



**GARLAND**

**INTERNAL AUDIT**

# **CIP Reimbursement**

**September 1, 2020**

**Report 201906**

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## Executive Summary

The City of Garland prepares a Capital Improvement Program (CIP) each year that is in addition to its Annual Operating Budget. The CIP is a listing of planned capital projects for the upcoming five-year period together with the expected costs and the anticipated methods of financing. The primary source of funding for CIP projects is debt issuance; however, there is also funding from third parties, such as Dallas Area Rapid Transit (DART), Dallas County, Texas Department of Transportation (TxDOT), and developers. The focus of this audit was the management of third party funding.

Each City department manages CIP projects for their area. As part of the project management process, departments may invoice third parties at the beginning or during a project for agreed to funding or reimbursement of expenditures, depending on the terms of the agreement.

The projects within the scope of the audit have approximately \$53 million (\$35 million FY/18 and \$18 million FY/19) in third party funding. Collections of reimbursements to date are \$33 million, \$1million has been invoiced, and \$19 million is pending. See Exhibit A for details.

Internal Audit (IA) identified the following areas for improvement during this audit.

- Funding reimbursement invoices are not always created and sent to funding partners in a timely manner and, if applicable, liens are not consistently placed on properties when payments are not received.
- Letter agreements are not always used to specify the obligations of the City and developer.
- The process to manage the invoicing and collection of third party funding is not centralized.
- The CIP directive does not contain any guidelines or standards relating to the management of third party funding.
- Written policies and procedures are not developed within departments. Program reviews or reconciliations are not performed in a consistent manner.
- Agreements or contracts related to third party funding are not always forwarded to the City Secretary's office for record retention.
- The expenditures of City participation programs, such as sidewalks and drainage, have been captured in a single account versus using job cost codes to track each project within the program.

IA would like to express our appreciation to the management and staff of each department involved in the audit for their time, assistance, and cooperation during the course of the audit.

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## Authorization

IA conducted this audit under the authority of Article IV, Section 8 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

## Objective

The objective of this audit was to determine that the City Departments have adequate policies, procedures, and processes in place to ensure timeliness, accuracy, and completeness of the CIP reimbursement activities.

## Scope and Methodology

IA conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that IA plans and performs the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. IA believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The scope of the audit was all projects with third party funding listed in the FY/19 CIP program book. The scope does not include the CIP budgeting process or projects where the only funding is bond, commercial paper, internal, or unfunded funding sources.

To adequately address the audit objectives and to describe the scope of the work on internal controls, IA:

- Obtained and reviewed applicable City Directives related to CIP to determine if directives define processes for third party funding. .
- Reviewed the FY/18 and FY/19 CIP program books and identified projects that receive third party funding.
- Obtained and reviewed any agreements associated with CIP projects that receive any third party funding.
- Verified if documented policies and procedures for CIP were in place during the course of these projects.
- Obtained and reviewed the general ledger for the associated project charges and reconciled with the job cost and invoice documentation.
- Obtained, reviewed, and compared inventory issued from the warehouse to materials charged to the projects and reconciled with the invoice documentation, if applicable.
- Obtained, reviewed, and compared employee labor and equipment hours listed on time sheets to amounts charged to the project and reconciled the charges to the invoice documentation, if applicable.
- Compared third party costs recorded in the job cost system to the reimbursement invoices submitted to the applicable entities to determine if third party costs agreed with reimbursement request documentation, if applicable.

- Compared the project initiation dates to agreement dates and invoice completion dates to determine timeliness of the projects and the reimbursement payments received.
- Searched the City document management system to determine if applicable agreements associated with each of the projects are filed with the City Secretary's office.

To assess the reliability of drainage project file obtained from the department, IA validated vendor amounts to the actual payments made to the vendor that were obtained from the City Finance system. As a result of our testing, IA determined that the data provided and available was sufficiently reliable for the purpose of this report.

## Background

The City of Garland prepares a Capital Improvement Program (CIP) each year that is in addition to its Annual Operating Budget. The CIP is a listing of planned capital projects for the upcoming five-year period together with the expected costs and the anticipated methods of financing. The CIP typically includes the construction of infrastructure and municipal facilities as well as the acquisition of large or specialized equipment. To be included in the CIP, expenditures must qualify as capital under the City's current capitalization policy, have a useful life of not less than five years, and exceed \$25,000.

Funding for the CIP comes from several sources including debt issuance, transfers from the Operating Budget, grants and other outside contributions, and interest earnings. The primary source of funding for CIP projects is debt issuance. Annual funding for the CIP is based on projected capital expenditures for the plan year for both new and existing projects. The City issues debt only in amounts necessary to provide funding for the upcoming year, rather than being issued up front for the entire amounts of the approved projects.

The focus of this audit was the outside contributions with the majority of funding coming from TxDOT, DART, and Dallas County. See the summary below and [Exhibit A](#) for project and funding detail.

	Thru 2018	2019 +	Total
Third Party CIP Funding	\$ 35,201,586	\$ 17,824,578	\$ 53,026,164
Received	\$ (31,650,072)	\$ (1,233,662)	\$ (32,883,734)
Invoiced	\$ (1,004,958)	\$ (220,800)	\$ (1,225,758)
Adjustment	\$ 91,464	\$ 75,000	\$ 166,464
Adjustment for Drainage	\$ -	\$ -	\$ 221,171
Total Pending			\$ 19,304,307

# Opportunities for Improvement

During the audit, IA identified certain areas for improvement. The audit was not designed or intended to be a detailed study of every transaction, procedure, or relevant system. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

## #1 INVOICE TIMELINESS

**CONDITION**  
**(The way it is)**

The process to obtain reimbursement for third party funding differs from project to project and department to department. In some cases, a department invoices a third party once the project is initiated and in other cases, the department incurs project expenses then periodically invoices the third party. The invoice frequency, i.e. monthly or quarterly, and invoicing requirements are not usually specified in the project agreement. For the scope of this audit, there were twenty-seven CIP projects totaling approximately \$53 million. See *Exhibit A* for summary of activity.

During testing of reimbursements, IA noted the following:

- Department A, Trail Development Project – There are two funding partners and the City has incurred expenditures over the past three years. The department invoiced TxDOT in August 2019 for \$518,500 for some expenditures that have occurred over the past three years. Dallas County has not been invoiced.

	2017-2018	2019	Total
City Expenditures*	\$221,100	\$552,200	\$773,300
Dallas County Fund@	\$364,300	-\$0-	\$364,300
TxDOT Fund@	\$1,044,800	-\$0-	\$1,044,800
Funds Received*	-\$0-	-\$0-	-\$0-

\*As of August 2019 @ Only 2019 fund, not 2019 and forward

- Department B, Bridge Remediation Project – The City has incurred expenditures over the past three years and no invoices have been sent to Dallas County.

	2017-2018	2019	Total
City Expenditures*	\$2,725,200	\$1,235,600	\$3,960,800
Dallas County Fund@	\$461,000	\$968,000	1,429,000
Funds Received*	-\$0-	-\$0-	-\$0-

\*As of August 2019 @Only 2019 fund, not 2019 and forward

- Department B, Shiloh Road Project - The City has incurred expenditures over the past three years and no invoices have been sent to Dallas County.

	2017-2018	2019	Total
<i>City Expenditures*</i>	\$146,000	\$6,307,300	\$6,453,300
<i>Dallas County Fund@</i>	\$160,000	\$4,515,000	\$4,675,000
<i>Funds Received*</i>	-\$0-	-\$0-	-\$0-

\*As of August 2019 @ Only 2019 fund, not 2019 and forward

- Department B, Pleasant Valley Project - There are two funding partners. RTR (TxDOT) funds were paid in full at the beginning of the project in the amount of \$21,476,000. For Dallas County, an initial invoice was sent and paid in April 2018 for \$1,692,000. A second invoice was sent in January 2019 for \$486,900, which was rejected by the funding partner and reissued in August 2019 for \$485,853. The remainder of the funding (\$522,500) has not been invoiced.

	2016-2018	2019	Total
<i>City Expenditures*</i>	\$18,468,800	\$2,016,900	\$20,485,700
<i>RTR (TxDOT) Fund@</i>	\$21,476,000	-\$0-	\$21,476,000
<i>Dallas County Fund@</i>	\$2,055,000	\$645,000	\$2,700,000
<i>Funds Received*</i>	\$23,168,000	-\$0-	\$23,168,000

\*As of August 2019 @ Only 2019 fund, not 2019 and forward

- Department C, Radio Project - Missed invoicing one partner for \$525, which has subsequently been sent for payment.

**CRITERIA**  
(The way it should be)

The Government Accountability Office Standards for Internal Control Principle 10.10 states "Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. "Transactions" tends to be associated with financial processes (e.g., payables transactions), while "activities" is more generally applied to operational or compliance processes. For the purposes of this standard, "transactions" covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities."

<b>CAUSE</b> (Difference between condition & criteria)	There is no standard project management review process or directive to ensure departments captures all expenditures and invoice third parties according to the terms of the contract or on a periodic basis.
<b>EFFECT</b> (So what?)	The City may incur additional costs or lose funding if expenditures are not invoiced on a timely basis.
<b>RECOMMENDATION</b>	City Management should: <ul style="list-style-type: none"> <li>• Ensure the departments’ request funding from third parties for all projects where the City is due a reimbursement.</li> <li>• Ensure each department develops and implement a periodic (at least quarterly) project review and reconciliation process to capture all expenditures and process invoices on a timely basis.</li> <li>• Consider centralizing the invoicing and collection efforts with the Finance Department.</li> </ul>
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	The Finance Department will work with the above-mentioned departments to create written procedures and to develop a process to ensure that the departments perform billing, collections, and reviews in a timely fashion. In addition, all invoicing will be centralized within the Financial Services Department. Below are updates on the above-mentioned reimbursements due from third parties that have occurred during or subsequent to audit testing: <ul style="list-style-type: none"> <li>• Department A, Trail Development Project – As of March 3, 2020, \$518,789 has been collected from TxDOT and another invoice totaling \$386,411 has been issued to TxDOT and is outstanding. The Finance Department will invoice Dallas County once all TxDOT funds have been recovered.</li> <li>• Department B, Bridge Remediation – As of December 2019, \$1,332,351 has been invoiced and collected, which should be the final invoice. The project came in under the agreed amount with the third party.</li> <li>• Department B, Shiloh Road – Billing for the Shiloh Road Project will begin in March 2020 and will be done on at least a quarterly basis.</li> </ul>

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	<ul style="list-style-type: none"><li>• Department B, Pleasant Valley Road Bridge – Since December 2019, The Finance Department has invoiced and collected \$485,853 from Dallas County. An additional invoice has been prepared and sent to Dallas County totaling \$334,653, which is still outstanding. The City will have one more invoice for the third party in March 2020.</li></ul>
<b>IMPLEMENTATION DATE</b>	October 2020

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## #2 DRAINAGE PARTICIPATION PROGRAM

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**CONDITION**  
(The way it is)

The City has a drainage improvement program and, in most cases, shares the direct costs of a drainage project 50/50 with residential property owners and 33/67 with businesses. For most drainage projects, the property owner informs Department B about drainage issues on their property. Once the project has been reviewed, approved, and designed, Department B works with a contractor to get an estimate and enters into a cost sharing agreement with the property owner based on the estimate. Once the project is completed, the owner is advised via letter. Department B does not send an invoice to the property owner since the agreement contains the amount and terms. The property owner can pay its share in a lump sum payment or enter into a payment plan with the City. If the owner selects a payment plan, Department B sends the property owner a payment book, places a lien on the property, and sends the appropriate documentation to Department D, who receives and deposits the payments.

For the period from 2005 through 2019, there were thirty-seven cost sharing drainage projects with expenditures totaling \$1,900,000 and reimbursements due the City in the amount of \$970,000. [See Exhibit B for details.](#)

During testing of the reimbursements, IA noted the following in Department B:

- The City has collected \$675,000 in drainage reimbursements.
  - One project is in progress and another is on a payment plan, totaling \$73,000.
  - The remaining reimbursements total approximately \$222,000 (nine projects) are unpaid or underpaid and date back to 2016. No liens were placed on these properties or are not on payment plans.
  - In the current process, one person creates the estimate, sends out the invoice, receives the payment (except the ones that go to Department D), enters payment in the CRM system and creates the bank deposit, which creates a segregation of duties issue.
  - Payments are taken by different groups and not all payments are recorded in the CRM system.
  - The CRM system is not designed to adequately manage drainage program.
  - Work orders, agreements and other supporting evidence are not maintained in a consistent manner.
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	<ul style="list-style-type: none"> <li>• Approvals for projects where the decision was made for the City to pay 100% of the costs may not always be formally documented.</li> <li>• Job Costing is not adequately used to identify each drainage project.</li> </ul>
<p><b>CRITERIA</b> (The way it should be)</p>	<p>Chapter 31, Article VI, Sec. 31 of the Code of Ordinances provides for a cost sharing program between the City and property owners related to drainage improvements.</p> <p>The drainage participation agreement contains payment and property owner obligation language.</p> <p>Principle 10 (Segregation of Duties) of the Government Accountability Office Internal Control Standards states: "10.12 Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.</p> <p>10.13 Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud."</p> <p>Principle 12 (Documentation of Responsibilities through Policies) states: "12.03 Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness.</p> <p>12.04 Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process."</p>

<p><b>CAUSE</b> (Difference between condition &amp; criteria)</p>	<ul style="list-style-type: none"> <li>• Invoices are not sent to the property owner. Department B uses the cost sharing agreement to advise of costs at the beginning of the project.</li> <li>• The project management review process does not include communications to the necessary City personnel advising that a project has been completed and a reimbursement is due or that a reimbursement has not been received.</li> <li>• There are no documented policies or procedures with roles and responsibilities for the drainage program.</li> <li>• Reimbursement payments are not always captured in the correct fund.</li> <li>• There were changes in personnel responsible for some of the projects back in 2016 and the appropriate documentation may not have been completed.</li> <li>• Training may have been limited.</li> </ul>
<p><b>EFFECT</b> (So what?)</p>	<p>The City may incur:</p> <ul style="list-style-type: none"> <li>• Potential losses if expenditures are not captured, invoiced, and collected.</li> <li>• Additional borrowing expenses if reimbursements are not collected on a timely basis.</li> <li>• An increased risk of error, misuse, or fraud without an adequate segregation of duties.</li> </ul>
<p><b>RECOMMENDATION</b></p>	<p>City Management should review the current drainage program and implement changes that include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>• Processes invoice for all projects where the City is due a reimbursement. If payments are not received in a timely manner, place liens on these properties.</li> <li>• Divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for the invoicing and cash handling activities so that no one individual controls all key aspects of a transaction or event. Work with Finance to develop and implement an invoicing and collection process.</li> <li>• Develop and implement policies and procedures that outlines the roles and responsibilities throughout the drainage program project management life cycle, which includes, but is not limited to, segregation of duties, monthly management reviews and reconciliations, and the use of job costing codes.</li> <li>• Consider amending the current participation agreement to include language for projects that exceed the estimated costs</li> </ul>

	<p>and explicitly mention the placing of a lien on the property if payment is not received.</p> <ul style="list-style-type: none"> <li>• Work with Information Technology on the CRM system to implement the use of work orders to manage the projects.</li> <li>• Consider utilizing the City's document management system to consistently and electronically maintain project agreements and other documents.</li> </ul>
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	<p>The Finance Department will work with Department B to establish a written procedure and process for the invoicing, collection, and review of drainage participation revenue. In addition, Management will consult with Information Technology to determine the best technology solution for tracking and documenting this program.</p> <p>In addition, Management will consult with the City Attorney's Office to amend the participation agreement for all future participation projects.</p> <p>The nine projects that are referenced in the report as having \$220,000 of outstanding reimbursements occurred when two key staff members left the City. Miscommunication between staff members occurred and subsequently, property owners not invoiced after completion of some of the projects. The Finance Department and Department B will work together to invoice these property owners for reimbursement of the work completed.</p>
<b>IMPLEMENTATION DATE</b>	The Finance Department will work with Information Technology and develop a specific project timeline with an anticipated completion by October 2020.

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### #3 SIDEWALK PARTICIPATION PROGRAM

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**CONDITION**  
(The way it is)

The City has a sidewalk participation program whereby property owners pay 50% of the direct repair costs. Either the property owner or the City can initiate a proposal to replace sidewalks. Generally, the City obtains an estimate from the contractor and then enters into an agreement with the property owner, who pays their share upfront or elects a payment plan to pay over time. If the property owner elects a payment plan, the City will place a lien on the property. [See Exhibit B for details.](#)

During testing of the 2019 payment activity, IA noted the following in Department B:

- In the current process, one person creates the estimate, sends out the invoice, receives the payment, enters payment in the CRM system and creates the bank deposit, which creates a segregation of duties issue.
- The payments for twenty-two of the addresses (out of twenty-eight) were greater than (average \$55) or less than (average \$71) 50% of the actual costs incurred by the City because payments are based on project estimates.
- Approval for sidewalk projects where the City absorbs 100% of the costs may not be adequately documented and retained.
- Payments are not always properly recorded in the CRM system.
- The CRM system is only used to track payments and not to track projects and work orders.

**CRITERIA**  
(The way it should be)

Chapter 31, Article V, Sec. 31 of the Code of Ordinances provides for a cost sharing program between the City and property owners related to street improvement and paving assessments.

The participation agreement contains payment and property owner obligation language.

Principle 10 (Segregation of Duties) of the Government Accountability Office Internal Control Standards states:  
"10.12 Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.

10.13 Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of

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	<p>duties. In particular, segregation of duties can address the risk of management override.</p> <p>Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud."</p> <p>Principle 12 (Documentation of Responsibilities through Policies) states:</p> <p>"12.03 Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness.</p> <p>12.04 Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process."</p>
<p><b>CAUSE</b> (Difference between condition &amp; criteria)</p>	<ul style="list-style-type: none"> <li>• There is limited staff in Department B to separate all the functions within the process.</li> <li>• Although the Code of Ordinances provides regulations for the cost sharing program, there are no documented operational policies or procedures that provide guidance related to the various activities (e.g. project set up, invoicing, payments, collections, and payment variances), including management review, during the sidewalk participation process life cycle.</li> <li>• Training may have been limited.</li> </ul>
<p><b>EFFECT</b> (So what?)</p>	<ul style="list-style-type: none"> <li>• Lack of segregation of duties increase the risk of error, misuse, or fraud.</li> <li>• Inaccurate invoicing can damage citizen's trust with City operations.</li> <li>• In the absence of a formal management review process, the City may not receive proper or timely reimbursement.</li> </ul>
<p><b>RECOMMENDATION</b></p>	<p>Management should review the current sidewalk program process and:</p> <ul style="list-style-type: none"> <li>• Divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for the invoicing and cash handling activities so that no one individual controls all key aspects of a transaction or event.</li> </ul>

	<ul style="list-style-type: none"> <li>• Work with Finance to develop and implement an invoicing and collection process.</li> <li>• Ensure final invoices are processed with 50% of the actual cost incurred by the City.</li> <li>• Develop and implement documented policies and procedures that provide guidance and management roles and responsibilities.</li> <li>• Update the participation agreement and City Ordinance language to address projects that are 100% City of Garland responsibility.</li> <li>• Perform a periodic reconciliation of work orders to payments received to ensure payments are received timely and for the correct amount.</li> <li>• Work with the Information Technology to use the full functionality of the CRM system.</li> </ul>
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	<p>The Finance Department will work with Department B to establish a written procedure and process for invoicing, collection, and review of sidewalk participation revenue. In addition, Management will consult with Information Technology to determine the best technology solution for tracking and documenting this program.</p> <p>Furthermore, Management will consult with the City Attorney's Office to amend the participation agreement for all future participation projects.</p>
<b>IMPLEMENTATION DATE</b>	The Finance Department will work with Information Technology and develop a specific project timeline with an anticipated completion by October 2020.

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**#4 DEVELOPER PARTICIPATION AGREEMENT**

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<b>CONDITION</b> (The way it is)	<p>Developer participation is a source of funds for certain CIP projects. During testing, IA noted that Department E does not use a letter agreement or contract that stipulates the costs and responsibilities of each party for these types of projects. For example, there were two projects (\$96,000 and \$14,000) where the City received reimbursement of expenditures and no agreement was used.</p> <p>There may be communications between Department E and the developer via email, but the emails may not contain language similar to elements of an agreement, such as offer, acceptance, consideration, and obligation.</p> <p>For example, a developer needs to add or change traffic signals at an intersection. The City will advise the developer of the costs and may or may not invoice the developer in advance. Once the project has been completed and the developer reimburses the City, a Certificate of Occupancy is issued to the developer.</p>
<b>CRITERIA</b> (The way it should be)	A letter agreement is developed and executed to define the rights and obligations of each party.
<b>CAUSE</b> (Difference between condition & criteria)	The City directive for CIP projects does not include language relating to managing third party reimbursements.
<b>EFFECT</b> (So what?)	A letter agreement can help minimize disputes and resolve problems and is enforceable should either party decide to take legal action. Additionally, the lack of an agreement creates the opportunity for inappropriate actions.
<b>RECOMMENDATION</b>	Management should work with the City Legal department to develop and implement a letter agreement to use for any developer participation projects.
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	Management will consult with the City Attorney's Office to develop a letter agreement for all future developer participation projects.
<b>IMPLEMENTATION DATE</b>	October 2020

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## #5 Centralization of CIP Reimbursement Process

<p><b>CONDITION</b> (The way it is)</p>	<p>CIP projects occasionally use third parties for a portion of the project funding. The City may enter into an agreement with the third parties that provides terms of the funding, such as 100% upfront or a reimbursement of expenditures during the life of the project.</p> <p>Currently, each department independently manages the invoicing and receipt of the third party funds. This includes when invoices are sent to third parties, the format of the invoice sent, and in some cases, the receipt of payments.</p>
<p><b>CRITERIA</b> (The way it should be)</p>	<p>Accounting Directive #6 states, "The Request for Issuance of Invoice memorandum shall be used by departments and sent to the Accounting Office to initiate the invoice process."</p> <p>In addition, Principle 10 (Segregation of Duties) of the Government Accountability Office Internal Control Standards 10.12 states, "Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk. 10.13 Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override.</p> <p>Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud."</p>
<p><b>CAUSE</b> (Difference between condition &amp; criteria)</p>	<p>The management review process does not always focus on reimbursement as part of the project management process. Additionally, the Request for Issuance of Invoice Directive has not been updated since 1997 and does not contain roles, responsibilities, and invoice timing.</p>
<p><b>EFFECT</b> (So what?)</p>	<ul style="list-style-type: none"> <li>• The City may be in violation of contract terms and impact receipt of funding.</li> </ul>

	<ul style="list-style-type: none"> <li>• Reimbursements may not be obtained on a timely basis, possibly creating delays in projects and the use of City general funds intended for other purposes.</li> <li>• Accounts receivable entries are not created to track monies owed the City.</li> <li>• Monies that are received by Finance may not be recorded to the correct fund and project.</li> </ul>
<b>RECOMMENDATION</b>	<p>City Management should consider centralizing the processes related to third party reimbursements. This will help ensure that monies due the City are invoiced, collected, and managed in an accurate and timely manner. Centralization will also standardize the process that each department will follow.</p> <p>In addition, Management should update and communicate City Accounting Directive #6, Request for Issuance of Invoice to include, but not limited to, roles, responsibilities, and language related to frequency of invoicing.</p>
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	The Finance Department will work with City Administration to update the City Accounting Directive #6 and will work with departments to create a centralized process through the Accounts Receivable division of the Finance Department.
<b>IMPLEMENTATION DATE</b>	October 2020

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**# 6 CIP Directive**

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**CONDITION**  
(The way it is)

The City Budget Directive #4 establishes financial guidelines for the administration of the CIP. Item 4(f) in the funding section of the directive mentions non-debt funding sources; however, the directive does not provide explicit guidance on the roles and responsibilities related to managing and reimbursement of non-debt funds from third parties.

For most CIP projects, the funding comes from some sort of debt such as a bond or commercial paper. There is also non-debt funding that comes from third parties such as other government agencies (DART, TxDOT, Dallas County), current funds, grants, or reimbursements. The majority of these funds come from other government agencies that agree to contribute funds to a project based on various criteria that the City must meet.

**CRITERIA**  
(The way it should be)

Principle 12.03 in the Standards for Internal Control in the Federal Government states "Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity."

In addition, Principle 12.05 states "Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. Regulators; legislators; and in the federal environment, the Office of Management and Budget and the Department of the Treasury may also change either an entity's objectives or how an entity is to achieve an objective. Management considers these changes in its periodic review."

**CAUSE**  
(Difference between  
condition & criteria)

The directive has not been updated since 2006.

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<b>EFFECT (So what?)</b>	The lack of guidance related to managing third party funding will lead to process inconsistencies and impact accountability.
<b>RECOMMENDATION</b>	City Management should review and revise the current CIP directive to include roles and responsibilities for processes related to the management of third party funding. This will provide a clear framework toward meeting accepted business objectives for the CIP process across the City.
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	Management will update the CIP Directive to include the roles and responsibilities for processing third party funding once a process has been developed and procedures have been written.
<b>IMPLEMENTATION DATE</b>	October 2020

## #7 Job Costs

<b>CONDITION</b> (The way it is)	The City tracks CIP project costs according to the fund where monies have been approved. There may be more than one project that uses the same fund, so a project code is assigned. Some CIP projects are considered a program that is not specific to one location or department, such as drainage and sidewalk participation. A job cost code function is available to identify specific projects costs in the program, but it is not always used. Consequently, the expenditures for the various projects in the program are tracked using the same project code.
<b>CRITERIA</b> (The way it should be)	The Government Accountability Office Standards for Internal Control Principle 10.10 states "Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. "Transactions" tends to be associated with financial processes (e.g., payables transactions), while "activities" is more generally applied to operational or compliance processes. For the purposes of this standard, "transactions" covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities."
<b>CAUSE</b> (Difference between condition & criteria)	Job costs codes are not required to track project costs.
<b>EFFECT</b> (So what?)	Management reviews and project reconciliations require additional time without the proper classification of expenditures and revenues.
<b>RECOMMENDATION</b>	Management should review the current process to determine if the program activities warrant the use of job cost codes to track and manage project expenditures and revenues. Any changes to the process requirements should be included in the City CIP directive and communicated to all departments.
<b>MANAGEMENT RESPONSE</b>	Partially Concur
<b>ACTION PLAN</b>	Management agrees the CIP programs should have a more detailed accounting process for tracking purposes. However, job costing in the current Finance System is cumbersome and lacks an essential reporting functionality. While job costing may be the best solution at this time, the Finance Department will be

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	researching other options and will provide the best solution to management.
<b>IMPLEMENTATION DATE</b>	October 2020

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### #8 Contract Retention

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<b>CONDITION</b> (The way it is)	According to City Directive #5, all executed contracts greater than \$3,000 are supposed to be sent to the City Secretary to retain in the City document management system. From discussion with department personnel, there are ten CIP projects that have at least one contract associated with the third party funding. In most cases, the department was able to provide a copy of the executed contract. A search of the City document management system resulted in seven of the ten contacts were not found in the system. Additionally, Department B manages a cost-sharing program with the agreements maintained in the department shared drive; however, none of the agreements were found in the City document management system.
<b>CRITERIA</b> (The way it should be)	City Administrative Directive #5, Departmental Original Documents Filing, states:  "1. The City Secretary's Office is the repository for the original active documents referenced in this directive.  2. All documents filed with the City Secretary must be fully executed at the time of their filing.  3. Individuals who are entitled to enter into the agreement on behalf of the City of Garland are responsible (1) for obtaining required signatures; (2) for ensuring the documents transferred to the City Secretary's Office are accompanied by the exhibits and/or attachments referenced in the document; and (3) for timely transferring the documents to the Office of the City Secretary.  4. The City Secretary's Office shall provide access to these and other documents as provided for by the Texas Local Government Records Act, and shall at a minimum, manage these documents according to the Schedules provided by the Texas State Library, which have been adopted by the City of Garland."
<b>CAUSE</b> (Difference between condition & criteria)	Contract are managed by each department and not centralized.
<b>EFFECT</b> (So what?)	Inconsistent contract management may cause the City to be in violation of contract terms and may lead to penalties, loss of funding, or a potential lawsuit.

<b>RECOMMENDATION</b>	City Management should develop a centralized contract management function to manage, monitor, and administer contract terms and conditions.
<b>MANAGEMENT RESPONSE</b>	Concur
<b>ACTION PLAN</b>	<p>The Finance Department is working in conjunction with the Purchasing Department to create a Contract Management function within the City.</p> <p>Management has hired a Consultant that specializes in establishing contract management offices, policies, and procedures for municipal governments and is expected to be working with City staff during the first quarter of 2020.</p> <p>In addition, a Contract Management System was funded in the Information Technology Project Fund for FY 2020. The Finance, Purchasing, and Information Technology Departments are currently researching options and will be bringing a recommendation to City Management once the research has been completed.</p>
<b>IMPLEMENTATION DATE</b>	Management has not developed a specific timeline for a Citywide implementation. It anticipates the rollout of a pilot program to a few departments that the City Administration deems as having the most contract risk due to complexity, volume, or other factors. The anticipated rollout date is October 2020.

## Exhibit A – CIP Funding Summary (excluding Sidewalk / Drainage Programs)

Funding Source / Project Name	Thru 2018(\$)	2019+(\$)	Total Funding \$	Funding Rec'd \$	Invoiced \$	In-Progress \$	
<b>RTR (TxDOT)</b>	<b>\$20,831,000</b>	<b>\$2,685,000</b>	<b>\$23,516,000</b>	<b>\$21,476,000</b>	<b>\$0</b>	<b>\$2,040,000</b>	
Pleasant Valley Rd - Richfield to Miles	\$20,831,000	\$645,000	\$21,476,000	\$21,476,000	\$0	\$0	
North-South Bikeway	\$0	\$2,040,000	\$2,040,000	\$0	\$0	\$2,040,000	
<b>Dallas County</b>	<b>\$3,685,321</b>	<b>\$10,908,000</b>	<b>\$14,593,321</b>	<b>\$1,691,994</b>	<b>\$485,853</b>	<b>\$12,415,474</b>	
Bridge Remediation	\$461,000	\$968,000	\$1,429,000	\$0	\$0	\$1,429,000	
Pleasant Valley Rd - Richfield to Miles	\$2,700,000	\$0	\$2,700,000	\$1,691,994	\$485,853	\$522,153	
Shiloh Rd - IH 635 to Kingsley	\$160,000	\$9,940,000	\$10,100,000	\$0	\$0	\$10,100,000	
Trail Development	\$364,321	\$0	\$364,321	\$0	\$0	\$364,321	
<b>Reimbursement</b>	<b>\$4,501,222</b>	<b>\$0</b>	<b>\$4,501,222</b>	<b>\$3,842,775</b>	<b>\$525</b>	<b>\$657,922</b>	
Firewheel Golf Park Improvements	\$204,213	\$0	\$204,213	\$205,200	\$0	(\$987)	A
Radio System Replacement	\$4,108,000	\$0	\$4,108,000	\$3,448,566	\$525	\$658,909	
Signal Equipment Modernizations	\$128,430	\$0	\$128,430	\$128,430	\$0	\$0	
New Traffic Signal Installations	\$60,579	\$0	\$60,579	\$60,579	\$0	\$0	
<b>DART Participation</b>	<b>\$0</b>	<b>\$3,202,833</b>	<b>\$3,202,833</b>	<b>\$0</b>	<b>\$220,800</b>	<b>\$2,982,033</b>	
Transit Pass - Bottleneck Improvements	\$0	\$3,202,833	\$3,202,833	\$0	\$220,800	\$2,982,033	
<b>Developer Participation</b>	<b>\$2,247,595</b>	<b>\$0</b>	<b>\$2,247,595</b>	<b>\$2,247,595</b>	<b>\$0</b>	<b>\$0</b>	
City Center Development	\$326,000	\$0	\$326,000	\$326,000	\$0	\$0	
Downtown Drainage Improvements	\$909,000	\$0	\$909,000	\$909,000	\$0	\$0	
Downtown Streetscape & Redevelopment	\$65,000	\$0	\$65,000	\$65,000	\$0	\$0	
Holford RD - PGBT to Creekwood	\$947,595	\$0	\$947,595	\$947,595	\$0	\$0	
<b>CDBG Funds (Streets)</b>	<b>\$1,007,477</b>	<b>\$160,745</b>	<b>\$1,168,222</b>	<b>\$1,159,551</b>	<b>\$0</b>	<b>\$8,671</b>	
Alto Dr - Curtis Dr to Dairy Rd	\$157,477	\$0	\$157,477	\$166,731	\$0	(\$9,254)	A
Freemont Dr - Miller to Southwood	\$347,000	\$0	\$347,000	\$331,550	\$0	\$15,450	A
High Hollow Dr - High Grove to High Mesa	\$172,000	\$0	\$172,000	\$173,647	\$0	(\$1,647)	A
Linda Dr - Cumberland Dr to Dairy Rd	\$331,000	\$0	\$331,000	\$326,878	\$0	\$4,122	A
Navasoto Drive - Blanco Ln to Castle Dr	\$0	\$160,745	\$160,745	\$160,745	\$0	\$0	
<b>TxDOT</b>	<b>\$1,044,806</b>	<b>\$0</b>	<b>\$1,044,806</b>	<b>\$0</b>	<b>\$518,580</b>	<b>\$526,226</b>	
Trail Development	\$1,044,806	\$0	\$1,044,806	\$0	\$518,580	\$526,226	
<b>CDBG Funds (Sr. Center)</b>	<b>\$433,000</b>	<b>\$200,000</b>	<b>\$633,000</b>	<b>\$432,736</b>	<b>\$0</b>	<b>\$200,264</b>	
Carver Senior Center Renovation	\$433,000	\$200,000	\$633,000	\$432,736	\$0	\$200,264	
<b>Other (Trade-in EWS)</b>	<b>\$0</b>	<b>\$454,000</b>	<b>\$454,000</b>	<b>\$379,000</b>	<b>\$0</b>	<b>\$75,000</b>	
Replacement of Landfill Equipment	\$0	\$454,000	\$454,000	\$379,000	\$0	\$75,000	A
<b>DART LAP/CMS (Interest)</b>	<b>\$255,624</b>	<b>\$0</b>	<b>\$255,624</b>	<b>\$255,624</b>	<b>\$0</b>	<b>\$0</b>	
Misc Equip & Services	\$55,624	\$0	\$55,624	\$55,624	\$0	\$0	
Traffic Control System	\$200,000	\$0	\$200,000	\$200,000	\$0	\$0	
<b>Grand Total</b>	<b>\$34,006,045</b>	<b>\$17,610,578</b>	<b>\$51,616,623</b>	<b>\$31,485,275</b>	<b>\$1,225,758</b>	<b>\$18,905,590</b>	
A – Projects have been completed and the In-Progress variance is related to the budget variance. No further monies due the City				<b>Less A</b>		<b>(\$82,684)</b>	
				<b>Adjusted Total</b>		<b>\$18,988,274</b>	

## Exhibit B – CIP Funding Summary (Sidewalk / Drainage Programs)

<i>Program Funding</i>	<i>Funding thru 2018(\$)</i>	<i>Funding 2019+(\$)</i>	<i>Total Funding \$</i>	<i>Amount Rec'd \$ 2018</i>	<i>Amount Rec'd \$ 2019</i>	<i>Total Rec'd \$</i>	<i>Invoiced \$</i>	<i>In-Progress \$</i>
<i>Sidewalk / Curb &amp; Gutter Participation*</i>	673,115	135,000	808,115	689,978	34,357	724,335	0	83,780
<i>Petition Drainage*</i>	522,426	79,000	601,426	671,750	2,374	674,124	0	(72,698)
<b><i>Program Total</i></b>	<b>1,195,541</b>	<b>214,000</b>	<b>1,409,541</b>	<b>1,361,728</b>	<b>36,731</b>	<b>1,398,459</b>	<b>0</b>	<b>11,082</b>

\*- The In-Progress variances relate to CIP budget variance. Actual Drainage variance is approximately \$222,000 of uncollected funding.

### Sources

- The 2018 and 2019 funding amounts obtained from the approved 2019 CIP book.
- The received amounts obtained from the City financial system.
- The Invoiced amounts obtained from the departments and not yet received at the time of audit testing.