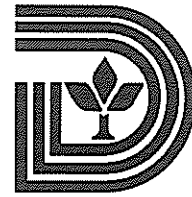


# Memorandum

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CITY SECRETARY  
DALLAS, TEXAS



CITY OF DALLAS

DATE August 5, 2010

TO Members of the Budget, Finance & Audit Committee:  
Ann Margolin, Vice-Chair, Vonciel Jones Hill, Delia D. Jasso, Ron Natinsky, David A. Neumann

SUBJECT **Budget, Finance & Audit Committee Meeting**  
**Tuesday, August 10, 2010, 9:30 – 11:30 a.m.**  
**1500 Marilla Street, City Hall, Room 6ES, Dallas, Texas 75201**

## AGENDA

1. Consideration of minutes from the June 28, 2010 Budget, Finance and Audit Committee Meeting
2. Communications Related to the FY 2009 Audit Ben Kohnle, Audit Partner  
Grant Thornton, LLP
3. Auditing Services Evaluation Results Ade Williams, Director of  
Bus. Dev. & Procurement Serv.
4. Office of the City Auditor FY 2010 Fourth Quarter Update Craig D. Kinton, City Auditor
5. Nomination & Appointment of the City Auditor Craig D. Kinton, City Auditor

### FYI:

6. Commercial Property, Boiler & Machinery, Fine Arts, Crime and Aviation Insurance Policies



Jerry R. Allen, Chair  
Budget, Finance & Audit Committee

C: Honorable Mayor & Members of the City Council  
Mary K. Suhm, City Manager  
Deborah A. Watkins, City Secretary  
Tom P. Perkins, City Attorney  
Craig D. Kinton, City Auditor  
Ryan S. Evans, First Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer

A closed executive session may be held if the discussion concerns one of the following:

1. Contemplated or pending litigation or matter where legal advice is requested of the City Attorney. Section 551.071 of the Texas Open Meetings Act.
2. Personnel matters involving discussions of the qualifications for performance of identifiable individuals already employed or being considered for employment by the City. Section 551.074 of the Texas Open Meetings Act.
3. The deployment, or specific occasions for implementation of security personnel or devices. Section 551.074 of the Texas Open Meetings Act.
4. Discussions concerning sale or lease of real property, or negotiated contracts for donations to the City, when such discussions would have a detrimental effect on negotiating position of the City. Section 551.072 of the Texas Open Meetings Act.

**BUDGET, FINANCE, AND AUDIT COMMITTEE  
DRAFT MEETING MINUTES  
June 28, 2010**

The Council's Budget, Finance, and Audit Committee meetings are recorded. Agenda materials and audiotapes may be reviewed by contacting the City Manager's Office Staff Coordinator Laura L. Carrillo at 214-670-7804.

**Meeting Date:** June 28, 2010

**Committee Members Present:**

Jerry R. Allen, Chair, Ann Margolin, Vice – Chair, Vonciel Jones Hill, Delia D. Jasso, Ron Natinsky

**Committee Members Absent:**

David A. Neumann (out of town on official City business)

**Other Council members present who attended a partial or duration of the meeting:**

**Staff Members Present:**

Jeanne Chipperfield, Laura Carrillo, Jack Ireland, Ade Williams, Edward Scott, Lance Sehorn, Shelia Robinson, Gwen Satterthwaite

**Meeting called to order at 11:37 a.m.**

**AGENDA:**

**1. Consideration of Minutes from June 14, 2010 Budget, Finance, and Audit**

**Presenter(s):**

**Information Only:**

**Action Taken/Committee Recommendation(s):**

Motion made by: Ann Margolin

Motion seconded by: Delia D. Jasso

The motion passed unanimously

**Follow up:**

**2. External Auditor Proposals – Review of Proposals; Discussions with Proposers: BKD, Clifton Gunderson, Crowe Horwath, Grant Thornton, KPMG, McGladrey & Pullen**

**Presenter(s):** Representatives from each firm attended

**Information Only:**

**Action Taken/Committee Recommendation(s):**

Motion made by:

Motion seconded by:

**Follow up:** The Budget, Finance & Audit Committee members were asked to evaluate and rank the proposals for the following 3 criteria: prior governmental auditing experience; qualifications of staff; and audit approach. Completed forms will be due on Wednesday, June 30, 2010. The other 2 criteria, fees M/WBE participation, will be rated by Business, Development & Procurement Staff, which is the City's procedure for proposal evaluations.

**FYI Only:**

6. **April 2010 Financial Forecast Report**

**Presenter(s):** Jeanne Chipperfield

**Information Only:** Yes

**Action Taken/Committee Recommendation(s):**

Motion made by:

Motion seconded by:

**Follow up:**

**Meeting adjourned at 1:41 p.m.**

# Memorandum



DATE August 5, 2010

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

SUBJECT Communications Related to the FY 2009 Audit

The Budget, Finance & Audit Committee's August 10, 2010 agenda includes the Subject briefing. Mr. Ben Kohnle, Audit partner for Grant Thornton, LLP will brief the Committee. His briefing materials are attached.

Please contact me if you need additional information.



Jeanne Chipperfield  
Chief Financial Officer

Attachment

C: Honorable Mayor & Members of the City Council  
Mary K. Suhm, City Manager  
Deborah A. Watkins, City Secretary  
Tom P. Perkins, City Attorney  
Craig D. Kinton, City Auditor  
Ryan S. Evans, First Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager

# **Audit Status Meeting with the Budget, Finance and Audit Committee**

**City of Dallas, Texas**

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## **Communications Related to the FY 2009 Audit**

**August 10, 2010**

**Attendees:**

**Ben Kohnle – Engagement Partner  
Kirt Seale – IT Principal  
Rusty Hale – Senior Manager  
Fulya Bayolken – Manager**

# Audit timeline

## Financial statement and OMB Circular A-133 audit

Audit planning	August – September 2009
Interim work and OMB Circular A-133	August – November 2009
Status meetings with management	Bi-weekly
Budget, Finance and Audit Committee update meetings	October 12, 2009 March 8, 2010
Final fieldwork	March – June 2010
Reports issued	June 2010
Budget, Finance and Audit Committee discussion of final audit results	August 10, 2010

# Reports issued

## Separate reports:

- Cityplace TIF

- DDDA TIF

- Airport revenues fund

- Dallas water utilities

- TCEQ agreed-upon procedures

## Financial statement audits:

- Comprehensive annual financial report

- Single audit (OMB Circular A-133)

## Internal control deficiency letter



# Results of Audit

- Comprehensive Annual Financial Report (CAFR)
  - Unqualified "clean" opinions
  - Includes GFOA Certificate for 2008 CAFR
  - One significant deficiency and multiple deficiencies noted
  - 12 of 16 prior year control deficiencies have been remediated
  - No scope limitations
  - Continued open and effective communication with management
- Federal Single Audit Report (A-133)
  - Three significant deficiencies noted in the current year
  - All six prior year findings have been remediated
- State Single Audit Report
  - No findings noted

# CAFR – Current year internal control findings

Audit Area	Finding	Severity	Status	Remediation Status
Capital Assets	Construction in progress transferred to capital assets upon completion	Significant deficiency	Repeat Finding	Expected by September 2010
Segregation of Duties	Monitoring approved expenditures to determine that funds were used for approved purpose	Control deficiency	New Finding	Expected by September 2010
IT	Segregation of duties have not been put in place regarding the administration of application-level AMS permissions as they are administered by functional staff	Control deficiency	Repeat finding	Remediated
IT	Developers have been granted end-user and administrative access into the AMS and SAP production environments resulting in excessive access	Control deficiency	Repeat finding	Remediated

# CAFR – Current year internal control findings (continued)

Audit Area	Finding	Severity	Status	Remediation Status
IT	User access within AMS, SAP and the City's Windows domain is not formally reviewed on a periodic basis	Control deficiency	Repeat Finding	Remediated
IT	A formalized process is not in place to revoke domain-level access of terminated employees	Control deficiency	Repeat Finding	Expected by August 2010
IT	Several terminated/retired employees had unlocked, unexpired user accounts within the AMS and SAP production environments	Control deficiency	Repeat Finding	Remediated
IT	Segregation of duties have not been put in place in relation to the AMS batch processing function as it is administered and monitored by the AMS developers	Control deficiency	Repeat Finding	Expected by August 2010
IT	New or changed SAP batch processing jobs are not subject to quality assurance testing prior to implementation and insufficient documentation is retained relating to the SAP batch monitoring process	Control deficiency	Repeat Finding	Remediated

# CAFR – Current year internal control findings (continued)

Audit Area	Finding	Severity	Status	Remediation Status
IT	Documentation evidencing the completion of activities within the change management process is insufficient as it relates to the AMS application.	Control deficiency	Repeat Finding	Remediated
IT	Developers have end-user and administrative access into the SAP application-level production environment	Control deficiency	Repeat Finding	Remediated
IT	Change promotion and transport-related privileges within SAP were not appropriately restricted at time of testing	Control deficiency	Repeat Finding	Remediated
IT	End-user had administrative access to SAP at the time of testing	Control deficiency	New Finding	Remediated
IT	SAP batch processing monitoring process does not create an audit trail sufficient to allow for testing of the process	Control deficiency	New Finding	Remediated

# CAFR – Current year internal control findings (continued)

<b>Audit Area</b>	<b>Finding</b>	<b>Severity</b>	<b>Status</b>	<b>Remediation Status</b>
IT	Batch processing-related privileges within SAP were not appropriately restricted at the time of testing	Control deficiency	New Finding	Remediated
IT	SAP change management process is not consistently observed when applying application-level SAP changes	Control deficiency	New Finding	Remediated
IT	The formalized access provisioning process is not consistently observed when granting SAP access to newly hired employees	Control deficiency	New Finding	Remediated

# CAFR – Status of prior year internal control findings

Audit Area	Finding	Severity	Remediation Status
Pension liabilities	Census data used by actuaries were not properly reviewed by management prior to submission	Significant deficiency	Remediated
Financial reporting	In the 2007 CAFR, the activities of the Downtown Dallas Development Authority were incorrectly reported as a “blended” component unit rather than as a “discreetly-presented” component unit	Significant deficiency	Remediated
Cash - Segregation of Duties	In two departments, cash-related duties of handling and recording cash were not adequately segregated	Significant deficiency	Expected by September 2010
Cash - Bank reconciliations	Reconciliations and reconciling items were not reviewed, investigated and resolved in a timely manner	Control deficiency	Remediated
Grant revenues	Employees did not receive adequate training to record grant revenue in the appropriate fiscal period	Control deficiency	Remediated

# A-133 – Current year compliance findings

<b>Program</b>	<b>Finding</b>	<b>Severity</b>	<b>Status</b>	<b>Expected Remediation Date</b>
Community Development Block Grant (CDBG), HOME Investment Partnership Program, Urban Area Security Initiative (UASI)	Procurement, suspension & debarment	Significant deficiency	Repeat finding	Remediated
Department of Justice – Edward Byrne Memorial Justice Assistance	Sub-recipient monitoring	Significant deficiency	Repeat finding	Remediated
Department of Justice – Edward Byrne Memorial Justice Assistance	Equipment management	Significant deficiency	Repeat finding	Remediated

# A-133 – Status of prior year compliance findings

<b>Program</b>	<b>Finding</b>	<b>Severity</b>	<b>Remediation Status</b>
Urban Area Security Initiative (UASI)	Cash management	Material weakness	Remediated
Community Development Block Grant (CDBG)	Cash management	Significant deficiency	Remediated
Highway Planning and Construction Cluster	Davis-Bacon Act	Material weakness	Remediated



# Questions and Answers



# Memorandum



DATE August 5, 2010

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

SUBJECT Auditing Services Evaluation Results

The Budget, Finance & Audit Committee's August 10, 2010 agenda includes the Subject briefing. Briefing materials are attached.

Please contact me if you need additional information.



Jeanne Chipperfield  
Chief Financial Officer

Attachment

C: Honorable Mayor & Members of the City Council  
Mary K. Suhm, City Manager  
Deborah A. Watkins, City Secretary  
Tom P. Perkins, City Attorney  
Craig D. Kinton, City Auditor  
Ryan S. Evans, First Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager

# Auditing Services Evaluation Results

Briefing to the Budget,  
Finance and Audit  
Committee

August 10, 2010



# Purpose

- To review the procurement process/results and provide the results of the Budget Finance and Audit Committee proposal evaluation for the auditing services contract

# Background

- The City Charter (Chapter III, Section 19) requires an annual independent audit of the City's "books of account, records, and transactions" by one or more certified public accountants. The Single Audit Act of 1996, as amended, also requires an audit of grantees who have received federal grants exceeding certain thresholds.
- The Auditing Services contract is unique with the selection and award of the contract being solely made by the City Council
- The process of selection includes all standard City notification processes followed by the final recommendation for award being made by the Budget Finance and Audit Committee

# Procurement Activity

- The Request for Proposal (RFP) was advertised May 27, and April 3, 2010
- As part of the vendor notification process, 480 electronic notices were sent by the City's web-based procurement system
- Additionally, notifications were sent by BDPS ResourceLINK Team (RLT) to 25 chambers of commerce, and 2 advocacy groups (i.e. DFW Minority Business Council and Women's Business Council-Southwest)

# Procurement Activity (cont'd)

- A pre-proposal conference was held June 7, 2010
  - 8 companies were represented
    - BKD CPA's & Advisors LLP.
    - Clifton Gunderson LLP.
    - Crowe Horwath LLP.
    - Deloitte & Touche LLP.
    - Emma S. Walker CPA
    - Frazier Gill
    - MJLM
    - The Wattley Consulting Group
- June 16, 2010 – Proposal closed

# Procurement Activity (cont'd)

- June 16, 2010 – BDPS received six proposals:
  - BKD CPA's & Advisors, LLP.
  - Clifton Gunderson, LLP.
  - Crowe Horwath, LLP.
  - Grant Thornton, LLP.
  - KPMG, LLP.
  - McGladrey & Pullen, LLP.
- June 28, 2010 - All six respondents presented to the Budget Finance and Audit Committee
  - At the conclusion of the Committee meeting, ranking forms were provided to all Committee members
- July 1, 2010 - BDPS received the Committee ranking forms and the rankings were tabulated



# Ranking Tabulation

Vendor	Prior Governmental Audit Experience (25 %)	Qualifications of Staff (25 %)	Audit Approach (15 %)	M/WBE Participation (15 %)	Fees (20 %)	Total Score
<b>Grant Thornton, LLP</b>	24.31	24.31	14.17	14.00	17.24	<b>94.03</b>
<b>KPMG LLP.</b>	22.22	22.22	13.33	9.00	20.00	86.77
<b>BKD CPAs &amp; Advisors, LLP</b>	15.28	16.67	10.00	13.00	19.47	74.42
<b>Crowe Horwath, LLP</b>	10.42	11.11	6.67	9.00	18.21	55.41
<b>Clifton Gunderson, LLP</b>	9.03	9.03	5.83	8.00	19.96	51.85
<b>MCGLadrey &amp; Pullen, LLP</b>	5.56	7.64	4.17	8.00	11.81	37.18

# Results

- Based on the Ranking Tabulation a request was made to Grant Thornton, LLP to provide a Best and Final Offer for their proposed services
- Grant Thornton responded with a \$50,000 reduction in cost for the 2010 audit review
- Annual Fees under Grant Thornton's proposal, including the Best and Final Offer:
  - FY 2010- \$901,000
  - FY 2011 - \$844,500
  - FY 2012 - \$861,390
  - Total three year contract total - \$2,606,890
- The proposal requested two one-year renewal options which would be authorized by Council if so desired
- Option years
  - FY 2013 - \$878,618
  - FY 2014 - \$896,190
- Note: For years following 2011 Grant Thornton's pricing includes a maximum increase of 2%

# Recommendation

- Approve an action item on the Council's August 25, 2010 agenda authorizing a three year service contract with two one-year renewal options for Auditing Services with Grant Thornton in an amount not to exceed \$2,606,890

## Memorandum



**DATE:** August 5, 2010

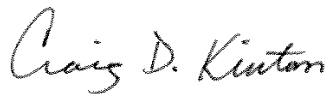
**TO:** Honorable Members of the Budget, Finance & Audit Committee –  
Jerry R. Allen, Chair; Ann Margolin, Vice-Chair; Delia Jasso; Vonciel Jones Hill;  
Angela Hunt; Ron Natinsky; David A. Neumann

**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**



# 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

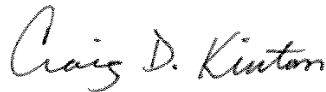
**SUBJECT:** Presentation to the Budget, Finance & Audit Committee:  
Nomination and Appointment of the City Auditor

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

- Nomination and Appointment of the City Auditor

The current term for the City Auditor, Craig D. Kinton, expires on September 5, 2010. Section 2-17.2 of the Dallas City Code allows the Budget, Finance & Audit Committee to nominate (for consideration of the full City Council) the incumbent City Auditor for an additional two year term. If the Committee motions to act as the nominating committee for the re-appointment of the City Auditor, the Council Agenda item (scheduled for August 25, 2010) will allow for full City Council approval.

Sincerely,



Craig D. Kinton  
City Auditor

Attachment

**Presentation to  
Budget, Finance & Audit Committee –**

# **Nomination and Appointment of the City Auditor**

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





# **Nomination and Appointment of the City Auditor**

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The current term of the City Auditor, Craig D. Kinton, CPA will expire on September 5, 2010.

The purpose of this presentation is to brief the Budget, Finance & Audit Committee on the process for reappointment of Mr. Kinton or the requirements for nomination of a new City Auditor.



# City Charter

## Chapter IX. City Auditor

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Chapter IX of the City Charter creates the Office of City Auditor.

The chapter includes four sections:

- Section 1 – Selection of City Auditor
- Section 2 – Assistants and Employees
- Section 3 – Duties of the City Auditor
- Section 4 – Special Audit


# CITY CHARTER – CHAPTER IX. CITY AUDITOR

## SEC.1 – SELECTION OF CITY AUDITOR

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### Section 1:

- Creates Office of City Auditor
- Establishes Two-Year Term  
(and until a successor is chosen and qualifies)
- Defines Qualifications:
  - Knowledgeable in public administration, public financial and fiscal theory, municipal accounting, and auditing
  - Licensed CPA
  - Resident of City of Dallas  
(or move into the city within time period required by the City Council)
- Stipulates Appointment by City Council  
(after being nominated in accordance with a nominating procedure established by ordinance)




**City Code**  
**Chapter 2 – Administration**  
**Sec. 2-17.2 Selection of City Auditor;**  
**Nominating Commission**

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The nominating procedure established by ordinance is codified in the City Code in Chapter 2, Section 2-17.2





# City Code


## Chapter 2 – Administration

### Sec. 2-17.2 Selection of City Auditor; Nominating Commission

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Section 2-17.2 stipulates that:

- City Council shall appoint a nominating commission before the end of each term of the City Auditor
- **The finance and audit committee may act as a nominating commission to nominate incumbent City Auditor for reappointment by full City Council (requires majority vote)**
- If majority of finance and audit committee does not vote to nominate the incumbent City Auditor (or a majority of the Council does not vote to reappoint) the Council must follow the process outlined in Sec. 2-17.2 subsections (a) through (e)



# City Code


## Chapter 2 – Administration

### Sec. 2-17.2 Selection of City Auditor; Nominating Commission

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Section (a) requires the city council to appoint a five member nominating commission meeting the following qualifications:

- One member selected by Dallas Chapter / TXCPA board of directors
- One member who is the regional director of USGAO (or highest ranking member of Dallas division)
- Three members meeting one of following qualifications:
  - Managing partner in multi-national public accounting firm with office in Dallas
  - CEO/CFO/CAE - publicly-traded company headquartered in Dallas County (\$1 billion annual revenue)
  - Former Dallas Mayor or Council Member
  - Current or former Dallas City Auditor



# **City Code**


## **Chapter 2 – Administration**

### **Sec. 2-17.2 Selection of City Auditor; Nominating Commission**

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Additional requirements pertaining to the nominating committee include:

- Meet within 15 days of appointment
- Nominate one or more candidates to City Council within 180 days of first meeting
- Serve until the City Council accepts a candidate



# City Code

## Chapter 2 – Administration

### Sec. 2-17.2 Selection of City Auditor; Nominating Commission

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Additional requirements pertaining to the city council include:

- Accept one candidate or reject all within 30 days of receipt of nomination
- Immediately notify commission if candidates are rejected

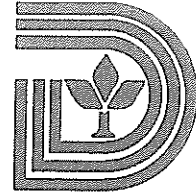


# **Nomination and Appointment of the City Auditor**

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**Questions?**

# Memorandum



CITY OF DALLAS

DATE August 5, 2010

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

SUBJECT Commercial Property, Boiler & Machinery, Fine Arts, Crime and Aviation Insurance Policies


The August 25, 2010 Council Agenda will include an item to award a thirty-six month contract for insurance broker services to Wells Fargo Insurance Services in a not-to-exceed amount of \$7,400,000 for period 10/1/2010-2013.

Through a Request for Competitive Sealed Proposal (RFCSP) process, Wells Fargo Insurance Services was selected from among three other proposers to provide the City with insurance broker services, namely to:

- outline a property structure
- provide strategies and rationale for property program
- provide engineering inspections
- place the City's commercial property, boiler and machinery, fine arts, crime and aviation insurance policies.

The recommended insurance policies have the same limits, coverage and deductibles as the expiring policies; however there is an increase in the insured values from \$3.4 billion to \$4.1 billion. The rate per \$100 of insured value decreases by 16% with the recommended property insurance policy. There are also decreases in the premiums for the other policies included in the contract. Overall, there are savings of \$8,082 when comparing the FY09-10 premiums to the premiums for FY10-11.

Attached for your review is a comparison of FY09-10 and proposed FY10-11 annual premium and coverage

  
Mary K. Sulm  
City Manager

Attachment

C: Honorable Mayor & Members of the City Council  
Deborah A. Watkins, City Secretary  
Tom P. Perkins, City Attorney  
Craig D. Kinton, City Auditor  
Ryan S. Evans, First Assistant City Manager  
A. C. Gonzalez, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer

# Comparison of Annual Policies

	CURRENT POLICY	PROPOSED POLICY
Agent	Wells Fargo Insurance Services, USA	Wells Fargo Insurance Services, USA
<b>Property</b>		
Total Insured Values	\$ 3,418,377,544	\$ 4,100,000,000
Loss Limit	\$ 1,500,000,000	\$ 1,500,000,000
Deductible	\$ 1,000,000	\$ 1,000,000
Flood Exception	5%/Minimum \$1M for structures in Special Flood Hazard Zones	5%/Minimum \$1M for structures in Special Flood Hazard Zones
Earthquake Exception	\$ 1,000,000	\$ 1,000,000
Insurer	Lexington/TML	Lexington/TML
Premium(annual)	\$1,588,272	\$1,603,100
Rate	0.0465	0.0391
Terrorism(optional)	\$47,610	\$48,093
Taxes/Fees	\$80,260	\$81,074
Guarantee	Rate Guarantee for 3 yrs	Rate guarantee for 3 yrs subject to a 40%-50% Incurred Loss Ratio
Policy Term	10/01/2007-2010	10/01/2010-13
<b>Loss Control</b>		
	\$75,000	\$75,000
<b>Terms/Conditions</b>		
Flood Limit	\$50MM Limit except \$15MM for structures in Special Flood Hazard Areas	\$50MM Limit except \$15MM for structures in Special Flood Hazard Areas
Earthquake Limit	\$50,000,000	\$50,000,000
Business Interruption/Extra Expense Limit	\$70,600,000 included in TIV	\$70,600,000 included in TIV
Newly Acquired/Constructed Limit	\$50MM/90 days reporting	\$50MM/90 days reporting
Terrorism(optional) Limit	\$ 250,000,000	\$ 250,000,000
Machinery & Equipment	Included	Included
Deductible	\$ 100,000	\$ 100,000
Sublimit Expediting Expense/Haz Substances/Spoilage	\$ 5,000,000	\$ 5,000,000
EDP Including Media	\$ 5,000,000	\$ 5,000,000
Replacement Cost/Agreed Amount	Yes	Yes
<b>Total</b>		
Premium Total	\$1,716,142	\$1,732,267

# Comparison of Annual Policies

	CURRENT POLICY (FY 09-10)		PROPOSED POLICY (FY 10-11)	
Agent	Wells Fargo Insurance Services, USA		Wells Fargo Insurance Services, USA	
<b>Fine Arts</b>				
Total Insured Values	\$	41,668,294	\$	41,668,294
Deductible	\$	10,000	\$	10,000
Exception for Outdoor Vandalism	\$	25,000	\$	25,000
Insurer	ACE American		ACE American	
Premium(annual)		\$33,845		\$20,470
Terrorism(optional)-@ \$25M Limit		NA		\$1,550
Full limit		NA		\$1,683
Policy Term	10/01/2009-10		10/01/2010-11	
<b>Aviation</b>				
Limit		\$1,000,000		\$1,000,000
Premium(annual)		\$106,962		\$96,656
Insurer	Chartis		Chartis	
Includes Hull Physical Damage/Liability and War Risk		Yes		Yes
<b>Crime</b>				
Limits				
Forgery/Alteration-Ded. \$25,000	\$	500,000	\$	500,000
Money/Securities on Premise-Ded. \$10,000	\$	1,500,000	\$	1,500,000
Money/Securities Messenger-Ded. \$10,000	\$	1,500,000	\$	1,500,000
Computer Fraud-Ded.\$25,000	\$	500,000	\$	500,000
Public Employee Dishonesty-Ded.\$100,000	\$	2,000,000	\$	2,000,000
Premium(annual)		\$29,636		\$27,427
Alternate Limit of \$2MM		NA		
Terrorism		Incl.		Incl.
Insurer	Travelers		Travelers	
<b>Totals</b>				
Ancillary Premium(annual)	\$	170,443	\$	146,236
Property Premiums	\$	1,716,142.00	\$	1,732,267.00
Total Premium for All Coverages	\$	1,886,585	\$	1,878,503
Broker Fee/Commission	\$	110,000	\$	110,000
Loss Control/Engineering Surveys	\$	75,000	\$	75,000
Total Annual Charges	\$	2,071,585	\$	2,063,503

<p>3-yr premium estimate (\$7,400,000)          -based on increase in values (projected renovation and construction projects)          -10% increase ancillary coverage</p>
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