

Memorandum



CITY OF DALLAS

DATE: May 31, 2019

TO: Honorable Members of the Government Performance & Financial Management Committee:
Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson, Lee M. Kleinman,
Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT: Office of the City Auditor – Fiscal Year 2019 Third Quarter Update and Fiscal Year 2019 –
2020 Budget Proposal

Mark S. Swann, City Auditor, will provide a briefing to the members of the Government Performance & Financial Management Committee on Monday, June 3, 2019 regarding:

- Office of the City Auditor – Fiscal Year 2019 Third Quarter Update
- Fiscal Year 2019-2020 Budget Proposal

Respectfully,

Mark Swann

Mark S. Swann
City Auditor

c: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Christopher J. Caso, Interim City Attorney
Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Nadia Chandler Hardy, Assistant City Manager & Chief Resilience Officer
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Michael Mendoza, Chief of Economic Development and Neighborhood Services
Laila Alequresh, Chief Innovation Officer
Directors and Assistant Directors

Office of the City Auditor – Fiscal Year 2019 Third Quarter Update

**Government Performance & Financial
Management Committee
June 3, 2019**

**Mark S. Swann, City Auditor
Office of the City Auditor
City of Dallas**



Audit, Attestation, and Investigative Services

Third Quarter Update



Reports Issued

Second Quarter Fiscal Year 2019 (January 1 – March 31)

Performance Audits

- Audit of VisitDallas (A19-006) **Briefed individually on February 19, 2019*
- Special Audit of the Accounts of Former City Attorney, Larry Casto (A19-007)
- Special Audit of the Accounts of Former City Council Member, Dwaine R. Caraway (A19-008)
- Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring (A19-009)*
- Audit of Business Partner Oversight for White Rock Boathouse, Inc.(A19-010)

*In addition, the *Confidential Limited Use Report: Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring (A19-009a)*, was issued but not released to public. The decision to exclude this information from the public report is based on Government Auditing Standards, December 2011 Revision, Sections 7.39 – 7.43, *Reporting Confidential and Sensitive Information*. Due to the sensitive nature of this information, any recommendations from this report will also be excluded from this Update.



Special Audit of the Accounts of Former City Attorney, Larry Casto

Release Date: March 1, 2019

Objective(s): Comply with Chapter IX, Section 4, *Special Audit* of the Dallas City Charter that requires an audit and report upon the death, resignation, removal, or expiration of the term of any officer of the City of Dallas (City).

Scope: Fiscal Years (FY) 2017 through 2018*

Conclusion(s): The former City Attorney returned his parking decal upon resignation, August 31, 2018. The City Attorney's Office, however, did not timely return the parking decal to the Department of Court and Detention Services' Security Services Division as required by Administrative Directive (AD) 6-10, *Dallas City Hall Parking Garage* (AD 6-10)

* Certain other matters, procedures, and transactions occurring outside that period were reviewed to understand and verify information related to the audit period



Special Audit of the Accounts of Former City Attorney, Larry Casto

We recommended the **City Attorney** ensure that the City Attorney's Office personnel timely return separated employees' parking decals in accordance with the requirements of AD 6-10, Section 5.4.2.



Special Audit of the Accounts of Former City Council Member, Dwaine R. Caraway

Release Date: March 22, 2018

Objective(s): Comply with Chapter IX, Section 4, Special Audit of the Dallas City Charter that requires an audit and report upon the death, resignation, removal, or expiration of the term of any officer of the City.

Scope: FY 2017 through 2018*

Conclusion(s): (1) City policies and procedures were not always followed; (2) an outstanding debt was owed to the City; and, (3) three of three prior recommendations included in the *Special Audit of the Accounts of Four Former City Council Members*, Report Number A18-005, issued January 26, 2018, were not implemented

** Certain other matters, procedures, and transactions occurring outside that period were reviewed to understand and verify information related to the audit period*



Special Audit of the Accounts of Former City Council Member, Dwaine R. Caraway

We recommended the City Manager and the Managing Director of the Mayor and City Council Office (MCC) improve MCC's inventory records by ensuring:

- Inventory records are password protected
- Access to create and/or edit inventory records is restricted to approved individuals; and, any changes made to inventory records are reviewed and approved by a supervisor
- Personnel use consistent date formats and all relevant dates are included



Special Audit of the Accounts of Former City Council Member, Dwaine R. Caraway

We recommended the Director of the Department of Communication and Information Services revise the Chain of Custody form to include a record of custody sequence for transfers, returns, and/or disposition of personal property.

We recommended the City Manager and the Managing Director of MCC consistently follow Dallas City Code, Vol. 1, Chapter 15A, Elections, Article I-b, Section 15A-7.4 *Use of City-Funded Officeholder Accounts* to ensure that city-funded officeholder accounts are only used for official City business.

We recommended the City Manager and the Managing Director of MCC ensure P-Card and travel cards are: (1) not used for personal and/or prohibited purchases or entertainment expenses not related to a business purpose; and, (2) comply with AD 4-07, *Authorization and Reimbursement for Out-of-Town Travel and Travel Related Expenses* and AD 4-15, *Purchasing Card Policy and Procedures*.



Special Audit of the Accounts of Former City Council Member, Dwaine R. Caraway

We recommended the **City Manager** continue to identify and formally inform City Council Members prior to their departure of any indebtedness to the City.

We recommended the **City Attorney** make reasonable efforts to collect the outstanding debt owed by the former City Council Member..

We recommended the **City Manager** and the **Managing Director of MCC** ensure city-issued ID badges and parking decals are surrendered upon retirement, resignation, or termination from City employment in accordance with the requirements of AD 6-10.



Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring

Release Date: March 22, 2019

Objective(s): Determine whether the Department of Dallas Water Utilities (DWU) 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 (customers) regular testing and monitoring results.

Scope: FY 2016 through FY 2017*

Conclusion(s): *See next slide*

** Certain other matters, procedures, and transactions occurring outside that period were reviewed to understand and verify information related to the audit period*



Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring

Conclusions:

The DWU has policies and procedures in place for: (1) ongoing accuracy testing and monitoring of the City's water quality and safety; and, (2) effectively communicating regular testing and monitoring results with DWU customers.

In addition, 99.4 percent of water quality results reported to the Texas Commission on Environmental Quality (TCEQ) in Calendar Year 2017 and tested during the audit were supported by documentation at DWU water treatment plants.

According to the *City of Dallas Water Quality Reports* in 2015, 2016, and 2017, DWU exceeded all TCEQ water quality standards. The TCEQ has designated DWU a "Superior Public Water System," the highest rating available, which requires meeting more stringent water quality standards than other public water systems.

Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring

The DWU, however, has opportunities to improve the following:

- The DWU policies and procedures for water quality complaint resolution do not: (1) state how soon DWU personnel must respond to and resolve complaints; and, (2) emphasize achieving or measuring customer satisfaction for all types of water quality complaints and customers. As a result, DWU may not be able to determine the effectiveness of its customer complaint processes in order to further improve response timeliness, resolution timeliness, and customer satisfaction.
- Water quality complaints assigned to the Water Quality Division are difficult to trace from the original complaint to final resolution. As a result, there is a risk DWU may not be able to determine when water quality complaints assigned to the Water Quality Division were finally resolved.



Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring

- The DWU's three water treatment plants do not have formal (written, approved, dated) policies and procedures that specify requirements to independently compare TCEQ report data to source documents before report submission. While few errors were identified during the audit, there is a risk errors may occur in the regular reporting of water quality results, particularly if there are changes in processes or personnel.
- The Bachman Water Treatment Plant's policies and procedures are not current, and the East Side Water Treatment Plant did not have formal policies and procedures for filtration until May 2018. Without current and complete policies and procedures, there is a risk DWU personnel are not following water production practices consistently to ensure compliance with TCEQ requirements.



Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring

We recommended the **Director of DWU** establish expectations for: (1) response time and response resolution; and, (2) customer satisfaction in the water quality complaint resolution policies and procedures. These requirements may vary based on the type of complaint and may be addressed by referencing a completed Service Level Agreement that includes the call response time expectations for water quality complaint types.



Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring

We recommended the **Director of DWU** improve the tracking of water quality complaint resolution by noting in either data source (Excel or SAP) when a closed complaint is still outstanding in the other data source.

We recommended the **Director of DWU** eliminate the use of prior year complaint numbers to track new complaints.

We recommended the **Director of DWU** develop and implement policies and procedures that specify requirements to:

- Independently compare TCEQ report data to source documents before monthly report submission
- Reduce the potential for errors by limiting data transfer among forms

Audit of the Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring

We recommended the Director of DWU ensure:

- Bachman Water Treatment Plant has current policies and procedures
- East Side Water Treatment Plant has policies and procedures for filtration
- The annual review process for policies and procedures is adequate to determine if policies and procedures are complete and current



Audit of Business Partner Oversight for White Rock Boathouse, Inc.

Release Date: March 29, 2019

Objective(s): Evaluate the financial, operational, and other risks for Boathouse operating facilities under the oversight of the Department of Park and Recreation (PKR) and the City's oversight and monitoring responsibilities provided by PKR's Park Maintenance Services Division (Division).

Scope: Management operations from FY 2017 through FY 2018*

Conclusion(s): The Division does not have formal (written, approved, dated) policies and procedures in place for oversight and monitoring of White Rock Boathouse, Inc. (Boathouse) contracts (Contracts).

(Continued on next page...)

** Certain other matters, procedures, and transactions occurring outside that period were reviewed to understand and verify information related to the audit period*

Audit of Business Partner Oversight for White Rock Boathouse, Inc.

In addition, Boathouse does not have adequate internal controls over expenses and does not obtain external assurances that their financial data is complete and accurate. As a result, the risk is increased that the Division may not readily: (1) identify contract noncompliance; and, (2) confirm required payments from Boathouse to the City are complete and accurate.

Specifically, PKR's contract oversight and monitoring did not identify the following instances of contract noncompliance:

- The Boathouse operated the Boomerang Boathouse under an expired contract from mid calendar year 2013 to mid calendar year 2018
- A required master plan to operate and maintain the "*Premises*" was never developed. ¹

¹The recital to the Filter Building contract defines "Premises" as the Filter Building, the two sedimentation basins, rowing docks, and the ground immediately surrounding the facilities.

Audit of Business Partner Oversight for White Rock Boathouse, Inc.

- Funds received by the City of \$220,743 from Fiscal Year (FY) 2011 to FY 2018 were not maintained in a White Rock Beautification Trust Fund or an account designated by the City
- From FY 2016 through FY 2018, neither the Division nor PKR Financial Services validated the accuracy and completeness of funds the City received from Boathouse
- Prior to November 2016, Boathouse did not maintain identifiable financial records
- From FY 2013 to FY 2017, Boathouse did not submit required annual financial statements prepared in accordance with Generally Accepted Accounting Principles



Audit of Business Partner Oversight for White Rock Boathouse, Inc.

Further, the contract terms are not clear regarding: (1) the source of payments Boathouse is to provide the City; and, (2) performance indicators or measures for PKR to effectively assess how Boathouse is performing against its contractual responsibilities to provide rowing opportunities to the youth of the City.

Recommendations:

We recommended the **Director of PKR** implement formal contract oversight and monitoring policies and procedures to reduce the risk of contract noncompliance. This includes:

- Ensuring contracts are timely renewed and properly executed
- Ensuring Boathouse develops a Master Plan approved by the Park and Recreation Board to operate and maintain the “*Premises*”

Audit of Business Partner Oversight for White Rock Boathouse, Inc.

Recommendations (continued...)

- Ensuring receipt and review of Boathouse financial statements prepared in accordance with GAAP
- Requiring Boathouse to maintain identifiable financial records needed to produce complete and accurate financial statements

We recommended the **Director of PKR** request the creation of a White Rock Lake Beautification Trust Fund or ensure that a designated account for funds received from Boathouse is maintained for improvements to the “*Premises*” operated by Boathouse or White Rock Lake Park and does not include funds from other sources.

Audit of Business Partner Oversight for White Rock Boathouse, Inc.

We recommended the Director of PKR:

- Implement formal policies and procedures to ensure that Boathouse provides an accurate and complete accounting of revenues and remits correct payments to the City
- Request Boathouse to obtain and provide externally validated or audited financial information or develop and implement PKR procedures to periodically provide some assurance that gross sales and revenues reported are complete and accurate



Audit of Business Partner Oversight for White Rock Boathouse, Inc.

We recommended the Director of PKR in consultation with the City Attorney's Office:

- Work with the Boathouse Board of Directors to agree on which portion of Filter Building “*Extras*” generated from the rental of the Filter Building should be included in “*gross revenues*” for purposes of calculating payment to the City
- Document the agreement of revenues generated from the rental of the Filter Building that will be included in “*gross revenues*”
- Require Boathouse to make payment to the City within a reasonable timeframe for any outstanding portion of “*gross revenues*” the City should have received, as applicable

Audit of Business Partner Oversight for White Rock Boathouse, Inc.

We recommended the Director of PKR:

- Develop a process to annually define the specific performance indicators or measures and other relevant information agreed upon by Boathouse
- Identify how PKR personnel will evaluate Boathouse's performance including the specific performance information required for evaluation and when the information should be received by PKR personnel
- Develop and implement formal policies and procedures to ensure PKR contract monitoring procedures include periodic performance analysis



Audit of Business Partner Oversight for White Rock Boathouse, Inc.

We recommended the **Director of PKR** work with Boathouse to define the specific performance indicators or measures and other relevant information needed to allow PKR to appropriately monitor whether Boathouse is achieving the City's goal to provide rowing opportunities to youth in the City.



Audit of Business Partner Oversight for White Rock Boathouse, Inc.

We recommended the Director of PKR request Boathouse to::

- Adopt and implement formal policies and procedures or other internal controls over expenses and credit card usage to support Boathouse's mission
- Obtain and provide externally validated or audited financial information or develop and implement PKR procedures to periodically provide some assurance over the proper accounting and internal control for expenses and credit card usage



Investigative Services Performed

Second Quarter Fiscal Year 2019 (January 1– March 31)

Investigative Services opened 45 new cases during the second quarter. Examples of allegations received include:

- Environment, health, and safety issues
- Theft
- Substance abuse



Investigative Services Performed

Second Quarter Fiscal Year 2019 (January 1 –March 31)

Twenty cases were closed during the period. Of these, **ten were investigated and closed** by the Office of the City Auditor **resulting in six substantiated complaints**. Of the six substantiated complaints, **four were previously reported** in the Office of the City Auditor’s *Audit, Attestation, and Investigative Services Update: Fiscal Year 2019 – Second Quarter* which was issued on January 25, 2019. **The two remaining substantiated complaints led to accountability actions including:**

- Additional training for an employee
- Suspension without pay

Investigative Services Performed

Second Quarter Fiscal Year 2019 (January 1 – March 31)

The remaining **ten complaints were not investigated:**

- **Five** were not related to the City
- **Two** were referred to a department for any action deemed necessary
- **Two** were too vague to investigate
- **One** was not within the authority of the Office of the City Auditor to investigate.



Anticipated Report Releases

Third Quarter Fiscal Year 2019 (April 1 – June 30)

Performance Audits

- Fiscal Year 2019 Audit Follow-Up of Prior Audit Recommendations: Construction Related Procurements – Multiple Departments
- Fiscal Year 2019 Audit Follow-Up of Prior Audit Recommendations: Court Information System – Cash Management/Collections Processes – Department of Court and Detention Services
- Fiscal Year 2019 Audit Follow-Up of Prior Audit Recommendations: Fiscal Years 2016, 2017, and 2018 – Multiple Departments
- Fiscal Year 2019 Audit Follow-Up of Prior Audit Recommendations: Homeless Response System Effectiveness – Office of Homeless Solutions



Projects in Progress

Third Quarter Fiscal Year 2019 (April 1 – June 30)

Performance Audits

- Security and Safety Protocols for Large Public Venues Owned or Managed by the City – Multiple Departments
- Management of the City's Surplus Real Properties – Department of Sustainable Development and Construction
- Dallas Police Department's Complaint Process
- City of Dallas' Purchasing and Travel Cards – Office of Procurement Services/Multiple Departments
- Security of Online Payments



Projects in Progress

Third Quarter Fiscal Year 2019 (April 1 – June 30)

- Open Records Request Process – City Secretary’s Office
- Franchise Fees Review through Third-Party Vendor (*Ongoing*)
- Sales/Use Tax Compliance Review through Third-Party Vendor (*Ongoing*)



Anticipated Project Starts Within the Next Two Months

Performance Audits

- Martin Luther King, Jr. Community Center and Advisory Board – **Management Requested Addition**
- Revenue Estimates – Budgeted Revenues for Fiscal Year 2019-2010 – Office of Budget/Multiple Departments
- Police Property and Evidence – Dallas Police Department
- Facility Planning – Dallas Public Library
- Office of Equity and Human Rights' Complaint Process



Anticipated Project Starts Within the Next Two Months

Performance Audits

- Special Audit of the Accounts of the Former Mayor
- Special Audits of Former City Council Members #1, #2, #3, and #4



Appendix – Report Links

Performance Audits

- [Audit of VisitDallas](#)
- [Special Audit of the Accounts of Former City Attorney Larry Casto](#)
- [Special Audit of the Accounts of Former City Council Member, Dwaine R. Caraway](#)
- [Audit of Department of Dallas Water Utilities' Water Quality and Safety, Testing, and Monitoring](#)
- [Audit of Business Partner Oversight for White Rock Boathouse, Inc.](#)



Office of the City Auditor – Fiscal Year 2019 Third Quarter Update

**Government Performance & Financial
Management Committee
June 3, 2019**

**Mark S. Swann, City Auditor
Office of the City Auditor
City of Dallas**

