor critical functionality, such as unauthorized access to confidential data and files

# Audit Highlights

Third Quarter

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- **Confidential Security Administration Limited Use Report – Audit of Selected General Computer Controls for the Dallas Police Department and the Dallas Fire-Rescue Primarily Administered by the Department of Communication and Information Services**
  - Issues and associated recommendations related to certain aspects of security administration
  - Information omitted from the publically released report based on:
    - Government Auditing Standards, July 2007 revision, Sections 8.38 – 8.42 Reporting Confidential or Sensitive Information; and,
    - Texas Government Code Section 552.139. Exception: Government Information Related to Security or Infrastructure Issues for Computers

# Audit Highlights

Third Quarter

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- **Special Audit of the Accounts of Mr. David K. Cook, Former Chief Financial Officer**
  - Mr. David K. Cook, former Chief Financial Officer, was timely removed from access to City systems and does not owe any debt to the City
  - All items assigned to Mr. Cook were accounted for properly

# Audit Highlights

Third Quarter

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## ■ Audit of Dallas Zoo Transition

- ❑ Dallas Zoo Management, Inc (DZM) owes the City \$10,509 for Zoo expenses paid on DZM's behalf after DZM assumed responsibility for Zoo operations on October 1, 2009
- ❑ The City has provided DZM technology services for seven of the nine months allowed in the Management Agreement without collecting the \$137,088 in estimated monthly service fees
- ❑ The City Controller's Office has entered, but not yet approved the accounting entries to record the transfer on October 1, 2009 of \$3,691,443 in fixed assets to DZM and the accumulated depreciation of \$3,403,737
- ❑ The Zoo's Animal Collection (Zoo and Aquarium) inventory records overstated the number of animals actually transitioned by the City to DZM
- ❑ Internal controls over the Zoo's fixed assets were either not in place or not functioning properly
- ❑ The Zoo did not obtain the Scientific Research and Wildlife Rehabilitation permits from the Department of Texas Parks and Wildlife



# Attestation Highlights

Third Quarter

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## ■ **Bonds Review – City of Dallas (Dallas, Denton, Collin, and Rockwall Counties) Waterworks and Sewer System Revenue Bonds, Series 2010**

- Review the Official Statement totaling \$295,850 related to the Waterworks and Sewer System Revenue Refunding Bonds, Series 2010 to minimize the concerns that the City's financial condition is not accurately disclosed

## ■ **Single Bid Review**

- Single bid procurement for Greenhouse Lease totaling \$45,000 in-kind for the Department of Park and Recreation met the provisions of Administrative Directive 4-5 for processing single bid items and Business Development and Procurement Services made reasonable efforts to increase bid participation

# External Peer Review

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- An external peer review of the Office of the City Auditor was completed in June 2010 covering the period from May 1, 2007 through April 30, 2010
- External peer reviews are required to be completed at least once every three years by Government Auditing Standards

# External Peer Review

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- The purpose of the review is to determine if internal quality control systems are suitably designed and operating effectively to ensure compliance with Government Auditing Standards
- Review is conducted by a team of auditors from other local governments, coordinated through the Association of Local Government Auditors (ALGA)

# External Peer Review

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- Peer review team concluded that:

*“The City of Dallas – Office of the City Auditor internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestation engagements during the review period.”*

# External Peer Review

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- Numerous areas were identified where the Office excels, including:
  - Supervision documentation
  - Diverse, highly qualified staff
  - Cost effective, unique training program
  - Audit planning process
  - Work papers documentation
  - Easy to read, concise audit reports
  - Risk assessment and audit plan development
  - Implementation of electronic documentation software

# External Peer Review

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- One recommendation was made to enhance policies and procedures for the evaluation of non-audit services in relation to auditor independence standards. We concurred with the recommendation.

# QUESTIONS?



**City of Dallas  
Office of the City Auditor  
August 10, 2010**

