

Memorandum



CITY OF DALLAS

DATE: April 20, 2018

TO: Honorable Mayor and Members of the City Council

SUBJECT: Office of the City Auditor – Audit, Attestation and Investigative Services Update:
Fiscal Year 2018 – Third Quarter

The *Audit, Attestation and Investigative Services Update: Fiscal Year 2018 – Third Quarter* (Update) is presented to provide current information about the results and status of audit, attestation, and investigative service projects of the City of Dallas' (City) Office of the City Auditor (Office).

Four audit reports were issued in the second quarter of Fiscal Year (FY) 2018, including:

- Special Audit of the Accounts of Four Former City Council Members
- Special Audit of the Accounts of Former City Secretary, Rosa A. Rios
- Audit of Special Collections Operations
- Audit of Environmental Compliance – Management of Environmental Spills and Scrap Tire Disposal at City Facilities

The key points from these reports are included in Section II of the Update. Section III of the Update includes information related to reports issued as of April 20, 2018 for the third quarter of FY 2018. The project objectives for reports scheduled to be released, and for projects currently in progress or expected to be started in the third quarter of FY 2018, are included in Sections IV through VI of the Update.

Honorable Mayor and Members of the City Council
April 20, 2018
Page 2 of 2

Should you have questions or if we can be of assistance, please contact me at 214-670-3222.

Sincerely,

A handwritten signature in cursive script that reads "Craig D. Kinton".

Craig D. Kinton
City Auditor

Attachment

C: T.C. Broadnax, City Manager
Larry Casto, City Attorney
Biliera Johnson, City Secretary



City of Dallas
Office of the City Auditor

Audit, Attestation, and Investigative
Services Update

Fiscal Year 2018 – Third Quarter

Table of Contents

Audit and Attestation Services Fiscal Year 2018	Page
Section I: Summary of Audit, Attestation, and Investigative Services	1
Section II: Reports Issued – Second Quarter January 1, 2018 to March 31, 2018	3
Section III: Report Issued – Third Quarter to Date April 1, 2018 to April 20, 2018	12
Section IV: Anticipated Report Releases – Third Quarter April 1, 2018 to June 30, 2018	13
Section V: Projects in Progress – Third Quarter April 1, 2018 to June 30, 2018	14
Section VI: Anticipated Project Starts – Third Quarter April 1, 2018 to June 30, 2018	16

Summary of Audit, Attestation and Investigative Services *

Audit – Reports that provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability

Attestation – Reports that cover a broad range of financial or non-financial objectives; results in an examination, a review, or an agreed-upon procedures report on a subject matter or an assertion about a subject matter that is the responsibility of another party

Investigative – Reports providing evaluations and results of substantiated allegations of fraud, waste and abuse

Reports Issued – Second Quarter | January 1, 2018 to March 31, 2018

Note: See Section II for details

- Special Audit of the Accounts of Four Former City Council Members
- Special Audit of the Accounts of Former City Secretary, Rosa A. Rios
- Audit of Special Collections Operations
- Audit of Environmental Compliance – Management of Environmental Spills and Scrap Tire Disposal at City Facilities

Report Issued – Third Quarter to Date | April 1, 2018 to April 20, 2018

Note: See Section III for details

- Fiscal Year 2017 Audit Follow-Up of Prior Audit Recommendations

* All audit and attestation services are conducted under authority of the City Charter, Chapter IX, Section 3, and in accordance with the Annual Audit Plan approved by the City Council. We conduct our work in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective(s). Fraud investigations are conducted in accordance with Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

Anticipated Report Releases – Third Quarter | April 1, 2018 to June 30, 2018

Note: See Section IV for details

- Continuity of Operations Audit Follow-Up
- Fiscal Year 2018 Audit Follow-Up of Prior Audit Recommendations
- Off-Duty Employment Administration – Dallas Police Department
- Records Management System

Projects in Progress – Third Quarter | April 1, 2018 to June 30, 2018

Note: See Section V for details

- Business Partner Oversight
- Dallas Convention & Visitors Bureau (VisitDallas)
- Miscellaneous Permit Fee Revenues
- Surveillance Camera Oversight
- Performance Measurement Process
- Water Quality and Safety, Testing, and Monitoring
- Franchise Fees Review through Third-Party Vendor (*Ongoing*)
- Sales/Use Tax Compliance Review through Third-Party Vendor (*Ongoing*)

Anticipated Project Starts – Third Quarter | April 1, 2018 to June 30, 2018

Note: See Section VI for details

- Dallas Fire-Rescue Occupational Safety and Health Program
- Dallas Police Department's Complaint Process
- Economic Development Programs and Incentives
- Management of the City's Surplus Real Properties
- Open Records Request Process
- Security and Safety Protocols for Large Public Venues Owned or Managed by the City

Reports Issued – Second Quarter January 1, 2018 to March 31, 2018

Audit Services

Special Audit of the Accounts of Four Former City Council Members (January 26, 2018)

- The Office of the City Auditor (Office) completed the *Special Audit of the Accounts of Four Former City Council Members* (Special Audit) regarding the former City of Dallas (City) Council Members whose terms expired on June 19, 2017. This Special Audit verified whether the City and/or former City Council Members Monica R. Alonzo, Carolyn King Arnold, Erik Wilson, and Tiffinni A. Young properly:
 - Controlled and accounted for any City assets assigned to and/or purchased with City funds by the former City Council Members
 - Removed the former City Council Members as authorized agents of the City
 - Ensured the former City Council Members did not have any outstanding debts owed to the City

In addition, we evaluated the adequacy of employee processing controls related to the termination of the former City officials.

- The Office found that the City continues to have difficulties consistently following appropriate procedures to meet these objectives. As a result:
 - Certain City policies and procedures were not always followed
 - An outstanding debt was owed to the City. **Note:** The outstanding debt owed to the City was subsequently paid as of January 16, 2018.
 - Compliance exceptions reported in prior Special Audits still exist
- This Special Audit also determined nine of eleven recommendations included in the *Special Audit of the Accounts of Six Former City Council Members*, Report Number A16-005, issued January 22, 2016, were implemented.

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the City Manager :			
<ul style="list-style-type: none"> Ensures the Mayor and City Council (MCC) staff consistently follow City Code, Vol. 1, Chapter 15A, Article I-b <i>City-Funded Officeholder Accounts</i>, (Effective July 1, 2017), to ensure that city-funded officeholder accounts are not used as a gift or transfer of public funds to individuals or entities 	CMO	Agree	July 1, 2018
<ul style="list-style-type: none"> Ensures the MCC staff consistently follow Administrative Directive 4-15 <i>Purchasing Card Policy and Procedures</i> (AD 4-15) 	CMO	Agree	July 1, 2018
<ul style="list-style-type: none"> Continues to identify and formally inform City Council Members prior to their departure of any indebtedness to the City 	CMO	Agree	July 1, 2018

Special Audit of the Accounts of Former City Secretary, Rosa A. Rios (February 9, 2018)

- The Office of the City Auditor (Office) completed the *Special Audit of the Accounts of Former City Secretary, Rosa A. Rios* and determined the accounts of the former City Secretary were in order.
- The former City Secretary, who resigned on November 18, 2017, was timely removed from access to City of Dallas (City) systems and does not owe any debt to the City. All City items assigned to the former City Secretary were substantiated.
- *No recommendations associated with this report.*

Audit of Special Collections Operations (March 23, 2018)

- In response to a cash theft identified by the Department of Dallas Water Utilities (DWU) in February of 2015, DWU implemented additional internal controls over cash handling. These internal controls significantly improved the DWU Special Collections Sections (SCS) daily cash collections operations.
- The Office of the City Auditor, however, identified opportunities to further improve certain internal controls as follows:
 - Segregation of cash handling duties
 - Establishment of Systems, Applications and Products System Incorporated (SAP System) user profiles and access privileges
 - Annual monitoring of SAP System user profiles and access privileges

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of the Department of Dallas Water Utilities (DWU):			
<ul style="list-style-type: none"> • Further improves segregation of duties by specifying appropriate job descriptions for cash handling personnel in Special Collections Sections (SCS) job descriptions 	DWU	Agree	December 2019
<ul style="list-style-type: none"> • Further improves SCS cash handling controls by: <ul style="list-style-type: none"> ○ Developing a role-based security matrix to establish SAP System user profiles and access privileges. If business process changes result in the need to modify existing user profiles, management should evaluate these modifications for inadequate segregation of duties. ○ Monitoring SAP System user profiles and access privileges at least annually ○ Documenting the monitoring results of the SAP System user profiles and access privileges and actions taken to investigate and correct errors or fraud 	DWU	Agree	December 2019

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
<ul style="list-style-type: none"> Further improves compliance and oversight of cash collections processes by implementing the recommendations stated in Attachment I¹ 	DWU	Agree	September 2018

Audit of Environmental Compliance – Management of Environmental Spills and Scrap Tire Disposal at City Facilities (March 30, 2018)

- The Office of Environmental Quality’s (OEQ) mission is to protect and improve the environment by leading and guiding the City of Dallas’ (City) efforts on environmental compliance, pollution prevention, and continual improvement. The OEQ has responsibility for various aspects of the Environmental Management System (EMS).
- City departments designated by the City Manager to implement EMS, share responsibility for the implementation and management of the EMS. Given the breadth of the City’s environmental responsibilities, this audit only focused on: (1) spill prevention, control and counter measures; and, (2) scrap tire disposal at City Facilities.
- Opportunities to improve monitoring activities and internal controls related to the management of environmental spills and scrap tire disposal were identified for both OEQ and the responsible departments. Specifically:
 - Implementing internal controls to increase assurance that spill incident tracking and reporting processes are accurate, consistent, and complete
 - Improving internal controls related to the effectiveness of OEQ’s semi-monthly facility inspections
 - Strengthening internal controls to ensure Environmental Incident Reports (EIRs) are consistently reviewed and properly reported to OEQ and that preventable, repetitive spills are effectively addressed
 - Consistently performing and documenting daily inspections on the Pollution Prevention Daily Checklists
 - Ensuring the Department of Water Utilities’ (DWU) Southside Wastewater Treatment Plant complies with environmental quality rules
 - Consistently complying with environmental quality rules for scrap tire storage and scrap tire disposal manifests

¹ Attachment I refers to Attachment I in the original report, *Audit of Special Collections*.

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
<p>We recommend the Director of the OEQ develops and implements internal controls to ensure:</p> <ul style="list-style-type: none"> <li data-bbox="316 369 764 478">• Spill incidents reported to the Texas Commission on Environmental Quality (TCEQ) are documented accurately in the OEQ Incidents Summary <li data-bbox="316 506 764 562">• OEQ uses consistent thresholds for reporting hydraulic fluid spills <li data-bbox="316 590 764 758">• OEQ Incidents Summary includes information such as the date the spill incident was reported and the associated TCEQ case number so OEQ can efficiently track and monitor spill incidents reported to TCEQ 	OEQ	Agree	May 31, 2018

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
<p>We recommend the OEQ improves the effectiveness of semi-monthly inspections by:</p> <ul style="list-style-type: none"> Assessing risk on an annual basis to identify City operated facilities that are susceptible to significant environmental incidents and performing semi-monthly inspections of those facilities. Monitoring the quality of the semi-monthly inspections Monitoring the results of the semi-monthly inspections to ensure past environmental noncompliance incidents are corrected timely Monitoring OEQ Environmental Specialists' activities to ensure environmental noncompliance incidents noted during semi-monthly inspections are consistently communicated to each facility's manager and staff Ensuring OEQ Environmental Specialists consistently email or otherwise provide the OEQ Inspection Report to the facility manager within three days of the inspection Monitoring OEQ Environmental Specialists' OEQ Inspection Reports for consistency in identifying all environmental noncompliance incidents 	OEQ	Agree	May 31, 2018 ² June 30, 2018 ³ Annually by October 31 ⁴

² Implementation of the revised OEQ internal environmental inspection procedure, OEQ-PRO-005

³ Implementation of OEQ's Fiscal Year (FY) 2017/FY 2018 facility environmental inspection plan

⁴ OEQ will review this plan and OEQ's Compliance Audit Tracking Table and assess the risk of the facilities.

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of the Department of Aviation (AVI), the Chief of the Department of Dallas Fire-Rescue (DFR), the Director of the Department of Equipment and Building Services (EBS), and the Director of the Department of Sanitation (SAN) ensure Assistant Directors sign the Environmental Incident Reports (EIRs) evidencing review before EIRs are submitted to the OEQ	AVI	Agree	Ongoing
	DFR	Agree	September 7, 2018
	EBS	Agree	May 2018
	SAN	Agree	April 1, 2018

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of AVI and the Director of EBS establish required periodic training to ensure staff are properly trained to identify and report spill incidents to OEQ	AVI	Agree	Ongoing
	EBS	Agree	March 2018

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Director of SAN ensures:			
<ul style="list-style-type: none"> SAN staff are trained to inspect sanitation trucks prior to use and to report mechanical issues Sanitation trucks are properly maintained and not dispatched when mechanical issues exist An in-depth analysis of sanitation truck preventative maintenance and fleet size is conducted 	SAN	Agree	Annual/Ongoing ⁵
We recommend the Director of SAN ensures scrap tire transporter invoices are received and paid timely to help prevent noncompliance with environmental quality rules related to scrap tire storage	SAN ⁶	Agree	September 13, 2017 March 31, 2018 May 1, 2018

⁵ Staff truck driver training program (began February 2016); Environmental Training (Annual/Ongoing); Internal fleet maintenance and replacement assessment Fiscal Year 2016/2017 (Implementation Ongoing); EBS fleet study completion (Estimated completion 2018)

⁶ September 13, 2017 – New Tire Collection Contract to ensure New Manifest Compliance; March 31, 2018 – New aging invoice process; May 1, 2018 – Work Instructions and Procedure Updates

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
We recommend the Directors of AVI , EBS , and SAN and the Chiefs of DFR and the Dallas Police Department (DPD) ensure responsible personnel perform the daily inspections and document the results in the Pollution Prevention Daily Checklists	AVI	Agree	Ongoing ⁷
	DFR	Agree	March 12, 2018
	DPD	Agree	September 27, 2018
	EBS	Agree	May 2018
	SAN	Agree	May 1, 2018

Audit Recommendation	Responsible Department	Agreement Status	Implementation Date
<p>We recommend the Director of Dallas Water Utilities (DWU) ensures the DWU's Southside Wastewater Treatment Plant's Heavy Equipment Shop:</p> <p>Timely corrects all environmental noncompliance incidents observed by the Office of the City Auditor staff</p> <p>Properly trains management and staff on all aspects of environmental compliance related to spills, scrap tires, and general housekeeping</p> <p>Trains staff performing daily inspections to properly complete the Pollution Prevention Daily Checklist and trains the DWU supervisors responsible for reviewing the results</p> <p>Stores scrap tires in compliance with City Code Chapter 19 Section 34.1 <i>ACCUMULATION OF TIRES</i></p>	DWU	Agree	April 2, 2018

⁷ Already being done on a daily basis.

Audit Recommendation	Responsible Department	Agreement Status	Implementation Dates
<p>We recommend the Chief of DFR and the Directors of EBS and SAN ensure all <i>30 Texas Administrative Code (TAC) § 328.58 Manifest System</i> requirements are followed by:</p>			
<ul style="list-style-type: none"> • Completing all fields on the manifest form properly 	DFR	Agree	October 17, 2018
<ul style="list-style-type: none"> • Training department staff responsible for processing scrap tire disposals on <i>30 TAC § 328.58 Manifest System</i> requirements 	EBS	Agree	May 2018
<ul style="list-style-type: none"> • Ensuring State recordkeeping requirements are consistently followed, including verifying completed manifest forms are obtained within 60 days of transporting the tires off-site 	SAN ⁸	Agree	September 13, 2017 March 31, 2018 May 1, 2018

⁸ September 13, 2017 – New Tire Collection Contract to ensure New Manifest Compliance; March 31, 2018 – New aging invoice process; May 1, 2018 – Work Instructions and Procedure Updates

**Report Issued – Third Quarter to Date
April 1, 2018 to April 20, 2018**

Audit Services

**Fiscal Year 2017 Audit Follow-Up of Prior Audit Recommendations
(April 13, 2018)**

- The *Fiscal Year 2017 Audit Follow-Up of Prior Audit Recommendations* covered 65 recommendations that were included in seven audit reports issued in Fiscal Year (FY) 2015 and FY 2016. City of Dallas (City) management agreed to implement these recommendations by December 31, 2016. The Office of the City Auditor's assessment showed City management implemented 26 of the 65 recommendations, or 40 percent.
- This result shows the full implementation of recommendations to address financial, operational, and compliance risks identified in prior audits continues to be a challenge. While City management made concerted efforts, recommendations were not considered fully implemented if the underlying risks identified in the prior audits were not sufficiently mitigated.
- Factors such as the need for: (1) timely implementation of information technology (IT) systems; and, (2) coordination of agreement and actions among departments impacted the implementation status of recommendations.
- Opportunities continue to exist for City management to improve the effectiveness of internal controls to address financial, operational, and compliance risks in the following areas:
 - Standards and recommended practices for water meter billing, including tests for meter accuracy, equipment, and meters-in-service
 - Timeliness, effectiveness, and consistency of City procurements through requests for proposals
 - Condition of emergency vehicles
 - Staff retention and succession planning
 - IT user access controls
 - Policies and procedures necessary to establish an internal control framework
- *No recommendations associated with this report*

**Anticipated Report Releases – Third Quarter
April 1, 2018 to June 30, 2018**

Audit Services

Continuity of Operations Audit Follow-Up

- Anticipated Report Date: June 2018
- Project Objective(s): To evaluate management's implementation of recommendations included in *Audit of the Design of the City of Dallas' Pandemic Influenza Continuity of Operations Basic Plan Report*, issued September 13, 2013

Fiscal Year 2018 Follow-Up Audit of Prior Recommendations

- Anticipated Report Date: June 2018
- Project Objective(s): To evaluate management's implementation of prior audit report recommendations

Off-Duty Employment Administration – Dallas Police Department

- Anticipated Report Date: June 2018
- Project Objective(s): To evaluate (1) the Dallas Police Department's (DPD) internal controls over off-duty employment; and, (2) whether DPD officers adhere to DPD policies related to off-duty employment

Records Management System

- Anticipated Report Date: June 2018
- Project Objective(s): To determine whether the City's goals for implementing the Records Management System achieved anticipated results (specifically cost, project schedule, functions implemented, and shadow systems eliminated) and includes the appropriate controls

**Projects in Progress – Third Quarter
April 1, 2018 to June 30, 2018**

Audit Services

Business Partner Oversight

- Anticipated Report Date: Fourth Quarter Fiscal Year 2018
- Project Objective(s): Evaluate the financial, operational, and other risks for major business partners operating City-owned facilities under the oversight of the Department of Park and Recreation and the City's oversight and monitoring control (may include the Dallas Zoo, the Dallas Arboretum, and/or Bahama Beach; will exclude Fair Park facilities which were audited in Fiscal Year 2016)

Dallas Convention & Visitors Bureau (VisitDallas)

- Anticipated Report Date: Fourth Quarter Fiscal Year 2018
- Project Objective(s): To evaluate the effectiveness of services provided by the Dallas Convention and Visitors Bureau (VisitDallas), which may include: (1) assessing the reliability and reporting of performance measures; and, (2) determining whether Tourism Public Improvement District Incentive funds were used properly

Miscellaneous Permit Fee Revenues

- Anticipated Report Date: Fourth Quarter Fiscal Year 2018
- Project Objective(s): To determine whether controls are adequate/effective to ensure permit fee revenues are collected from business entities required to obtain a permit to operate a business in the City

Surveillance Camera Oversight

- Anticipated Report Date: Fourth Quarter Fiscal Year 2018
- Project Objective(s): To determine whether the City adequately/effectively manages and maintains its network of surveillance cameras

Performance Measurement Process

- Anticipated Report Date: First Quarter Fiscal Year 2019
- Project Objective(s): To conduct an audit of the performance measures included in the City's 365 website to evaluate whether performance data are meaningful, accurate, supportable, reliable and valid

Water Quality and Safety, Testing, and Monitoring

- Anticipated Report Date: First Quarter Fiscal Year 2019
- Project Objective(s): To determine whether the Department of Dallas Water Utilities has: (1) adequate policies and procedures in place for ongoing accuracy testing and monitoring of City water quality and safety; and, (2) effective means of communicating with City residents regular testing and monitoring results

Franchise Fees Review through Third-Party Vendor (*Ongoing*)

- Anticipated Report Date: Periodic, as warranted
- Project Objective(s): To verify that franchise fees (which may include utilities, cable, and telephone) identified by a third-party vendor are received by the City

Sales/Use Tax Compliance Review through Third-Party Vendor (*Ongoing*)

- Anticipated Report Date: Periodic, as warranted
- Project Objective(s): To identify and collect new and misreported tax revenue identified through a third-party vendor which will conduct Sales and Use Tax Compliance Review and Recovery Services

**Anticipated Project Starts – Third Quarter
April 1, 2018 to June 30, 2018**

Audit Services

Dallas Fire-Rescue Occupational Safety and Health Program

- Project Objective(s): To determine whether the Dallas Fire-Rescue occupational safety and health program is appropriately designed to reduce on-the-job accidents, injuries, worker compensation claims, etc. by comparison to appropriate national standards or identifiable industry best practices.

Dallas Police Department's Complaint Process

- Project Objective(s): To determine if: (1) the Dallas Police Department's complaint process is accessible; (2) internal and external complaints are processed consistently; and, (3) appropriate and consistent corrective actions are taken

Economic Development Programs and Incentives

- Project Objective(s): To evaluate whether selected economic development programs are producing expected results and whether monitoring controls are effective

Management of the City's Surplus Real Properties

- Project Objective(s): To evaluate the City's processes for identifying, managing, and disposing of surplus real property

Open Records Request Process

- Project Objective(s): To evaluate the effectiveness of the Public Affairs and Outreach compliance with State law and whether there are cost-saving opportunities

Security and Safety Protocols for Large Public Venues Owned or Managed by the City

- Project Objective(s): To evaluate the adequacy of the security and safety protocols in place for large public venues owned or managed by the City