

Memorandum



CITY OF DALLAS

Date September 19, 2008

To Members of the Finance, Audit & Accountability Committee
Chair Mitchell Rasansky, Vice Chair Jerry R. Allen, Mayor Pro Tem Dr. Elba Garcia,
Vonciel Jones Hill, Angela Hunt, Ron Natinsky and David Neumann

Subject **Communications Related to the Financial Statement Audit**

The Committee's September 22nd agenda includes the Subject briefing. Grant Thornton's Ben Kohnle will brief the Committee and his briefing materials are attached.

Should you require additional information, please let me know.

A handwritten signature in black ink, appearing to read 'D. Cook'.

David Cook
Chief Financial Officer

Attachment

C: Honorable Mayor & Members of the City Council
Mary K Suhm, City Manager
Tom Perkins, Jr., City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Ryan S. Evans, First Assistant City Manager
David O. Brown, Interim Assistant City Manager
Ramon Miguez, P.E., Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
A.C. Gonzalez, Assistant City Manager



2008 Meeting with the Finance, Audit and Accountability Committee

City of Dallas

Communications Related to the Financial Statement Audit

September 22, 2008

Communications Related to the Audit

Results of financial statement audit

Results of financial statement audit

- Unqualified “clean” opinion
- Various internal control comments provided
- No scope limitations
- No unresolved audit issues
- Open and effective communication with management

Communications Related to the Audit

Audit Adjustments identified during our audit

Material, corrected audit adjustments

- Adjusting entries to correct cash, investments, and investment income
- Depreciation expense impact relating to assets that should have been placed in service in previous years
- Amortization of bond premium/discounts – effective interest rate method vs. previous method
- Grant revenue recorded as investment revenue
- Landfill liability calculation errors
- Investment income attributable to prior year recorded in current year

Material, corrected audit adjustments

- Adjustment to UHC account balance recorded for benefit payments
- Customer deposits for real estate adjustments
- Adjustments recorded to increase allowance for doubtful accounts for various receivables and reclassification entry for bad debt expense
- Reclassification entry to correct current portion calculation of accrued compensation absences

Uncorrected audit adjustments

- The accompanying summary includes audit adjustments which were not corrected by management
- Management believes these uncorrected adjustments are immaterial to the 2007 financial statements (but will be corrected in 2008) and have made formal representations to us regarding that fact (we concur with their conclusion)
- Uncorrected adjustments could be potentially material to future financial statements

Deficiencies in internal control over financial reporting

- Implementation of Statement of Auditing Standards No. 112, redefined evaluation and classification of internal control deficiencies
- Material weaknesses (MW) and significant deficiencies (SD) include:
 - Bank reconciliations (MW)
 - Capital assets (MW)
 - Amortization of bond premiums and discount (MW)
 - Grant revenue reconciliation (SD)
 - Landfill liability (SD)

Deficiencies in internal control over financial reporting

- Control deficiencies that are of a lesser magnitude than a significant deficiency include the following:
 - Investment income
 - Other assets – claims deposit
 - Customer deposits
 - Accounts receivable/allowance
 - Capital assets
 - Vendor identification
 - Access to critical spreadsheets
 - IT security
- Status of prior year internal control findings:
 - 9 of the 14 recommendations have been implemented
 - 5 of the 14 recommendations were in process at end of our audit fieldwork

Communications Related to the Audit

Overall quality of the City's accounting practices

Accounting policies

- No new significant accounting policies were adopted by the City during fiscal year 2007

Accounting estimates

- Sensitive accounting estimates
 - *Management records accruals for their self insurance plans based on actuarial assumptions provided to the City.*
 - *An allowance for doubtful receivables is provided based upon management's judgment including such factors as prior collection history, type of account, and/or nature of activity.*
 - *Estimates are made by management in recording the post-closure liability for the landfill.*
 - *We have performed tests to satisfy ourselves as to the reasonableness of the self insurance accruals, allowance for receivables and landfill liability.*

Financial statement disclosures

- We have assessed the financial statement footnotes for clarity and completeness.
- Footnote disclosures to the financial statements appear overall to be neutral and free from undue management bias.

Communications Related to the Audit

Other matters related to the financial statement audit

Other matters related to the audit

- There were no significant difficulties encountered in dealing with management related to the audit.
- There were no disagreements with management about matters that individually or in the aggregate could be significant to the City's financial statements or the auditor's report.
- No going concern issues were noted.
- We are not aware of management consulting with other accountants about auditing or accounting matters.
- We will meet with the Committee on October 13, 2008 to discuss the results of the Single Audit (OMB Circular A-133)

Questions and Answers



September 18, 2008

City of Dallas
Finance, Audit and Accountability Committee
1500 Marilla Street
Dallas, TX 75201

Ladies and Gentlemen:

In connection with our audit of the City of Dallas (the "City") financial statements as of September 30, 2007 and for the year then ended, auditing standards generally accepted in the United States of America ("US GAAS") established by the American Institute of Certified Public Accountants require that we advise you of the following internal control matters identified during our audit.

Our responsibilities

Our responsibility, as prescribed by US GAAS, is to plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. An audit includes consideration of internal control over financial reporting (hereinafter referred to as "internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of identifying deficiencies in internal control or expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion on internal control effectiveness.

Because our consideration of internal control was for the limited purpose described above, our audit would not necessarily identify all control deficiencies, significant deficiencies or material weaknesses. However, we are responsible for communicating to management and to the Finance, Audit and Accountability Committee (hereinafter referred to as "those charged with governance") any control deficiencies identified during the audit that upon evaluation are considered significant deficiencies or material weaknesses.

Definitions related to internal control deficiencies

A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Control deficiencies may individually, or in combination, give rise to a significant deficiency or a material weakness.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Identified deficiencies in internal control

We identified the following internal control matters as of August 20, 2008.

Material weaknesses

We consider the identified control deficiencies in Section A to constitute material weaknesses in internal control.

Significant deficiencies

We consider the identified control deficiencies in Section B to be significant deficiencies.

Control deficiencies

In addition, we identified control deficiencies that are of a lesser magnitude than a significant deficiency and are included in Section C.

Recommendations to strengthen internal control

We recommend that the City and those charged with governance consider the recommendations described in the following description of internal control matters.

Management's responses

Management's written responses to the control deficiencies identified herein have not been subjected to our audit procedures and accordingly, we express no opinion on them.

* * * *

This communication is intended solely for the information and use of management, those charged with governance and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A. Material weaknesses:

Bank reconciliations

Observation

The City has an adequate design of internal controls over the preparation and review of bank reconciliations. However, timely bank reconciliations are an integral part of a strong internal control environment. It was noted during our audit that the September 30, 2007 bank reconciliations were not completed until months after fiscal year end. In addition, we noted errors in the bank reconciliation process. For example, certain checks that had been voided continued to appear as outstanding checks on the bank reconciliations, indicating that the monitoring controls regarding the review of the bank reconciliations were not operating effectively.

Recommendation

We recommend that all bank reconciliations be completed each month on a timely, accurate and comprehensive basis, and that the procedure for recording voided checks be reviewed to ensure that the general ledger is adjusted for each in a timely manner. In addition, we recommend that proper training be provided to the reviewer to ensure that effective monitoring controls are in place.

Management's response

The City is currently upgrading the reconciliation software and reviewing the processes and procedures for all cash transactions. The upgrade will improve the reporting of bank activity through automation and consolidation of the activity to one system. The system currently reconciles the daily activity but does not provide a consolidated reporting tool. Temporary staff is being used to consolidate the information and report to the departments for resolution and to assist with getting the bank reconciliation current. The software upgrade is scheduled for presentation to council in November 2008.

Capital assets

Observation

During the audit we noted errors in the construction in progress accounts for both governmental activities and business-type activities that we believe aggregated to a material weakness in internal controls. An adequate system of internal controls over financial reporting and capital asset management should include monitoring of the status of projects in progress and timely updating of information regarding such projects under construction. It should also include a system to identify when each project has reached substantial completion, and the appropriate accounting adjustments required to move the project from construction in progress to completed projects have been made. The City's system of internal controls over financial reporting and capital asset management did not identify certain projects that were completed during or prior to the current fiscal year. This was primarily due to the new monitoring controls not completely implemented by end of the fiscal year, as the project information provided by various departments to the controller's office was not validated. These projects should have been reclassified to the appropriate capital asset category on a timely basis and depreciated from the date placed in service. We also noted that some of the City's departments were inconsistent in the application of the City's policy for determining when a project is considered complete. Some departments adhere to the City's policy and consider a project complete when it reaches 95% of the total contract value, while other departments consider a project complete only when the final retainage is paid. In addition,

inconsistencies in the useful lives for similar assets were noted in the computation of depreciation expense when the completed asset was placed in service.

Recommendation

We recommend that the City implement the monitoring controls in its entirety and review its process for monitoring the status of all construction in progress accounts, including ways to improve the completeness and accuracy of reported data, to increase automation of the process, to provide for reliable electronic summarization of project data, to institute formal reviews of the status of each project both at the project level and at the entity-wide level, and the transferring of the projects from construction in progress to the appropriate asset categories in the fixed asset system at the appropriate time. Enhanced procedures may include requiring formal certification from each City department responsible for the project as to the status of the project and quarterly meetings to ensure the Controller's office is aware of the status of all significant projects to ensure proper accounting and reporting. In addition, certain basic data that provides indications regarding the status of projects, such as payment of retainage, sign-off by the project manager, release of liens, and engineering certifications, should be readily available in summary electronic form as well as in the project folders that are maintained for each project. Also, a review of procedures should be performed City-wide to ensure consistent determination of when a project is considered completed for accounting purposes. The City should also re-evaluate existing capitalization thresholds and consider adopting the mid-year convention to optimize effectiveness and efficiency when accounting and reporting capital asset activity.

Management's response

Revised procedures have now been implemented to timely identify completed construction projects. These internal control procedures include periodic review of uncompleted projects, communication with departments for certification of project status, analysis of retainage reductions and disbursements, review of annual Bond Program Fund and Unit Summary Report, and analysis of program activity and relative value. To ensure reliability, all transfers from construction in progress to capital assets are supported by appropriate documentation.

Management has already implemented training City-wide and will continue to accommodate the needs of the departments by providing ongoing fixed asset training. This training provides a review of fixed asset policy and procedures.

Amortization of bond premiums and discounts

Observation

Accounting principles generally accepted in the United States of America (GAAP) require a debt issuance discount or premium to be amortized as a component of interest expense or income over the life of the debt using the effective interest method, which is consistent with the City's accounting policy. Other methods of amortization may be used, if the results obtained are not materially different from those that would result from application of the effective interest method. The effective interest method is a method of calculating amortization using the effective interest rate of a debt instrument. The effective interest rate is the rate that, when applied to the future cash payments, causes that discounted amount to equal the net carrying amount of the debt instrument. However, during the course of the audit, it was noted that discounts and premiums were amortized based on the percentage of debt outstanding instead of the effective interest method. The City completed an analysis, and it was noted that the current method used and the effective interest method calculated resulted in significant differences for various opinion units.

Recommendation

The City has adjusted the financial statements to comply with its accounting policies and to appropriately reflect the financial statements in accordance with GAAP. We recommend that the City formally change its practice to continue to utilize the effective interest method prospectively.

Management's response

In the past, the City tested the premium amortization calculation using the effective interest rate method versus a simpler method used in previous years. Because the difference had always been immaterial and because the overall interest expense is the same for both methods over the life of the bonds, the City chose to continue using the simpler allocation method. This was deemed immaterial in all prior year audits. For fiscal year 2007, auditors recommended performing the calculation again for all debt issues. After updating all schedules to compare the differences, management decided to change methods after consideration was given to the time and effort taken to prepare annual comparisons of both methods. The City will continue to use the effective interest method for all new debt issues in the future. A formal policy will be adopted in the City's policies and procedures for accounting and financial reporting. In the future, if any deviations from GAAP are done due to immateriality, a manager and director must approve and sign off.

B. Significant Deficiencies:

Grant revenue reconciliation

Observation

Grant revenue should be recorded when grant expenditures are made for reimbursement grants. Accordingly, total grant revenues should normally equal the total grant expenditures for these types of grants reported in the Schedule of Expenditures of Federal and/or State Awards. We noted that these amounts did not agree in some cases, and that reconciliations of grant revenue and expenditures were not being performed periodically. In addition, certain grant revenue received in the prior year was erroneously credited to investments rather than grant revenue in at least one case. An audit adjusting journal entry was proposed and recorded to correct this amount in the current year.

Recommendation

We understand that discrepancies may arise due to problems in reporting from departments, such as expenditures being coded to the grant with no reimbursement requested. We recommend that these departments be educated about the process, through a formal policy and procedure to properly account for these grants. Such entries should be reviewed by the appropriate finance person to ensure they are being done correctly. We also recommend that continued training of departmental personnel to ensure consistency in reporting grant activity and quarterly meetings with the grant managers to ensure the Controller's office has all information necessary to ensure proper accounting and reporting are conducted. In addition, we recommend that formal reconciliation and review procedures be implemented both at the departmental level as well as organization-wide for investment and grant revenue accounts to prevent improper charges to the accounts and to verify that reported grant revenues agree to the related expenditures.

Management's response

Due to the fact that the revenues and expenditures were not always matched properly in prior years, there are timing differences in reporting grant revenues and expenditures. The Controller's Office began

working with the departments during 2007 to reconcile the timing differences in revenue and expenditure recognition for the grants. The Controller's Office will continue to provide training to the departments, so they will be able to properly match the revenues and expenditures for grant financial reporting. Included in the training provided by the Controller's Office will be formal reconciliation procedures for all departments to follow. The Controller's Office is in the process of hiring an additional grant accountant to provide increased monitoring and communication between the Controller's Office and the various departments.

Landfill liability

Observation

GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill (MSWLF) Closure and Postclosure Care Costs*, as interpreted by GASB Interpretation No. 6, establishes standards of accounting and financial reporting for municipal solid waste landfill closure and postclosure care costs that are required to be incurred by federal, state, or local laws or regulations. GASB Statement No. 18, as interpreted, requires certain capital and operating costs that result in disbursements near or after the date that the landfill stops accepting solid waste and during the postclosure period to be included in the estimated total current cost of landfill closure and postclosure care. At the end of each year, the City should evaluate its estimate of the total current cost related to closure and postclosure care of a MSWLF. During our testing of the City's landfill post closure care liability, we noted the following as a result of ineffective monitoring controls regarding reviews:

- the McComas landfill calculation did not correctly account for inflation.
- the Deepwood landfill calculation did not include inflation or other balances that should have been included in the liability.

Recommendation

We recommend that the City implement specific procedures and provide the necessary training to ensure the calculation and disclosure of landfill post closure care liability is in accordance with GAAP, including review of the calculations and the underlying assumptions from the engineering department, including updates when necessary.

Management's response

The Controller's Office will obtain information from solid waste and review data for reasonableness and ensure that calculations and underlying assumptions are accurate.

C. Control Deficiencies:

Investment income

Observation

In our testing of investment income, we noted that accrual of interest income on various investments was not considered. No controls are in place to ensure that accruals made for investment income are complete and accurate. This resulted in certain prior year interest income being recorded in the current year.

Recommendation

We recommend that a control be put in place to ensure that interest income is properly accrued for at the end of each accounting period.

Management's response

Management has implemented a policy to review the investment reports to ensure accruals are properly reflected in the general ledger. This review will be prepared by a manager and subject to a review process.

Other assets - claims deposit

Observation

We noted during the audit that the asset account for the deposit held by United Healthcare for payment of medical insurance claims was overstated. The balance was not adjusted for the claims paid from the date of last replenishment to month end for the health plan, indicating a lack of review over this account activity.

Recommendation

We suggest that procedures be implemented to routinely adjust this account in a timely manner to properly record all activity (i.e., claim payments, interest income, etc.) and monitoring controls be strengthened to ensure proper accounting and reporting.

Management's response

Management will review its asset and liability accounts monthly during each fiscal year and will make any adjustments before processing the subsequent months' transactions that affect these two balance sheet accounts. Management will assure that the general ledger balance is reconciled to the reports. The City Controller's Office will review the year-end supporting documentation from the department and reconcile this amount to the general ledger.

Customer deposits'

Observation

During testing of the real estate customer deposits account liability, we noted that transactions were not being cleared from this account in a timely manner in all cases. A complete analysis of the account activity for the entire fiscal year was not completed until after the start of the audit (months after year end).

Recommendation

The balance in the customer deposits account should be analyzed periodically to determine that activity posted to this account is complete and accurate and accounted for in a timely manner.

Management's response

The Development Services department now tracks all inflows and outflows of the customer deposit account on a monthly basis and analyzes the activity on a monthly basis. The City Controller's Office will review the year-end supporting documentation from the department and agree to the general ledger.

Accounts receivable/allowance

Observation

An important control to ensure that accounts receivable are properly reported at their net realizable value is the routine evaluation of the accounts to determine the collectibility of the amounts, and accordingly, the appropriate allowance for uncollectible accounts that should be established. We noted that there is no formal process to calculate and review this amount for all categories of receivables, and that in certain instances where the amount was calculated, it appeared to be understated.

We also noted that the change in the allowance for doubtful accounts is not recorded as bad debt expense in accordance with GAAP, but is treated as a reduction of current year revenue. Management subsequently booked an entry to correctly record the bad debt expense.

Recommendation

We recommend that the City strengthen its process for the evaluation of the collectibility of accounts receivable, including the determination and review of the appropriate amount for the allowance for uncollectible accounts.

We also recommend that proper monitoring controls be put in place to ensure that the bad debt expense recorded in the general ledger is accurately recorded and presented on the financial statements in accordance with GAAP.

Management's response

The Controller's Office has developed accounts receivable and allowance for doubtful accounts training for employees that work with these accounts. Deadlines have been established requiring all departments to complete accounts receivable reconciliations and allowance for doubtful account calculations and send documentation to the Controller's Office two months after year-end for review and approval. For future fiscal years, the Public Works and Transportation department will calculate the allowance for doubtful amounts for the parking and red light receivables rather than allowing the third party collection agency to perform the calculation. The documentation will be reviewed by the Controller's Office for accuracy and reasonableness. As more receivable accounts are added to the Pay 1 system, tracking collections and evaluating allowance for bad debt will be strengthened.

Capital assets

Observation

During our audit of the disposition of fixed assets for the governmental and business-type activities, we noted that for certain fixed asset disposals selected for testing, we were unable to obtain supporting documentation relating to the approval and authorization of the asset disposal. In addition, we also noted that there were no reviews in place over the system inputs relating to fixed asset additions. Some of the assets recorded in the subsidiary ledger had incorrect useful lives which resulted in the depreciation expense being computed incorrectly. Additionally, we noted that the reconciliation of the general ledger to the underlying fixed asset subsidiary ledger included various reconciling items classified as miscellaneous or un-located and that certain prior year reconciling items had not been updated in the subsidiary ledger. Unreconciled differences can lead to inaccurate reporting of fixed asset amounts and depreciation expense on the financial statements.

Recommendation

We recommend that the City develop a formal process to document and maintain management's authorization, review and approval for all fixed asset disposals. We also recommend that the City implement appropriate monitoring controls, such as review of the inputs to the fixed assets system by the Controller's office to ensure accuracy of the inputs in accordance with the City's accounting policy. Finally, we recommend that the reconciliation of the general ledger to the underlying fixed asset subsidiary ledger be prepared and reviewed in a timely manner and that all reconciling items be properly identified and resolved, as appropriate, to ensure accurate financial reporting.

Management's response

Policies and procedures have been implemented which require all fixed asset transactions are accompanied by sufficient documentation with management authorization prior to being processed into the subsidiary ledger.

Management agrees that inputs to the fixed assets system should be monitored. A control deficiency within the accounting system was detected by management through monitoring data within the fixed asset subsidiary ledger. This system issue was noted and immediately brought to the attention of the external auditors. Management has already addressed this system issue and will continue to monitor.

Management will properly identify and resolve reconciling items and provide timely reconciliation of the general ledger to the underlying fixed asset subsidiary ledger as recommended.

Vendor identification

Observation

During our disbursements testing, we noted that multiple identification numbers exist for the same vendor. This was due to a number of reasons, including the names being spelled slightly different and new identification numbers being created instead of using existing ones. No control exists to ensure that the same vendor is not set up in the system more than once. This situation can increase the risk of improprieties, complicate the process for review of vendors, and result in incorrect and/or incomplete activity reports by vendor.

Recommendation

We recommend that a procedure be instituted and a control be established to eliminate duplicate identification numbers for the same vendor. This should include reviewing vendor names for proper spelling, verifying addresses, and implementing a more efficient process to look up a vendor number so that new ones are not created when the vendor name cannot be located.

Management's response

The City agrees to review the vendor records for duplicates based on matching names, addresses, and other identifying criteria including tax identification numbers. Additionally, the Vendor Self Services system allows vendors to register new accounts when existing accounts are not found. These records may constitute some of the duplicate vendor records.

The City will review system functionality that creates new locations with different vendor numbers rather than linking to existing vendors when possible. This will allow Purchasing to more closely monitor and verify vendor information before a duplicate vendor or new location is added to the system. The City will review the best approach to consolidating this information where possible.

Access to critical spreadsheets

Observation

During our audit, we noted that access to some of the spreadsheets, which are critical to the preparation of the CAFR, was not appropriately restricted to individuals within the Controller's Office.

Recommendation

We recommend that access to spreadsheets and other documents that are used in the preparation of the CAFR and other financial statements should be restricted to only those with a legitimate need for such access in accordance with the principle of least-privilege. (This includes any Microsoft Word documents and portable document format (.pdf) files used in the preparation of financial statement footnotes). We recommend that the City take the following steps to restrict access to these files:

- Inventory all spreadsheets and other files used in the creation of the CAFR and other financial statements.
- Analyze the directory-level (NTFS) and share-level permissions configured on the directories and shares used to house the files on the network.
- Remove all unnecessary access granted to users who do not have a valid business need to have access to the directories and shares that house the files on the network.
- Review when an individual's job responsibilities change and on a periodic basis, the individuals with access to the shares and directories that house spreadsheets and other files used in the preparation of the financial statements. Doing so will ensure continued adherence to the principle of least-privilege.

Management's response

CAFR files, including financial statements, notes to the financial statements, management's discussion and analysis, transmittal letter and statistical tables have been password protected for open and change access. Only individuals in the Controller's Office that directly prepare the CAFR have the password.

Position of security administration function within the organization promotes objectivity

Observation

AMS System (AMS) and Lawson security administration duties are performed by employees within the business departments that utilize them. This security organizational structure may result in a user of the application performing both security administration activities as well as functional activities, which would create a potential segregation of duties issue. For example, we found that the AMS security administrator was performing fixed asset functions in addition to his daily duties. Additionally, the security group is responsible for reviewing the appropriateness of user access and roles that they provisioned. This review function should be performed by management not by the security personnel granting the user access.

Recommendation

We recommend that management establish a centralized security group, objectively separate from application business departments, that is responsible for the security administration of applications and databases. In addition, a segregation of duties matrix should be established and maintained for key financial cycles to ensure that access rights approved within each application ensure that duties continue to be appropriately segregated and managed.

Management's response

The CIS Department agrees with this recommendation and will establish a centralized Security Management Group to take accountability for developing standards and procedures for managing user accounts and roles to ensure segregation of duties within AMS and Lawson. This includes managing new user account requests, changes in duties, and terminations along with Role Change Requests. This will also align the AMS and Lawson Password Policy with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS and Lawson Systems to enforce password policies as outlined in Administrative Directive 2-24.

AMS security administration is provisioned by each of the City of Dallas departments; however, security coordinators are not restricted provision access to modules or functions within their own specific department.

Observation

Administration of security is segmented by department, with each specific department controlling the administration of its users with respect to assigned functionality of AMS. However, this segmentation of security administration is not enforced by the application. This creates a situation where one administrator could provision access to other department's users or assign functionality without the responsible department's security coordinator being made aware of the changes.

Recommendation

We recommend that management establish a centralized AMS administrative group that is solely responsible for application security and has the ability to track and monitor all security changes. Management should also establish a user provisioning process that ensures proper documentation of requests, approvals and assigned access rights. Additionally, a segregation of duties matrix should be created, with the help of business owners, to ensure that users are not assigned functions that should be segregated from their daily duties.

Management's response

The CIS Department agrees with this recommendation and will establish a centralized Security Management Group to take accountability for developing standards and procedures for managing user accounts and roles to ensure segregation of duties within AMS. This includes managing new user account requests, changes in duties, and terminations along with Role Change Requests. This will also align the AMS Password Policy with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System to enforce password policies as outlined in Administrative Directive 2-24.

Security policies and procedures should be established and communicated.

Observation

We noted that the City does not have formal policies and procedures related to the security administration and the program maintenance of AMS and Lawson applications. Additionally, the change management process for database changes are informal and not documented for each of the different database environments supporting critical financial applications (CIABS, Lawson, and AMS).

Recommendation

We recommend that City management document and communicate the policies and procedures related to security administration, program maintenance and database changes of AMS and Lawson applications.

Management's response

The CIS Department agrees with this recommendation and will establish and communicate Policies and Procedures related to Security Administration, Program Maintenance and Changes for the AMS and Lawson Systems.

Access to and use of data altering utilities should be restricted, logged and approved.

Observation

Access to data altering utilities granted to individuals supporting key applications such as CIABS, AMS, and Lawson does not require specific approvals, nor is an automated logging mechanism employed to identify situations in which this access is used to perform a data change. The current process to document database changes is voluntary. Further, we noted that AMS and Lawson database changes are not logged or tracked.

Recommendation

We recommend that City management establish a data change request process to ensure that individuals cannot perform updates to data without prior approval and/or establish a database monitoring process of key financial system databases that will alert business unit management if data changes occur. We noted that database logging for CIABS has already been established and is reviewed daily by the business owner.

Management's response

The CIS Department agrees with this recommendation and will establish and communicate Data Change Policies and Procedures related to AMS and Lawson Systems while ensuring an Approval Process and Logging Provisions.'

System locks out users after a reasonable number of unauthorized entry attempts.

Observation

Lawson and Windows user accounts are not locked or temporarily disabled after a number of unauthorized attempts.

Recommendation

We recommend that City management establish a systematic lock out control for the application/environments identified above. A systematic lock out control helps prevent unauthorized personnel from maliciously obtaining unauthorized access to systems by attempting to guess another user's password.

Management's response

The CIS Department agrees with this recommendation and will align the Lawson and Windows Computer Security with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System to enforce computer security policies as outlined in Administrative Directive 2-24.

System requires passwords to be changed periodically.

Observation

Lawson, AMS and UNIX user account passwords do not expire after a specified period of time

Recommendation

We recommend that City management establish a systematic process to force users to periodically change their account passwords. A periodic password change requirement helps minimize the risk of unauthorized access by ensuring that passwords are not easily guessed.

Management's response

The CIS Department agrees with this recommendation and will align the AMS, Lawson and Unix Password Policy with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System to enforce password policies as outlined in Administrative Directive 2-24.

System security enforces use of complex passwords.

Observation

Lawson, AMS, and Windows user accounts do not require password complexity security rules.

Recommendation

We recommend that City management establish systematic password complexity rules in accordance with the security policy.

Management's response

The CIS Department agrees with this recommendation and will align the AMS and Lawson and Windows Password Policy with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System to enforce password policies as outlined in Administrative Directive 2-24.

Unauthorized access attempts are logged, investigated and follow-up actions documented.

Observation

Security access violations within financial applications and environments (CIABS, Lawson, AMS, UNIX servers) are not logged and periodically reviewed.

Recommendation

We recommend that City management implement a systematic process for the logging of unauthorized access and a process to periodically review these logs for potential malicious activity. Another alternative is to implement an alerting system such as the one in place for Windows Active Directory (Intrust) which notifies management of unauthorized activity or administrative changes.

Management's response

The CIS Department agrees with this recommendation and will align the CIABS, Lawson, AMS, and Unix User Access Review Policy with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System as outlined in Administrative Directive 2-24.

Programmers should be restricted from access to live applications.

Observation

It was noted during our inquiries with CIABS change management personnel that programmers had access to the application programs and databases.

Recommendation

We recommend that City management ensure programmers be restricted from the production environment or that they are granted read only access for required troubleshooting assistance.

Management's response

The CIS Department disagrees with this assessment and has included the "CIS Security and CIS QA: SuperACID Procedures" in response. This document provides procedures and instructions for all CIS Personnel in areas of Application Programming, Systems Programming, Network Operations, Quality Assurance and Information Security Architecture.

Batch scheduling process lacks documentation of business need or association to change management document.

Observation

Through our inquiries with the Operations Manager, we noted that the batch scheduling request form does not require documentation of business need nor is it associated with a specific change management document.

Recommendation

We recommend that a CMD number and a program purpose description be required for all scheduled programs. This enables the Operations Analyst to properly assess the program dependencies and have documentation of I/T and business management approvals for scheduled programs. Additionally, an audit and reconciliation of all batch jobs, on both Mainframe and Client-Server scheduled programs, should be conducted periodically to ensure that the scheduled programs are still required.

Management's response

The CIS Department agrees with this recommendation and will implement these changes within the Operations Standard Operating Procedures.

STATUS OF PRIOR YEAR COMMENTS

The following status of implementation was obtained through discussion with management and through limited review of implementation:

Prior year comment	Implemented	Not implemented	In process	Management's Response
Timely performance of bank reconciliations			X	<p>Partially implemented FY 2008; final planned implementation: FY 2009.</p> <p>The Controller's Office worked with Internal Audit to identify specific deficiencies in the bank reconciliation process. The Auditor's report was completed May 16, 2008. The control deficiencies are primarily a result of insufficient reporting capabilities of the existing software. The software was installed in Fiscal Year 2002 with no subsequent upgrades. The Controller's Office then contacted the vendor of the reconciliation software to provide recommendations for improvements to the current system. The vendor submitted the final review July 25, 2008 and recommended a software upgrade to the current system, rather than changes to the current software which would require customization. The Controller's Office is currently working with CIS to develop an implementation plan with the vendor. The item is scheduled for the November 10, 2008 agenda.</p> <p>Controller's Office staff is also working with the Efficiency Team to further improve the process. Revised procedures will be prepared upon completion of the software upgrade and process improvement review.</p> <p>City-wide training was sponsored by the Controller's Office. The "Cash Handling Training Course" topics included an understanding of federal regulations, recognition of currency and checks, and legal background for treasury functions. The second phase of training, "Deposit Handling Workshop", will concentrate on the City's specific policies and procedures for depositing cash, such as the timely deposit and recording of cash, the cash and investments process, and the depository agency's role. This workshop will be held September 23, 2008, and is open to all frontline cash handlers.</p>

<u>Prior year comment</u>	<u>Implemented</u>	<u>Not implemented</u>	<u>In process</u>	<u>Management's Response</u>
Failure to reconcile the general ledger to the underlying documents subsidiary ledger for numerous balance sheet accounts	X			
Improper revenue recognitions for various revenue streams at both the fund level and government-wide levels including the recognitions of the underlying account receivable as well as application of measurable and availability criteria related to deferred revenue	X			
Inappropriate classification of net assets in multiple funds	X			
Zero balancing accounts not properly accounted for			X	Implemented FY 2008. The zero balancing accounts in question are currently being monitored by Controller's Office staff to ensure the accounts are properly accounted for. The balance remaining in the accounts are at least partially due to timing differences; as such, the balance in those accounts should be eliminated in a future accounting period. All remaining balances will be recorded to the appropriate accounts.
Recognition of long term liabilities	X			

<u>Prior year comment</u>	<u>Implemented</u>	<u>Not implemented</u>	<u>In process</u>	<u>Management's Response</u>
Transfer of construction in progress to capital assets for completed projects that were not completed			X	<p>Implemented FY 2008.</p> <p>Revised procedures have already been implemented to timely identify completed construction projects. These internal control procedures include periodic review of uncompleted projects, communication with departments for certification of project status, analysis of retainage reductions and disbursements, review of annual Bond Program Fund and Unit Summary Report, and analysis of program activity and relative value. To ensure reliability, all transfers from construction in progress to capital assets are supported by appropriate documentation.</p> <p>Management has already implemented training City-wide and will continue to accommodate the needs of the departments by providing ongoing fixed asset training. This training provides a review of fixed asset policy and procedures.</p>
Certain capital assets not being depreciated	X			
Capital outlay expenditures not capitalized	X			
Depreciation expense by class of asset	X			
Book to physical inventory adjustment	X			
Capital/operating lease analysis	X			
Final timely budgetary amendments			X	<p>Implemented FY 2008.</p> <p>The City implemented revised procedures for year-end budgetary amendments. A budget amendment for Fiscal Year 2007-08 was approved by Council August 27, 2008.</p>

Prior year comment	Implemented	Not implemented	In process	Management's Response
Certain ITGC Controls			X	<p>The CIS Department will:</p> <ul style="list-style-type: none"> • Establish a centralized Security Management Group to take accountability for developing standards and procedures for managing user accounts and roles to ensure segregation of duties within AMS and Lawson. This includes managing new user account requests, changes in duties, and terminations along with Role Change Requests. • Establish a centralized Security Management Group to take accountability for developing standards and procedures for managing user accounts and roles to ensure segregation of duties within AMS. This includes managing new user account requests, changes in duties, and terminations along with Role Change Requests. • Establish and communicate Policies and Procedures related to Security Administration, Program Maintenance and Changes for the AMS and Lawson Systems. • Establish and communicate Data Change Policies and Procedures related to AMS and Lawson Systems while ensuring an Approval Process and Logging Provisions. • Align the Lawson and Windows Computer Security with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System to enforce computer security policies as outlined in Administrative Directive 2-24.

Prior year comment	Implemented	Not implemented	In process	Management's Response
Certain ITGC Controls (continued)				<ul style="list-style-type: none"> • Align the AMS, Lawson and Unix Password Policy with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System to enforce password policies as outlined in Administrative Directive 2-24. • Align the AMS and Lawson and Windows Password Policy with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System to enforce password policies as outlined in Administrative Directive 2-24. • Align the CIABS, Lawson, AMS, and Unix User Access Review Policy with Administrative Directive, AD 2-24 Sections 6.2.2, 6.2.3 and 6.2.7. The CIS Department will make changes to the AMS System to enforce password policies as outlined in Administrative Directive 2-24. • Implement these changes within the Operations Standard Operating Procedures.

