

Memorandum



DATE: September 19, 2023

TO: Honorable Members of the Government Performance & Financial Management Committee: Chad West (Chair), Paula Blackmon (Vice-Chair), Cara Mendelsohn, Jesse Moreno, Jaime Resendez

SUBJECT: Internal Audit Reports Released Between June 2, 2023, and September 8, 2023

Attached for your review are three internal audit reports released between June 2, 2023, and September 8, 2023. The Executive Summaries and full reports are included in Attachment 1.

If you have any questions, please contact me at (214) 670-3222 or mark.swann@dallas.gov.

Sincerely,



Mark S. Swann
City Auditor

Attachment

C: T.C. Broadnax, City Manager
Tammy Palomino, Interim City Attorney
Biliera Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Deputy City Manager
Jon Fortune, Deputy City Manager
Majed A. Al-Ghafry, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Carl Simpson, Assistant City Manager
Jack Ireland, Chief Financial Officer
Genesis Gavino, Chief of Staff to the City Manager
Sheri Kowalski, City Controller
Directors and Assistant Directors
Jeffrey Brill, Manager – Financial Compliance, Auditing, & Monitoring

Attachment 1 - Internal Audit Reports Released Between June 2, 2023, and September 8, 2023



Reports Released

1. Audit of Hotel Occupancy Tax (June 30, 2023) - Page 6
2. Independent Report on Agreed-Upon Procedures for: Attestation Engagement for the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election (July 12, 2023) - Page 23
3. Audit of Proposed Budget Revenues Included in the Fiscal Year 2023-24 Proposed Annual Budget for the City (August 31, 2023) - Page 41

Executive Summary

Objective and Scope

The objectives of this audit were to evaluate whether the City Controller ensures that: (1) the population of the hotels/short-term rentals is complete for collections; and, (2) all payments from known hotels/short-term rentals are received and accurately recorded.

The audit scope included tax collections from November 1, 2019, through March 31, 2022.

Recommendations

Management should:

- Develop and implement written procedures that ensure checks for hotel occupancy tax payments are safeguarded.
- Ensure all delinquent letters are sent timely.

Background

The hotel occupancy tax rate for the City of Dallas (City) was 7 percent of the room rate charged within city limits during the audit period. The tax rate was increased to 9 percent on January 1, 2023, to support the expansion of the Kay Bailey Hutchinson Convention Center Dallas and improvements at Fair Park. The tax is collected by the hotels at the point of sale and forwarded to the City monthly. Hotel occupancy tax applies to both hotels and short-term rentals. The City Controller is responsible for collecting the hotel occupancy tax.

The actual revenues of fiscal year 2020 and 2021 were significantly less than those of fiscal year 2019 and 2022 due to the onset of COVID-19 in March 2020. In Fiscal Year 2022, the City's Hotel Occupancy Tax revenue from hotels and short-term rentals was \$67.6M and \$2.8M, respectively. As of March 9, 2023, the City Controller's hotel occupancy tax list consisted of 270 hotels and 1,748 short-term rentals.

Observed Conditions

The City Controller's list of hotels that must pay hotel occupancy tax is complete and accurate. The City Controller has a list of short-term rentals that must pay hotel occupancy tax. However, the number of active short-term rentals is fluid, making it difficult for the City Controller to maintain a complete, accurate, and up-to-date list.

The hotel occupancy tax payments received are accurately recorded. However, there are opportunities for improvement in the collections process of the payments.

Executive Summary

Objective and Scope

The objective of the Agreed-Upon Procedures attestation engagement is solely to assist the City of Dallas City Council in evaluating the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election.

The City Secretary requested this attestation in accordance with Sections 17(b), (d), and (f) of the Election Services Contract between the City of Dallas and Dallas County.

Background

On February 24, 2021, the City of Dallas and other jurisdictions entered a contract with the Dallas County Elections Administrator for election services in accordance with Subchapter D of Chapter 31 of the *Texas Election Code* to hold an election on May 1, 2021, in accordance with Chapter 271 of the *Texas Election Code*.

The contract provided the Dallas County Elections Administrator to perform or supervise the performance of any or all the corresponding duties and functions in connection with a county-wide election.

The March 2, 2022, final invoice for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election had a net balance of \$178,300.07. Due to concerns about election sites opening late, some City Council members sought to dispute paying the final invoice. The City Secretary elected to dispute the final invoice using a provision in the contract allowing for a dispute if an invoice exceeded 10 percent of the initial deposit. The final invoice met this requirement.

After fieldwork, on June 8, 2023, the Dallas County Elections Department provided a response to the City Secretary in regard to the dispute. This resulted in the amount \$3,105.13 credited to the City of Dallas. The response is included in [Appendix 1](#) of the report.

Observed Conditions

Auditors performed four of the five Agreed-Upon Procedures and identified exceptions to Agreed-Upon Procedure (d). Agreed-Upon Procedure (e) was not performed. See [Attachment 1](#) for the full list of procedures and identified exceptions.

Executive Summary

Objective and Scope

The objective of this audit was to determine whether the City of Dallas has effective processes to ensure reasonable proposed budget revenues are included in the City Manager's *Fiscal Year 2023-24 Proposed Annual Budget*.

The scope of the audit was the major revenue sources included in the *Fiscal Year 2023-24 Proposed Annual Budget* and the associated supporting documentation.

Recommendations

There are no audit recommendations associated with this report.

Background

The City Council approved the *Fiscal Year 2023 Audit Work Plan* which prescribed the City Auditor to review and verify the reasonableness of the proposed budget revenues included in the City Manager's *Fiscal Year 2023-24 Proposed Annual Budget*.

Observed Conditions

The City of Dallas has effective processes to ensure reasonable proposed budget revenues are included in the *Fiscal Year 2023-24 Proposed Annual Budget*. Further, the revenue forecast methodologies and material assumptions used in developing the proposed budget revenues are reasonable and adequately supported.



Audit of Hotel Occupancy Tax

June 30, 2023

Mark S. Swann, City Auditor

Mayor

Eric Johnson

Mayor Pro Tem

Tennell Adkins

Deputy Mayor Pro Tem

Carolyn King Arnold

Council Members

Adam Bazaldua

Paula Blackmon

Zarin D. Gracey

Cara Mendelsohn

Jesse Moreno

Omar Narvaez

Jaime Resendez

Paul E. Ridley

Jaynie Schultz

Kathy Stewart

Chad West

Gay Donnell Willis

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Executive Summary

Objective and Scope

The objectives of this audit were to evaluate whether the City Controller ensures that: (1) the population of the hotels/short-term rentals is complete for collections; and, (2) all payments from known hotels/short-term rentals are received and accurately recorded.

The audit scope included tax collections from November 1, 2019, through March 31, 2022.

Recommendations

Management should:

- Develop and implement written procedures that ensure checks for hotel occupancy tax payments are safeguarded.
- Ensure all delinquent letters are sent timely.

Background

The hotel occupancy tax rate for the City of Dallas (City) was 7 percent of the room rate charged within city limits during the audit period. The tax rate was increased to 9 percent on January 1, 2023, to support the expansion of the Kay Bailey Hutchinson Convention Center Dallas and improvements at Fair Park. The tax is collected by the hotels at the point of sale and forwarded to the City monthly. Hotel occupancy tax applies to both hotels and short-term rentals. The City Controller is responsible for collecting the hotel occupancy tax.

The actual revenues of fiscal year 2020 and 2021 were significantly less than those of fiscal year 2019 and 2022 due to the onset of COVID-19 in March 2020. In Fiscal Year 2022, the City's Hotel Occupancy Tax revenue from hotels and short-term rentals was \$67.6M and \$2.8M, respectively. As of March 9, 2023, the City Controller's hotel occupancy tax list consisted of 270 hotels and 1,748 short-term rentals.

Observed Conditions

The City Controller's list of hotels that must pay hotel occupancy tax is complete and accurate. The City Controller has a list of short-term rentals that must pay hotel occupancy tax. However, the number of active short-term rentals is fluid, making it difficult for the City Controller to maintain a complete, accurate, and up-to-date list.

The hotel occupancy tax payments received are accurately recorded. However, there are opportunities for improvement in the collections process of the payments.

Objectives and Conclusions

1. Is the City Controller's list of hotels that have to pay hotel occupancy tax complete and accurate?

Yes. The City Controller's list of hotels is complete and accurate. According to the City Controller, as of March 9, 2023, the list consisted of 270 hotels. The City Controller follows written procedures to ensure that the list remains complete and accurate.

2. Is the City Controller's list of short-term rentals that have to pay hotel occupancy tax complete and accurate?

Generally, no. According to City Controller, as of March 9, 2023, the City Controller's list of short-term rentals included 1,748 entries. The City Controller has a contract with GovOS to detect newly active short-term rentals by researching online advertisements. The number of newly active short-term rentals identified by the City Controller ranged from 41 to 411 a month during the audit period. However, the number of active short-term rentals is fluid, making it difficult for the City Controller to maintain a complete, accurate, and up-to-date list. (See [Emerging Risk](#)).

3. Are hotel occupancy tax payments received during the audit period accurately recorded?

Yes. The City Controller accurately recorded hotel occupancy tax payments in the City's AMS Advantage 3 accounting system during the audit period.

4. Did the City Controller collect all the hotel occupancy tax owed to the City from hotels and short-term rentals on the City Controller's list?

Generally, yes. The City Controller follows written procedures to ensure the collection of all hotel occupancy tax owed to the City. However, there are opportunities for improvement in the following areas:

- Safeguarding payments made by check. (See [Observation A](#)).
- Delinquent account notifications. (See [Observation B](#))

Audit Results

Both *City Council Resolution 88-3428* and Administrative Directive 4-09, *Internal Control* prescribe policy for the City to establish and maintain an internal control system. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A: Logs for Hotel Occupancy Tax Checks

Hotels and short-term rentals pay the hotel occupancy tax using GovOS online payment system or by mailing a check to Dallas Water Utilities' Division of Special Collections. Though payments are primarily made online, in March 2022, hotel occupancy tax payments made by check amounted to \$277,396, or 5.3 percent, of total payments. (See [Exhibit 1](#) below).

Exhibit 1:

Manual (Check) and Online Hotel Occupancy Tax Payments in March 2022

	By Check	Percent of Total	Online	Percent of Total	Total
Number of Payments	21	2.6%	779	97.4%	800
Amount of Payments	\$277,396	5.3%	\$4,986,339	94.7%	\$5,263,735

Source: City Controller

Special Collections does not record the receipt of the checks. Instead, the City Controller's staff pick up the checks from Special Collections; open the envelopes; retrieve the checks; post the amounts to the senders' accounts; and then bring the checks back to Special Collections. Once checks are returned, Special Collections records the checks in a log, and then deposits the checks. There is an increased risk that theft or loss of checks will not be prevented or detected.

Hotel occupancy tax payment checks mailed to the City may not be secure because two City departments have custody of the payment checks without recording them when received. Therefore, the City Controller cannot reliably reconcile the deposits against the checks received by Special Collections.

Criteria

- ❖ Standards for Internal Control in the Federal Government, *Principle 10.01 – Design Control Activities*
- ❖ Administrative Directive 4-09, Internal Control, *Section 5.1.3.1 – Control Activities*
- ❖ Administrative Directive 4-20, *Cash Handling and Cash Receipts*

Assessed Risk Rating:

Moderate

We recommend the **City Controller**:

A.1: Develop and implement written procedures that would ensure that hotel occupancy tax payment checks are safeguarded.

Observation B: Delinquent Account Notifications

The City Controller did not notify some delinquent accounts as described in their written procedures. Their written procedures note when a delinquent hotel occupancy tax is determined, the City Controller works with GovOS to send follow-up letters via e-mail to hotels/short-term rental owners.

However, follow-up letters were not sent on the first scheduled date for delinquent notices for three of the judgmental sample of 35 hotels (or 8.6 percent) selected for review. For the first account, a follow-up delinquent notice was not sent on the first scheduled date for delinquent notices (September 2020) but was sent in October 2020. The taxpayer paid the balance due on October 20, 2020. For the other two accounts, the notices were not sent on the first scheduled date (March 2021); however, the taxpayers paid the balances due before the second notices were scheduled to be sent in April 2021. If follow-up letters are not sent on time, the City may not maximize its hotel occupancy tax revenue.

The City Controller relies on GovOS to send follow-up letters to delinquent accounts but did not monitor GovOS to confirm all delinquent letters were sent promptly.

Criteria

- ❖ Standards for Internal Control in the Federal Government, *Principle 16.01 – Perform Monitoring Activities*
- ❖ City of Dallas Hotel Occupancy Tax Policies and Procedures, *Collection Process for Delinquent Taxes*.

Assessed Risk Rating:

Low

We recommend the **City Controller**:

- B.1:** Develop and implement written procedures that ensure monitoring of GovOS to confirm all delinquent letters are sent timely.

Emerging Risk:¹ Completeness and Accuracy of City Controller's Office's List of Short-Term Rentals

During the audit period, there was no legal requirement for short-term rental owners to register their property with the City, although they were legally required to report and remit their hotel occupancy tax to the City. Short-term rental owners can list and remove their properties on online platforms, such as Airbnb, at any time without the City's knowledge. The online listings do not include the short-term rental address, which further complicates detection. Therefore, it is difficult for the City Controller to maintain a complete, accurate, and up-to-date list of active short-term rentals required to pay hotel occupancy tax. As a result, the City could not maximize its hotel occupancy tax revenue.

The City of Dallas has a contract with GovOS, formerly known as MUNIRevs (see [Background](#) on page 7), to identify active short-term rentals that may owe hotel occupancy tax to the City. As of March 9, 2023, the City Controller's list of short-term rentals included 1,748 entries. The number of newly active short-term rentals identified by the City Controller ranged from 41 to 411 a month during the audit period.

During the June 14, 2023, City Council Agenda meeting the [Dallas City Code](#) was amended to add a new Chapter 42B "*Short-Term Rentals*," which requires all short-term rental owners and hosts to:

- Register annually through an application.
- Pay the annual registration fee.
- Allow initial inspection of property upon application and for renewal.
- Include rental registration number in public listings and advertisements.

The same chapter would require hosting platforms to:

- Register with the City of Dallas.
- Not collect fees for facilitating transactions of unregistered properties.
- Provide a monthly report of active listings within the City of Dallas.

¹ An emerging risk could impact the internal controls, effectiveness, and efficiency of activities performed by City Controller or other City departments.

Appendix A: Background and Methodology

Background

The City's hotel occupancy tax rate was 7 percent of the room rate charged within Dallas city limits during the audit period. The tax rate was increased to 9 percent on January 1, 2023, to support the expansion of the Kay Bailey Hutchinson Convention Center Dallas and improvements at Fair Park. The tax is collected by the hotel at the point of sale and forwarded to the City on the 15th day of the month following each month in which the tax is earned. The City Controller is responsible for collecting and distributing the hotel occupancy tax.

Hotel occupancy tax revenue is the largest revenue source for the Kay Bailey Hutchison Convention Center. Of the percentage the City receives, 67.4 percent supports operations and capital improvements at the Kay Bailey Hutchison Convention Center as required by [Dallas City Code](#). The Fiscal Year 2023 budget shows that 25.1 percent will be distributed to VisitDallas to market and promote Dallas as a convention and tourist destination, and 7.5 percent will be distributed as a reimbursement to the Office of Arts and Culture to encourage, promote, and improve the arts.

On April 22, 2019, the City entered into a 60-month contract with MUNIRevs for \$591,000. In August 2021, MUNIRevs was acquired by GovOS. GovOS provides an online system to process registration and payments from hotels and short-term rentals. In addition, GovOS assists the City in detecting newly active short-term rentals by researching the advertisements online, which has been contributing to the increased number of short-term rentals on the City Controller's list (see [Exhibit 2](#)).

Exhibit 2:

Hotel and Short-Term Rental Counts by Fiscal Year

	2019	2020	2021	2022	As of March 9, 2023
Hotels	274	269	266	271	270
Short-Term Rentals	73	650	917	1,457	1,748
Total:	347	919	1,183	1,728	2,018

Source: City Controller

Definitions of Hotel and Short-Term Rental

During the audit period, the City of Dallas used hotel and short-term rental definitions from [Texas Tax Code](#), according to which a hotel means any building in which members of the public obtain sleeping accommodations for consideration. The term includes a hotel, motel, short-term rental, tourist home, tourist house, tourist court, lodging house, inn, rooming house, or bed and breakfast. A short-term rental means the rental of all or part of a residential property for 30 days

or less. This includes homes or other units, such as a garage apartment or backyard cottage, listed for rent on platform websites such as Airbnb.

The City Controller handles the discovery and maintenance of a list of major hotels and motels (non-short-term rentals) by performing periodic reviews of the Certificates of Occupancy issued to hotels by the City's Development Services Department. The City Controller works with GovOS to discover and maintain a list of short-term rentals due to their fluid nature.

The City's Hotel Occupancy Tax Revenue

Hotel occupancy tax revenue declined sharply in Fiscal Year 2020 due to the onset of COVID-19 in March 2020. The hotel occupancy tax revenue recovered significantly in Fiscal Year 2022 (see [Exhibit 3](#)).

Exhibit 3:

Hotel Occupancy Tax Revenue by Fiscal Year

	2019	2020	2021	2022	As of January 31, 2023
Hotels	\$67,173,320	\$40,508,629	\$38,740,719	\$67,559,259	\$28,353,439
Short-Term Rentals	662,652	1,093,371	1,675,144	2,806,230	1,179,556
Total:	\$67,835,972	\$41,602,000	\$40,415,863	\$70,365,489	\$29,532,995

Source: City Controller

Hotel Occupancy Tax Exemption Rules

According to the [Dallas City Code](#), certain guests are exempt from paying hotel occupancy tax. There are two types of exemptions: permanent and certificate.

A "*permanent exemption*" is granted to guests who have the right to use or possess a room in a hotel for at least 30 consecutive days, so long as there is no interruption of payment for the period. The guest must notify the hotel of their intent to stay at least 30 consecutive days by providing a letter of intent.

A "*certificate exemption*" is granted to guests affiliated with certain entities who have an official Texas Hotel Occupancy Tax Exemption Certificate ([Form 12-302](#)) from the State of Texas Comptroller of Public Accounts.

The hotel is responsible for ensuring that granted exemptions comply with the [Dallas City Code](#). If the hotel mistakenly allows an ineligible exemption, the hotel is responsible for paying the City's applicable taxes (plus penalties and interest).

Tourism Public Improvement District

In addition to the Hotel Occupancy Tax, hotel guests in several Tourism Public Improvement Districts throughout Dallas pay an additional two percent assessment to the Dallas Tourism Public Improvement District Corporation. The Corporation provides incentives and marketing to bring more conventions, meetings, and visitors to Dallas. While, in general, the same rules that

apply to the hotel occupancy tax apply to the Dallas Tourism Public Improvement District Corporation assessment fee, it is an assessment that is separate from the hotel occupancy tax and is utilized for different purposes. As such, the Dallas Tourism Public Improvement District Corporation was outside of the audit scope.

City Controller's Hotel and Short-Term Rental Audits

To detect underpayment of hotel occupancy tax, the City Controller performs audits of hotels and short-term rentals. The City Controller's audit procedures state that hotels/short-term rentals may be selected for audit based on several reasons:

- Request for certificate of no tax due
- Request for a refund
- Failure to report
- Rotation basis
- Change of ownership or management
- Hotel closure
- Suspicion of fraud

In addition, the City Controller's Office performs periodic reviews to identify major hotels in the City that are not reporting hotel occupancy taxes. This review includes leveraging data collected by the state, including the hotels' monthly room receipts. The City Controller's Office compares this data to its hotel registration list to identify discrepancies. In addition, the City Controller's Office compares a listing of certificates of occupancy issued by the City to hotels to its hotel list to identify hotels that are not remitting hotel occupancy taxes.

In 2019, during a review of certificates of occupancy, the City Controller's Office identified a major hotel that had been operating in the City since October 2017 but had not paid hotel occupancy taxes. During the audit of this major hotel, the City Controller's Office discovered the proprietors owned a second major hotel operating in the City since 2009 which had also failed to pay hotel occupancy taxes. The City Controller's Office worked with the hotels to ensure they paid the tax, and completed audits of both hotels in 2019, which resulted in hotel occupancy tax assessments and collections totaling \$2,913,791.

The City Controller's Office's hotel and short-term rental audits have been effective in identifying and recovering, with the assistance of the City Attorney's Office, unpaid hotel occupancy tax assessments with the largest assessment in the amount of \$3,135,916 in fiscal year 2019 (see [Exhibit 4](#) on the next page).

Exhibit 4:

Hotel Occupancy Audit Recovery Amount by Fiscal Year

	2019	2020	2021	2022
Assessed Amount	\$3,135,916	\$26,833	\$117,131	\$587,084
Collected Amount	3,135,916	26,833	117,067	586,099
Outstanding Amount	\$0	\$0	\$64	\$985

Source: City Controller

Methodology

The audit methodology included: (1) interviewing personnel from the City Controller's Office and other city departments; (2) reviewing policies and procedures, the *Texas Tax Code*, applicable Administrative Directives, *Dallas City Code*, and Dallas City Council briefings; and (3) performing various analyses, including reviewing best practices. In addition, all five components of *Standards for Internal Control in the Federal Government* were considered.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major Contributors to the Report

Shino Knowles, CPA – In-Charge Auditor

Anatoli Douditski, MPA, CIA, CFE, ACDA – Engagement Manager

Appendix B: Management's Response

Memorandum



CITY OF DALLAS

DATE: June 22, 2023
TO: Mark S. Swann – City Auditor
SUBJECT: Response to Audit of Hotel Occupancy Tax Collections

This letter acknowledges the City Manager's Office received the *Audit of Hotel Occupancy Tax Collections* and submitted responses in consultation with the City Controller's Office (CCO).

The City Controller's Office (CCO) continually improves the Hotel Occupancy Tax collection processes. The City has a comprehensive process for identifying venues subject to hotel occupancy tax and ensuring complete and accurate tax collections. In 2022, the City's Hotel Occupancy Tax revenue totalled in excess of \$70,000,000, which in turn is invested in further developing the City as a premier travel and visitor destination.

The City believes its existing processes and controls are commensurate with the risks. However, the City has or will take additional steps to further mitigate the risks identified by the auditor.

For recommendation A.1., CCO has a common and effective compensating control to mitigate the risk of a lost or stolen check. GovOS sends weekly automated notifications to hotels and short-term rentals, alerting the taxpayer if a tax return is delinquent. If a taxpayer informs CCO that they filed the HOT return and paid the tax yet received a delinquency notice, CCO will initiate an investigation to resolve the matter. Further, with checks typically accounting for less than 3% of HOT payments, CCO believes the compensating control is a cost-effective control that adequately addresses the risks identified by the auditor.

In addition, CCO will enhance existing written procedures by changing the payment address on the tax return and instructions, so that taxpayers remit payments directly to CCO for processing, rather than DWU – Special Collections. CCO is confident the existing compensating control and further enhancements to the process will adequately safeguard HOT payment checks.

For recommendation B.1, CCO implemented an automated delinquent notification process in April 2022, shortly after the audit's scope period, to ensure delinquency notices are sent timely. Further enhancements to this process were completed in September 2022.

"Our Product is Service"
Empathy | Ethics | Excellence | Engagement | Equity

Response to Audit of Hotel Occupancy Tax Collections
June 22, 2023
Page 2 of 2

Further, CCO will continue to periodically review its policies and procedures, and revise the process to respond to changes, including best practices that add value to the HOT collections process.

Sincerely,



[tc broadnax \(Jun 25, 2023 20:46 CDT\)](#)

T.C. Broadnax
City Manager

C: Genesis D. Gavino, Chief of Staff
Jack Ireland, Chief Financial Officer
Sheri Kowalski, City Controller

"Our Product is Service"
Empathy | Ethics | Excellence | Engagement | Equity

Assessed Risk Rating	Recommendations	Concurrence and Action Plans	Implementation Date	Follow-Up/ Maturity Date
Moderate	We recommend the City Controller:			
	A.1: Develop and implement written procedures that would ensure that hotel occupancy tax payment checks are safeguarded.	Agree CCO is confident existing controls adequately mitigate the risks identified by the auditor. The City has a common and effective compensating control to mitigate the risk of a lost or stolen check. GovOS sends weekly automated notifications to hotels and short-term rentals, informing the taxpayer if a tax return is delinquent. If a taxpayer informs CCO that they filed the HOT return and paid the tax yet received a delinquency notice, CCO will initiate an investigation to resolve the matter. Further, with checks typically accounting for less than 3% of HOT payments, CCO believes the compensating control is a cost-effective control that adequately addresses the risks identified by the auditor. However, CCO will enhance existing written procedures by changing the payment address on the tax return and instructions, so that taxpayers remit payments directly to CCO for processing, rather than DWU – Special Collections. CCO is confident the existing compensating control and further enhancements to the process will adequately safeguard HOT payment checks.	9/30/2023	3/31/2024

Assessed Risk Rating	Recommendations	Concurrence and Action Plans	Implementation Date	Follow-Up/ Maturity Date
Low	We recommend the City Controller:			
	B.1: Develop and implement written procedures that ensure monitoring of GovOS to confirm all delinquent letters are sent timely.	<p>Agree</p> <p>During 2019, the City contracted with GovOS, formerly MUNIRevs to implement software that allows online filing and payment of HOT returns. At the beginning of the contract, GovOS had a manual process in place to email monthly notices for the delinquent accounts.</p> <p>In April 2022, GovOS automated the email process to send the delinquent account notices every Tuesday. The City's HOT team has thoroughly tested the automated email process and is confident the process is working as designed.</p> <p>The automated process only sends delinquent notifications for accounts up to six months in arrears. In September 2022, the City Controller's Office worked with GovOS to implement a monthly manual email notification process for delinquent accounts greater than six months old.</p>	9/30/2023	9/30/2023

Memorandum



CITY OF DALLAS

DATE: July 12, 2023

TO: Bilierae Johnson, City Secretary

SUBJECT: Independent Report on Agreed-Upon Procedures for: Attestation Engagement for the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election

Attached for your review is the *Independent Report on Agreed-Upon Procedures for: Attestation Engagement for the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election*. The Agreed-Upon Procedures are included in [Attachment 1](#). Exceptions were noted for Agreed-Upon Procedure (d), and Agreed-Upon Procedure (e) was not performed.

We have performed these procedures which were agreed to by the City Secretary, solely to assist the City of Dallas City Council in evaluating the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election.

The agreed-upon procedures were conducted in accordance with the United States generally accepted government auditing standards.

If you have any questions, please contact me at 615-974-8700 or by email at mark.swann@dallas.gov.

Sincerely,

Mark S. Swann
City Auditor

Attachment

C: Honorable Mayor and Members of the City Council

T.C. Broadnax, City Manager

Tammy Palomino, Interim City Attorney

Kimberly Bizer Tolbert, Deputy City Manager

Jon Fortune, Deputy City Manager

Genesis Gavino, Chief of Staff

Jack Ireland, Chief Financial Officer

Sheri Kowalski, City Controller

Jeffrey Brill, Manager – Financial Compliance, Auditing, and Monitoring

Michael J. Scarpello, Elections Administrator – Dallas County



Independent Report on Agreed-Upon Procedures for: Attestation Engagement for the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election

July 12, 2023

Mark S. Swann, City Auditor

Mayor

Eric Johnson

Mayor Pro Tem

Tennell Atkins

Deputy Mayor Pro Tem

Carolyn King Arnold

Council Members

Adam Bazaldua

Paula Blackmon

Zarin D. Gracey

Cara Mendelsohn

Jesse Moreno

Omar Narvaez

Jaime Resendez

Paul E. Ridley

Jaynie Schultz

Kathy Stewart

Chad West

Gay Donnell Willis

Executive Summary

Objective and Scope

The objective of the Agreed-Upon Procedures attestation engagement is solely to assist the City of Dallas City Council in evaluating the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election.

The City Secretary requested this attestation in accordance with Sections 17(b), (d), and (f) of the Election Services Contract between the City of Dallas and Dallas County.

Background

On February 24, 2021, the City of Dallas and other jurisdictions entered a contract with the Dallas County Elections Administrator for election services in accordance with Subchapter D of Chapter 31 of the *Texas Election Code* to hold an election on May 1, 2021, in accordance with Chapter 271 of the *Texas Election Code*.

The contract provided the Dallas County Elections Administrator to perform or supervise the performance of any or all the corresponding duties and functions in connection with a county-wide election.

The March 2, 2022, final invoice for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election had a net balance of \$178,300.07. Due to concerns about election sites opening late, some City Council members sought to dispute paying the final invoice. The City Secretary elected to dispute the final invoice using a provision in the contract allowing for a dispute if an invoice exceeded 10 percent of the initial deposit. The final invoice met this requirement.

After fieldwork, on June 8, 2023, the Dallas County Elections Department provided a response to the City Secretary in regard to the dispute. This resulted in the amount \$3,105.13 credited to the City of Dallas. The response is included in [Appendix 1](#) of the report.

Observed Conditions

Auditors performed four of the five Agreed-Upon Procedures and identified exceptions to Agreed-Upon Procedure (d). Agreed-Upon Procedure (e) was not performed. See [Attachment 1](#) for the full list of procedures and identified exceptions.

Results

Independent Agreed-Upon Procedures Report

The Office of the City Auditor conducted the procedures described in [Attachment 1](#), which were agreed to by the City Secretary. The City Secretary is responsible for the establishment and execution of operational procedures. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in [Attachment 1](#) either for the purpose for which this report has been requested or for any other purpose.

Exceptions were noted for Agreed-Upon Procedure (d), which related to incomplete or improper documentation of invoices and expenses. Agreed-Upon Procedure (e) was not performed. See [Attachment 1](#) for the specific exceptions and a list of the procedures performed.

The City Secretary requested this attestation of Agreed-Upon Procedures on March 31, 2022, and the Office of the City Auditor completed the Agreed-Upon Procedures on January 20, 2023.

The purpose of this report on applying agreed-upon procedures is intended solely for the information and use of the Dallas City Council and City management and is not intended to be and should not be used by anyone other than these specified parties. Accordingly, this report is not suitable for any other purpose. The Office of the City Auditor was not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance. Accordingly, the Office of the City Auditor does not express such an opinion or conclusion. Had additional procedures been performed, other matters might have been identified that would have been reported.

We are required to be independent of the Office of the City Secretary and Dallas County Elections Department to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement. The agreed-upon procedures were conducted in accordance with the United States generally accepted government auditing standards which incorporate attestation standards established by the American Institute of Certified Public Accountants.

Signature:



Mark S. Swann, CPA
City Auditor
City of Dallas, Texas

7/12/2023

Attachment 1: Agreed-Upon Procedures

Independent Report on Agreed-Upon Procedures for: Attestation Engagement for the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election

7/12/2023

Agreed-Upon Procedures

- (a) Obtain the Election Service Contract to understand the contract terms.

No exceptions.

- (b) Obtain the Dallas County Elections Department's final cost invoices to understand the variables and mathematical formulas used to calculate joint election costs.

No exceptions.

- (c) Verify the mathematical accuracy of each final cost invoice on an overall basis and each final cost invoice complies with the contract terms.

No exceptions.

- (d) Judgmentally select a sample of payroll and non-payroll cost line items, verify the mathematical accuracy and obtain the documentation to support the cost.

Exceptions.

Overview

The March 2, 2022, final invoice for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election included May 1, 2021, and June 5, 2021, final cost, which includes the number of units, cost per unit, total cost, and City of Dallas share of the total cost for each cost line item listed on the invoices. Each cost line item's mathematical accuracy was verified, and all variances were explained.

[Exhibit 1](#) on page 5 shows the 57 invoice line items sampled and the line items observed with exceptions.

The following are the exceptions noted from the review of a sample of cost line items:

1. Documentation Did Not Provide Supporting Details

The Dallas County Elections Department did not provide documentation that supports how the quantity of equipment, the number of personnel, and the quantity of supplies were determined (shown as units on the invoice).

2. Paid Vendor Invoice Not Provided

The Dallas County Elections Department provided an *Election Warehouse Equipment & Supply Distribution Form* and the *Equipment & Services Price List* to support the cost charged for various election equipment and supplies instead of a paid vendor invoice. The total cost on the *Election Warehouse Equipment & Supply Distribution Form* was verified to the final cost invoices for the Auditor sampled cost line items on the *Election Warehouse Equipment & Supply Distribution Form*.

3. Payroll Documentation Is Incomplete

Of the 8 payroll expenses tested, 3 (38 percent) lacked an explanation for overtime and approval, and timesheets were not provided for 3 (38 percent) separate expenses.

4. Improper Purchase Order Number and Expenses Category Used

There were 26 invoices totaling \$26,444 (approximately 30 percent of the Custodial Charges invoice cost line item of \$88,437) related to Data Entry Clerk expenses charged by a staffing agency to the County and posted to the Custodial Charges invoice cost line item. Approximately 31 percent of these invoices totaling \$11,019 (12.5 percent of \$88,437) had a purchase order number of "CARES Act."

According to the Dallas County Elections Department, a wrong purchase order number related to CARES Act was used on these invoices, and these expenses were not reimbursed from CARES Act funding. Further, while the Dallas County Elections Department noted the Data Entry Clerks were entering data related to custodial charges, it is unclear why these expenses were posted to the Custodial Charges invoice cost line item, not administrative personnel expenses.

- (e) Examine the May 1, 2021 Joint Election Day, June 5, 2021 Joint Run-Off Election Day, and early voting sites' daily performance reports for locations within the City of Dallas to quantify any non-performing voting sites for potential additional disputes.

Not Performed.

Overview

The Dallas County Elections Department did not provide the daily performance reports (incident tickets) for any voting sites or any relevant supporting documentation. As a result, potential additional disputes for non-performing voting sites could not be identified.

Subsequent to fieldwork, on June 8, 2023, the Dallas County Elections Department provided a response to the City Secretary in regard to the dispute. The response included the Dallas County Elections Department's investigation and analysis of their performance of the May 1, 2021 Joint Election. This resulted in the amount \$3,105.13 credited to the City of Dallas. The response is included in [Appendix 1](#) of the report.

Exhibit 1

Auditor Sample of Final Invoice Cost Line Items

Sample Number	Voting Period	Expense Category	Estimated Total Invoice Cost	Actual Total Final Invoice Cost	City of Dallas Portion	Exceptions D.3 & 4
1	May Early Voting	EQUIPMENT RENTAL	\$36,337.00	\$24,791.50	\$8,382.14	Yes
2	May Early Voting	EQUIPMENT RENTAL	136,880.00	17,110.00	5,784.98	Yes
3	May Early Voting	EQUIPMENT RENTAL	-	23,976.00	8,106.41	Yes
4	May Early Voting	PERSONNEL	75,000.00	19,979.54	6,755.19	Yes
5	May Early Voting	PERSONNEL	68,000.00	35,169.27	11,890.91	Yes
6	May Early Voting	PERSONNEL	20,000.00	30,080.80	10,170.48	No
7	May Early Voting	SERVICE EXPENSE	4,950.00	61,050.00	20,641.33	No
8	May Early Voting	SERVICE EXPENSE	3,300.00	25,500.00	8,621.68	No
9	May Early Voting	EQUIPMENT RENTAL	26,917.80	26,917.80	9,101.05	Yes
10	May Early Voting	EQUIPMENT RENTAL	10,788.00	14,384.00	4,863.31	Yes
11	May Early Voting	EQUIPMENT RENTAL	580.00	290.00	98.05	Yes
12	May Early Voting	SUPPLY EXPENSE	36,750.00	210.00	71.00	Yes
13	May Early Voting	SUPPLY EXPENSE	4,640.00	4,640.00	1,568.81	Yes
14	May Early Voting	SERVICE EXPENSE	16,500.00	16,500.00	5,578.74	No
15	May Early Voting	PREPARATION & TRANSPORTATION OF VOTING EQUIPMENT	5,220.00	450.00	152.15	Yes
16	May Election Day	EQUIPMENT RENTAL	270,810.00	86,313.60	29,183.08	Yes
17	May Election Day	EQUIPMENT RENTAL	213,021.90	200,491.20	67,787.13	Yes
18	May Election Day	EQUIPMENT RENTAL	-	550,175.00	186,017.06	Yes
19	May Election Day	EQUIPMENT RENTAL	246,483.00	166,917.50	56,435.68	Yes
20	May Election Day	RENTAL BUILDINGS	-	88,437.40	29,901.15	Yes
21	May Election Day	PERSONNEL	771,120.00	319,223.60	107,931.17	No
22	May Election Day	PREPARATION & TRANSPORTATION OF VOTING EQUIPMENT	28,152.00	66,000.00	22,314.95	No
23	May Election Day	SERVICE EXPENSE	127.00	12,900.00	4,361.56	No
24	May Election Day	EQUIPMENT RENTAL	36,720.00	34,560.00	11,684.92	Yes
25	May Election Day	EQUIPMENT RENTAL	113,832.00	84,878.00	28,697.70	Yes
26	May Election Day	EQUIPMENT RENTAL	2,295.00	2,160.00	730.31	Yes
27	May Election Day	SERVICE EXPENSE	3,300.00	4,950.00	1,673.62	No
28	May Election Day	SERVICE EXPENSE	24,750.00	9,900.00	3,347.24	No
29	May Election Day	PREPARATION & TRANSPORTATION OF VOTING EQUIPMENT	6,120.00	4,140.00	1,399.76	Yes
30	May Election Day	PREPARATION & TRANSPORTATION OF VOTING EQUIPMENT	1,409.75	630.00	213.01	Yes

6 Independent Report on Agreed-Upon Procedures for: Attestation Engagement for the Dallas County Election Department Final Invoice Cost for the May 1, 2021 Joint Election and June 5, 2021 Joint Runoff Election

Sample Number	Voting Period	Expense Category	Estimated Total Invoice Cost	Actual Total Final Invoice Cost	City of Dallas Portion	Exceptions D.3 & 4
31	June Early Voting	EQUIPMENT RENTAL	82,600.00	71,980.00	36,213.26	Yes
32	June Early Voting	EQUIPMENT RENTAL	8,680.00	15,128.00	7,610.92	Yes
33	June Early Voting	EQUIPMENT RENTAL	-	11,188.80	5,629.10	Yes
34	June Early Voting	PERSONNEL	130,000.00	107,043.25	53,853.64	Yes
35	June Early Voting	SERVICE EXPENSE	3,300.00	30,600.00	15,394.91	No
36	June Early Voting	EQUIPMENT RENTAL	12,994.80	12,994.80	6,537.71	Yes
37	June Early Voting	EQUIPMENT RENTAL	22,554.00	21,838.00	10,986.73	Yes
38	June Early Voting	SUPPLY EXPENSE	2,240.00	2,240.00	1,126.95	Yes
39	June Early Voting	SERVICE EXPENSE	36,000.00	20,400.00	10,263.27	No
40	June Early Voting	SERVICE EXPENSE	13,200.00	6,600.00	3,320.47	No
41	June Early Voting	SERVICE EXPENSE	3,300.00	9,900.00	4,980.71	No
42	June Early Voting	PREPARATION & TRANSPORTATION OF VOTING EQUIPMENT	2,520.00	270.00	135.84	Yes
43	June Election Day	EQUIPMENT RENTAL	127,179.50	87,262.50	43,901.91	Yes
44	June Election Day	RENTAL BUILDINGS	45,000.00	7,219.06	3,631.92	No
45	June Election Day	PERSONNEL	243,600.00	136,979.60	68,914.66	Yes
46	June Election Day	PERSONNEL	54,810.00	52,734.60	26,530.87	Yes
47	June Election Day	PERSONNEL	3,500.00	19,559.79	9,840.56	Yes
48	June Election Day	SERVICE EXPENSE	3,300.00	24,750.00	12,451.77	No
49	June Election Day	PREPARATION & TRANSPORTATION OF VOTING EQUIPMENT	14,076.00	27,000.00	13,583.74	No
50	June Election Day	SUPPLY EXPENSE	42,000.00	-	-	Yes
51	June Election Day	EQUIPMENT RENTAL	16,240.00	16,080.00	8,089.87	Yes
52	June Election Day	EQUIPMENT RENTAL	59,885.00	40,159.00	20,204.46	Yes
53	June Election Day	EQUIPMENT RENTAL	94,212.30	93,284.10	46,931.39	Yes
54	June Election Day	EQUIPMENT RENTAL	479,080.00	287,625.00	144,704.62	Yes
55	June Election Day	EQUIPMENT RENTAL	50,344.00	60,450.00	30,412.50	Yes
56	June Election Day	SERVICE EXPENSE	24,750.00	15,300.00	7,697.46	No
57	June Election Day	PREPARATION & TRANSPORTATION OF VOTING EQUIPMENT	675.00	4,140.00	2,082.84	Yes
Total			\$3,740,044.05	\$3,115,451.71	\$1,248,496.65	

Total Final Invoice Cost \$ 4,190,231.05
Auditor Sample Coverage 74.4%

Exceptions	Count
Yes	40
No	17

Appendix 1: Dallas County Elections Department Response

See attached response beginning on the next page.



DALLAS COUNTY ELECTIONS DEPARTMENT

Dear Ms. Johnson,

I am writing in response to the formal written Dispute Notice received from the City of Dallas (Dallas) on March 31, 2022, contesting the charges imposed by the Dallas County Election Department (DCED) for conducting the May 1, 2021 Joint Election.

Since receiving the Dispute Notice, DCED has cooperated with the City of Dallas Auditors Office in their financial audit of that election. Following the completion of the audit, we received a request from your office seeking a waiver of the remaining balance of \$178,300.07 owed for DCED's services for conducting the June 5, 2021 Joint Runoff Election.

In your dispute, the City of Dallas claims that DCED's performance during the 2021 General/Runoff elections was unsatisfactory. These claims appear to be based upon anecdotal evidence from the media and from some off-the-cuff comments made by me during a virtual appearance at a Dallas City Council meeting on May 12, 2021.

While it is true that some errors were made by DCED on Election Day during the aforementioned election, I would like to clarify that these errors occurred due to the utilization of long-existing Election Day Help Desk processes and procedures. I also want to emphasize that our current DCED staff has since reviewed and revised these processes and procedures. Moreover, it is important to note that several of the claims made by Dallas are attributed to errors made by the presiding judge at the vote center.

Under the provisions of the Texas Election Code, presiding election judges are selected and appointed by entities other than DCED, and pursuant to Election Code 32.071, "the Presiding Judge is in charge of and responsible for the management and conduct of the election at the vote center." Therefore, DCED does not accept responsibility for presiding judges or other individuals beyond our control who:

- Fail to arrive in a timely manner
- Fail to adhere to DCED procedures
- Fail to promptly report any issues to DCED

That being said, DCED recognizes the need for improvement and has taken measures to prevent such issues from recurring. Since the 2001 election, we have revised our vote center procedures, mandated the use of judge checklists, and developed a more comprehensive judge training program. As a result of these initiatives, Election Day issues have significantly decreased.

Regarding issues within DCED's control, our policy is to initially attempt to troubleshoot any Election Day problems over the phone. If the issue cannot be resolved remotely, DCED reserves the right to a reasonable amount of time to rectify the problem in person. For the purposes of this response to the City of Dallas, we consider a reasonable amount of time to be 30 minutes

In light of your claims, DCED has conducted a thorough investigation and analysis of the May 1, 2021 Joint Election. Based on our findings, we have reached the following conclusions:

1. Ronald E. McNair Elementary School (V3063)

- Claim – Voting was not available from 7:00 am to 9:15 am
- Analysis

- At 5:53 am, DCED received a call from the judge who reported that the CradlePoint wireless router would not turn on (Ticket # 93441)
- At 6:07 am, an Election Hardware Technician attempted to walk the judge through troubleshooting, but the judge did not answer the phone
- At 6:15 am, an Election Hardware Technician was dispatched to the location to assist with troubleshooting
- At 7:19 am, DCED again received a call from the judge who reported that the CradlePoint was still not working (Ticket #93617)
- The first ballot was issued at 9:25:33 am
- At 9:28 am, the Hardware Manager “resolved” Ticket #93617 with the note: “Juana De La Cruz [an Election Hardware Technician] states that the Judge had the equipment setup wrong. Site is good to go.”
- 134 ballots were issued at this site on May 1, 2021
- Conclusion – A CradlePoint connection is not needed for voters to check in, be issued a ballot, or cast a vote. All judges are taught this procedure during their training, but the judge failed to follow the procedure. DCED does not accept responsibility for a judge who fails to follow procedure. **DCED therefore rejects your claim.**

2. Park South YMCA (V3018)

- Claim – Voting was not available from 7:00 am to 10:45 am
- Analysis
 - At 6:57 am, DCED received a call from the judge who reported that three of their voting machines were giving the message “poll not found”, but the DCED Help Desk operator “escalated” the ticket to the wrong response team; therefore, no action was taken
 - The first ballot was issued at 7:11 am, but the voter was unable to vote the ballot due to the non-functioning voting machines. The voter was redirected to a nearby vote center.
 - At 10:32 am, the ticket was reassigned to the correct response team
 - At 10:37 am, the Hardware Manager attempted to call the judge “multiple times but no response” and then dispatched an Election Hardware Technician to the site
 - At 10:51 am, three hours and 54 minutes after initial notification, the Hardware Manager resolved the ticket with the note “Alex [an Election Hardware Technician] has completed the job”
 - At 10:55 am, the first ballot was successfully cast, and the site continued to process voters with no other reported issues for the remainder of the day
 - 75 ballots were issued at this site on May 1, 2021
- Conclusion – The judge is required to be on site by 6:00 am and, by 6:15 am, is expected to report any critical issues that would cause a delay in opening. However, the issue was not reported until 6:57 am, causing a delay of 42 minutes in DCED's ability to respond. Nonetheless, a DCED Technician should have resolved the issue by 7:27 am, but instead resolved it at 10:51 – a delay of three hours and 24 minutes. As a result, **DCED will credit your account in the amount of \$962.20.** This amount has been calculated based on the three hours and 24 minutes of delayed response by DCED, minus the 42 minutes of delayed notification by the judge. Consequently, a credit of 2 hours and 42 minutes will be applied to account for the lost operation time.

3. Owenwood Farm & Neighborhood Space (V1081)

- Claim – Voting was not available from 7:00 am to 8:15 am
- Analysis

- At 7:22 am, DCED received a call from the judge who reported that they could not get into the ESC, a secure mobile storage unit that holds voting machines and other election-related materials
- An Election Hardware Technician was dispatched to the site promptly
- At 8:35 am, one hour and 13 minutes after receiving initial notification, the site issued their first ballot
- The site continued to process voters with no other reported issues for the remainder of the day
- 191 ballots were issued at this site on May 1, 2021
- Conclusion – The judge is required to be on site by 6:00 am. In this case, the judge reported a critical issue that prevented the site from opening after they were supposed to be operational. Had the judge reported the issue timely, the site would not have opened late. DCED reacted promptly and will not be held responsible for the late opening. **DCED therefore rejects your claim.**

4. Booker T. Washington High School (V3081)

- Claim – Voting was not available from 7:00 am to 9:30 am
- Analysis
 - At 8:43 am, an aide from Commissioner Price’s office called DCED to report that this site was “still locked” and workers were unable to get inside
 - Note: This site is on the campus of a public DISD school and requires a school employee to unlock the facility
 - Note: DCED has no record of the judge contacting the Help Desk at any point on May 1, 2021
 - At 9:46 am, one hour and three minutes after the initial notification, the site issued their first ballot
 - At 2:05 pm, a note was added to the ticket created at 8:43 am saying “To clarify: The equipment was there, and they got in the building. The principal didn't realize today was election day. They thought it was on Tuesday!”
 - Once unlocked, the site processed voters with no other reported issues for the remainder of the day
 - 79 ballots were issued at this site on May 1, 2021
- Conclusion – The root cause of the late opening was the failure of DISD staff to fulfill their obligation of unlocking the facility and was compounded by the election officer failing to notify DCED. **DCED therefore rejects your claim.**

5. E. B. Comstock Middle School (V1100)

- Claim – Voting was not available from 7:00 am to 10:30 am
- Analysis
 - At 9:28 am, DCED received a call from the judge who reported that they were “unable to plug anything in, only 1 plug in gym”
 - At 10:11 am, the Hardware Manager verified that Election Hardware Technicians were on-site
 - At 10:45 am, one hour and 17 minutes after the initial notification, the site issued their first ballot
 - 73 ballots were issued at this site on May 1, 2021
- Conclusion – The judge is required to be on site by 6:00 am. In this case, the judge should have identified and reported this critical issue by 6:15 am. Their failure to report the issue in a timely

fashion prevented the site from opening on time. DCED is not responsible for a judge failing to arrive on time and failing to notify DCED of critical issues. **DCED therefore rejects your claim.**

6. Skyline High School (V1087)

- Claim – The vote center did not open at 7:00 am
- Analysis
 - At 6:21 am, DCED received a call from the judge who reported that one voting machine was “not displaying the correct screen” and mentioned that “another is missing a leg”
 - At 6:42 am, an Election Hardware Technician “resolved” the “not displaying the correct screen” issue, stating, “the judge needed to put [the voting machine] on voting mode”
 - The first ballot was issued at 7:39am, so the vote center was open at or near opening time
 - Note: This site was a low-turnout location, averaging only 4.25 voters per hour
 - 51 ballots were issued at this site on May 1, 2021
- Conclusion – DCED has no record of this site experiencing an issue that would have delayed their ability to open by 7:00 am. As mentioned, this site averaged only 4.25 voters per hour and, according to their check-in report, they successfully processed three voters between 7:00 am – 8:00 am. It stands to reason that the first ballot issued at 7:39 am was not an indication of the vote center opening late, but rather the typical experience of a historically low-to-average turnout site during a Saturday election. **DCED therefore rejects your claim.**

7. Richard Lagow Elementary School (V1107)

- Claim – Voting was not available from 7:00 am to 10:06 am
- Analysis
 - At 5:58 am, DCED received a call from the judge who reported that they were missing keys to the vote tabulator, but the ticket was incorrectly “escalated” to the wrong response team; therefore, no action was taken (Ticket #93445)
 - At 6:31 am, the judge again reported missing keys, but the ticket was again “escalated” to the wrong response team; therefore, no action was taken (Ticket #93493)
 - At 9:29 am, the ticket was successfully reassigned to the correct response team
 - At 9:44 am, the Hardware Manager dispatched an Election Hardware Technician to deliver the vote tabulator keys
 - At 9:56 am, the Hardware Manager “resolved” Ticket #93445
 - The site processed voters with no other reported issues for the remainder of the day
 - 12 ballots were issued at this site on May 1, 2021
- Conclusion – DCED struggled to appropriately escalate this location’s issue to the response team that could resolve it. When the message was successfully passed to the correct response team, it was responded to promptly and “resolved” within 27 minutes. However, this resolution came two hours and 56 minutes after the polls should have opened. **DCED will credit your account in the amount of \$947.58 for the two hours and 56 minutes of lost operation time.**

8. Arcadia Park Elementary School (V4065)

- Claim – Voting was not available from 7:00 am to 7:58 am
- Analysis
 - At 6:18 am, DCED received a call from the judge who reported missing voting machine cables, but the Help Desk operator who took the call accidentally “resolved” the ticket instead of “escalating” it to the proper response team; therefore, no action was taken
 - At 7:24 am, the judge again reported missing voting machine cables at which time DCED dispatched an Election Hardware Technician to deliver the missing cables

- Replacement equipment was installed at or before 9:03 am
- The first ballot was issued at 9:03:22 am
- The site continued to process voters with no other reported issues for the remainder of the day
- 28 ballots were issued at this site on May 1, 2021
- Conclusion – **DCED will credit your account in the amount of \$841.51 for the two hours and 3 minutes of lost operation time.**

9. Urban Park Elementary School (V1085)

- Claim – Voting was not available from 7:00 am to 10:07 am
- Analysis
 - At 8:56:55 am, DCED received a call from the judge who “needed instructions to open polls” and requested non-essential supplies
 - The Help Desk operator answered the judge’s questions about opening the polls during the call, but kept the ticket open to allow the appropriate response team to address the judge’s request for non-essential supplies
 - At 10:07 am, a Warehouse worker resolved the ticket with the note “issue cleared”, indicating the non-essential supplies were delivered
 - The first ballot was issued at 11:07 am
 - The site continued to process voters normally for the remainder of the day
 - 20 ballots were issued at this site on May 1, 2021
 - Note: This is a historically low-turnout vote center that received 20 or less votes in the May ’21, Nov ’21, May 7, 2022, May 24, 2022, and May ’23 elections.
- Conclusion – While the judge did call asking for instructions on how to open the polls, the Help Desk operator did not indicate that the vote center had been inoperable prior to the phone call. Based on past experience, we suspect that the judge was asking about how to “open the polls” on their E-Pollbook, a simple task that takes two clicks and can be completed in two seconds. In light of the operator resolving the judge’s questions during the call and there being no mention of the vote center being inoperable, we find no fault on behalf of DCED. **DCED therefore rejects your claim.**

10. Northwood Hills Elementary School (V1032)

- Claim – Voting was not available from 7:00 am to 11:15 am
- Analysis
 - At 7:03 am, DCED received a call from the judge who reported missing keys, but the ticket was “escalated” to the wrong response team; therefore, no action was taken until it was reassigned to the correct response team
 - Replacement keys were delivered on or before 9:19:53 am, two hours and 16 minutes after the initial notification
 - The first ballot was issued at 9:19:53 am
 - The site continued to process voters normally for the remainder of the day with no other reported issues
 - 130 ballots were issued at this site on May 1, 2021
- Conclusion – The judge is required to be on site by 6:00 am and, by 6:15 am, is expected to report any critical issues that would cause a delay in opening. However, the issue was not reported until 7:03 am, causing a delay of approximately 45 minutes in DCED's ability to respond. Nonetheless, a DCED Technician should have resolved the issue by 7:33 am, but instead resolved it by 9:19 – a delay of one hour and 46 minutes. As a result, **DCED will credit**

your account in the amount of \$353.84. This amount has been calculated based on the one hour and 46 minutes of delayed response by DCED, minus the 45 minutes of delayed notification by the judge. Consequently, a credit of one hour and 1 minute will be applied to account for the lost operation time.

11. John S Bradfield Elementary School (V2221)

- Claim – Voting was not available from 7:00 am to 9:33 am
- Analysis
 - The first ballot was issued at 7:03 am and an additional 63 ballots were issued by 9:33 am
 - At 8:27 am, DCED received a call from the judge who reported that their E-Pollbook, a check-in device, was “saying the poll is not open”
 - Note: After signing into the E-Pollbook, the judge is instructed to “open the polls” on the device, per DCED’s Training. Until the judge completes this action, the E-Pollbook will say that the polls are closed.
 - Note: Each vote center is given a minimum of three E-Pollbooks. The fact that this location had issued 32 ballots by 8:27 am indicates that there was at least one E-Pollbook that was properly signed into and “opened”.
 - The first ballot was issued at 7:03 am, indicating that the vote center was clearly open on time
 - The site continued to process voters normally for the remainder of the day with no other reported issues
 - 451 ballots were issued at this site on May 1, 2021
- Conclusion – DCED has no record of this site experiencing an issue that would have delayed their ability to open by 7:00 am. As mentioned, the first ballot was issued at 7:03 am the site continued to issue ballots at regular intervals for the entirety of the day. It stands to reason that this site was fully operational; **DCED therefore rejects your claim.**

Summary

We have calculated the credit being given to the City of Dallas by multiplying the percentage of the 12-hour day the vote center was inoperable due to DCED's late response by the cost of the vote center:

$$\text{Credit Owed} = \frac{(\text{DCED Late Response} - \text{Judge Late Notice})}{12 \text{ hrs}} \times \text{Unit Cost}$$

As an example, here is how the credit owed for V3018 Park South YMCA was calculated:

$$\begin{aligned} \text{Credit Owed} &= \frac{3 \text{ hrs and } 24 \text{ min } (204 \text{ min}) - 42 \text{ min}}{12 \text{ hrs } (720 \text{ min})} \times \$4,276.46 \\ &= 22.5\% \times \$4,276.46 = \$962.20 \end{aligned}$$

Note: "Unit Cost (\$)" includes all rental, custodial, and/or security costs charged by the facility, as well as the cost of the election workers and equipment used.

VC#	Location Name	Unit Cost (\$)	DCED Late Response (hh:mm)	Judge Late Notice (hh:mm)	Time to Be Credited Back to Dallas (hh:mm)	Credit Owed (\$)
1. V3063	Ronald E. McNair Elementary School	\$4,925.94				\$0.00
2. V3018	Park South YMCA	\$4,276.46	03:24	00:42	02:42	\$962.20
3. V1081	Owenwood Farm & Neighbor Space	\$5,725.94				\$0.00
4. V3081	Booker T. Washington High School	\$4,151.54				\$0.00
5. V1100	E. B. Comstock Middle School	\$4,925.94				\$0.00
6. V1087	Skyline High School	\$4,151.54				\$0.00
7. V1107	Richard Lagow Elementary School	\$3,876.46	02:56	00:00	02:56	\$947.58
8. V4065	Arcadia Park Elementary School	\$4,925.94	02:03	00:00	02:03	\$841.51
9. V1085	Urban Park Elementary School	\$3,876.46				\$0.00
10. V1032	Northwood Hills Elementary School	\$4,176.46	01:46	00:45	01:01	\$353.84
11. V2221	John S. Bradfield Elementary School	\$4,925.94				\$0.00
Total Credit:						\$3,105.13

This leaves an outstanding balance due to Dallas County Elections Department in the amount of \$175,194.94. Please remit payment in this amount as soon possible.

Thanks for your patience and cooperation in this matter,

Michael Scarpello
Dallas County Elections Administrator



Audit of Proposed Budget Revenues Included in the Fiscal Year 2023-24 Proposed Annual Budget for the City of Dallas

August 31, 2023

Mark S. Swann, City Auditor

Mayor

Eric Johnson

Mayor Pro Tem

Tennell Adkins

Deputy Mayor Pro Tem

Carolyn King Arnold

Council Members

Adam Bazaldua

Paula Blackmon

Zarin D. Gracey

Cara Mendelsohn

Jesse Moreno

Omar Narvaez

Jaime Resendez

Paul E. Ridley

Jaynie Schultz

Kathy Stewart

Chad West

Gay Donnell Willis

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Executive Summary

Objective and Scope

The objective of this audit was to determine whether the City of Dallas has effective processes to ensure reasonable proposed budget revenues are included in the City Manager's *Fiscal Year 2023-24 Proposed Annual Budget*.

The scope of the audit was the major revenue sources included in the *Fiscal Year 2023-24 Proposed Annual Budget* and the associated supporting documentation.

Recommendations

There are no audit recommendations associated with this report.

Background

The City Council approved the *Fiscal Year 2023 Audit Work Plan* which prescribed the City Auditor to review and verify the reasonableness of the proposed budget revenues included in the City Manager's *Fiscal Year 2023-24 Proposed Annual Budget*.

Observed Conditions

The City of Dallas has effective processes to ensure reasonable proposed budget revenues are included in the *Fiscal Year 2023-24 Proposed Annual Budget*. Further, the revenue forecast methodologies and material assumptions used in developing the proposed budget revenues are reasonable and adequately supported.

Audit Results

The Office of the City Auditor reviewed major revenue sources totaling \$3.24 billion, or 77 percent of the \$4.18 billion of the proposed budget revenues included in the *Fiscal Year 2023-24 Proposed Annual Budget*. The remaining \$943.6 million, which is mainly derived from department reimbursements, and City of Dallas employee and retiree contributions for retirement and health benefits, was excluded from the review. The major revenue sources reviewed are identified in [Exhibit 1](#).

Exhibit 1:

Revenue Sources Included in the Office of the City Auditor's Review

Revenue Sources	Fiscal Year 2022-23 Amended Budget	Fiscal Year 2022-23 Forecast Revenues	Fiscal Year 2023-24 Revenues
General Fund			
Ad Valorem Taxes	\$961,502,880	\$959,659,397	\$1,054,604,850
Sales Tax	432,750,269	432,750,269	451,745,839
Franchise Fees	94,959,000	94,979,000	91,230,000
Enterprise Fund			
Water Utilities	755,226,160	763,450,514	791,276,133
Aviation – Concessions & Rentals	118,621,148	129,398,354	137,368,557
Sanitation Services	145,369,518	147,534,865	152,709,535
Convention and Event Services – Hotel Occupancy Tax	66,453,873	66,357,055	78,290,269
Stormwater Fees	72,433,742	72,433,742	80,093,972
Debt Service			
Ad Valorem Taxes	365,670,959	364,764,284	401,665,941
Revenue Sources Reviewed	3,012,987,549	3,031,327,480	3,238,985,096
Revenue Sources Not Included	855,038,446	877,656,616	943,595,154
Total Revenues	\$3,868,025,995	\$3,908,984,096	\$4,182,580,250

Source: Fiscal Year 2023-24 Proposed Budget (Unaudited)

The City of Dallas has methodologies in place for forecasting revenues. The common methodologies used by the City of Dallas consist of regression analyses and/or historical trends, professional judgements, along with expertise from external consultants. [Exhibit 2](#) below shows the total General Fund variance budgeted revenues for Fiscal Years 2020 through 2022 were less than 6.5 percent each year.

Common methodologies and a conservative approach were used to forecast revenues for Fiscal Year 2023-24 revenues.

Exhibit 2:

Fiscal Years 2020 Through 2022 General Fund Budgeted Revenues
Compared to Actual Revenues
(in thousands)

General Fund	Fiscal Year 2019-20 Budgeted Revenue	Fiscal Year 2019-20 Actual Revenue	Variance	
			Dollar	Percent
Ad Valorem Taxes	\$787,420	\$789,114	\$1,694	0.2%
Sales Tax	325,566	310,737	-14,829	-4.6%
Franchise Fees and Other Tax	129,340	120,944	-8,396	-6.5%
License and Permits	5,154	4,486	-668	-13.0%
Intergovernmental	11,383	15,670	4,287	37.7%
Service to Others	127,077	104,353	-22,724	-17.9%
Fines and Forfeitures	27,222	24,313	-2,909	-10.7%
Investment Income	4,664	5,544	880	18.9%
Other Revenues	6,685	7,530	845	12.6%
Total Revenues	\$1,424,511	\$1,382,691	-\$41,820	-2.9%

General Fund	Fiscal Year 2020-21 Budgeted Revenue	Fiscal Year 2020-21 Actual Revenue	Variance	
			Dollar	Percent
Ad Valorem Taxes	\$825,007	\$844,970	\$19,963	2.4%
Sales Tax	296,324	354,288	57,964	19.6%
Franchise Fees and Other Tax	115,907	120,445	4,538	3.9%
License and Permits	5,024	5,007	-17	-0.3%
Intergovernmental	12,112	12,291	179	1.5%
Service to Others	117,518	121,730	4,212	3.6%
Fines and Forfeitures	23,555	25,074	1,519	6.4%
Investment Income	4,483	1,376	-3,107	-69.3%
Other Revenues	6,716	11,788	5,072	75.5%
Total Revenues	\$1,406,646	\$1,496,969	\$90,323	6.4%

General Fund	Fiscal Year 2021-22 Budgeted Revenue	Fiscal Year 2021-22 Actual Revenue	Variance	
			Dollar	Percent
Ad Valorem Taxes	\$876,484	\$880,484	\$4,000	0.5%
Sales Tax	344,283	407,309	63,026	18.3%
Franchise Fees and Other Tax	117,600	132,060	14,460	12.3%
License and Permits	5,844	11,522	5,678	97.2%
Intergovernmental	13,102	18,182	5,080	38.8%
Service to Others	120,569	119,255	-1,314	-1.1%
Fines and Forfeitures	26,391	24,083	-2,308	-8.7%
Investment Income	967	2,683	1,716	177.5%
Other Revenues	8,877	12,431	3,554	40.0%
Total Revenues	\$1,514,117	\$1,608,009	\$93,892	6.2%

Source: City of Dallas 2020-2022 Comprehensive Annual Financial Reports

In preparing the proposed budget revenues, City management develops revenue forecast methodologies, such as regression analyses and/or historical trends, documents significant assumptions used to support the methodologies. The Office of the City Auditor's assessment

considers the reasonableness of these revenue forecast methodologies; however, neither City management nor the Office of the City Auditor guarantees the achievement of the Fiscal Year 2023-24 proposed budget revenues.

Methodology

We interviewed department personnel, reviewed revenue forecast methodologies and material assumptions for reasonableness, verified consistency of the budget documents, and performed various analyses. In addition, all five components of *Standards for Internal Control in Federal Government* were considered.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major Contributors to the Report

Carron J. Perry, CIA – In-Charge Auditor
Rory Galter, CPA – Engagement Manager
Matthew Cheadle, CIA, CFE, CGAP
Zachary Goebel
Nadia Gonzalez
Keith Maddox, CIA, CGAP
Natalie Martinez, CTCM
Jennifer Phung, CIA

Appendix A: Management's Response

Memorandum



DATE: August 31, 2023

TO: Mark S. Swann – City Auditor

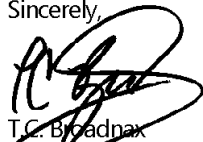
SUBJECT: Response to the Audit of Proposed Budget Revenues Included in the Fiscal Year 2023-24 Proposed Annual Budget for the City of Dallas

This letter acknowledges the City Manager's Office and the Office of Budget & Management Services received the *Audit of Proposed Budget Revenues Included in the Fiscal Year 2023-24 Proposed Annual Budget for the City of Dallas*.

The City has strong internal controls in place to ensure reasonable proposed budget revenues are included in the proposed annual budgets. We are pleased, but not surprised, that the City Auditor concluded that the City's revenue forecast methodologies and material assumptions are reasonable and adequately supported.

We appreciate the professionalism and quality of work demonstrated by your staff throughout this engagement.

Sincerely,



T.C. Broadnax
City Manager

C: Genesis D. Gavino, Chief of Staff
Jack Ireland, Chief Financial Officer
Janette Weedon, Director, Office of Budget & Management Services