



DALLAS COUNTY

Management Letter

Year ended September 30, 2011



KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

June 15, 2012

Honorable County Judge and
The Commissioners' Court
Dallas County, Texas

Ladies and Gentlemen:

In planning and performing our audit of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Dallas County, Texas (the County) as of and for the year ended September 30, 2011, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

Issue 2011-01: *Recording of Accrued Expenditures*

The County made several accrual entries through February 2012 (five months after the fiscal year-end of September 30, 2011) that affected the financial statements and the Schedule of Expenditures of Federal and State Awards (SEFA). Consequently, the County was not able to close the books and prepare an appropriate draft of the financial statements, including footnotes, until the month of March 2012.

Recommendation

We recommend the implementation of formal policies and procedures to ensure that accruals are identified timely by adopting policies for cutoff dates to limit the number of accruals and adjustments that are processed during January and February.

Views of Responsible Officials

County Auditor

While accrual policies are defined and documented, exceptions may occur. FY11 accounting corrections and unexpected grant activity caused delays in final approval of accrual entries for the Comprehensive Annual Financial Report (CAFR). Procedurally for all funds, payments



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greater than 25K for general operations and 10k for grant operations are selected for review using the payment register and flagged for accrual if costs represent a liability at fiscal year-end. The final accruals are recorded timely within the General Ledger. For FY11, subsequent analysis detected an error due to a new grant fund designation for the CAFR and failure to properly classify the accrual entry. Additionally, in February 2012, available funds for an expiring grant were retroactively awarded to an agency with eligible expenses in the retroactive period. Accrual adjustments were made after confirmation of allowable expenditures and reconciliations to grantor reports.

Care will be taken to expedite the extract, review, and proper posting of accruals in the future. Extra efforts will always be required for grants so that finalized grantor reports reconcile to the Single Audit and CAFR – estimates are not satisfactory. Target date for completion of posting accrual entries is mid-December.

Issue 2011-02: *Preventative Control for Investments Decisions*

Condition

There is no preventative control in place to ensure county funds are not invested in funds that do not meet the requirements of the Public Funds Investment Act. While there were no instances identified of the County being out of compliance with the Public Funds Investment Act, there is a risk that county funds could be invested in funds that are not in accordance with the County's policy. The current system of internal control is designed to review and identify funds that might not be invested in accordance with the County's policy after the fact.

Recommendation

The County should implement a process with preventative controls (up front) in addition to the detective controls (after the fact) to ensure funds are invested in accordance with the County's investment policy prior to the investment.

Views of Responsible Officials

County investments are made in conformance with both the Public Funds Investment Act (PFIA) and Commissioners Court adopted Dallas County Investment Policy. Both PFIA and County Investment Policy clearly delineate what types of investments are authorized. The authorized brokers through which Dallas County invests annually are required to sign a compliance letter stating they have reviewed and are familiar with County Investment Policy including types of investments authorized by Dallas County Investment Policy as required by the PFIA. The County Treasurer completes statutory PFIA training on an annual basis and also receives annual County Investment Officer Training required for Certification as County Investment Officer focused on authorized types of investments and statutory requirements of the PFIA.



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The Treasurer's Chief Accountant and Investment Manager provide dual signatures on each Dallas County Treasurer's trade ticket/authorization for investments made by the Treasurer Investment Manager. Detailed documentation of investments is distributed daily to the Treasurer and County Auditor with weekly approval by Commissioners Court and reported monthly and quarterly as required by statute to the Commissioners' Court through County Treasurer Reports.

Compliance with written policies and review are the controls currently in place, and as is noted, "there were no instances identified of the County being out of compliance with invested funds that are not in accordance with County's policies."

The County Treasurer is investigating options to purchase and implement a configurable investment system with real time edits and controls. Current manual preventative controls include dual signature required before transfer of funds, contractual obligations with brokers, and County Auditor access to online banking. Current internal controls include periodic review by Chief Deputy, quarterly reconciliations submitted to Commissioners Court and County Auditor verification of compliance.

Issue 2011-03: *Fraud Hotline*

Condition

We noted that the County has an established Fraud Hotline. However, we noted that the Fraud Hotline number is directed to the secretary of the County Auditor's Office, which has a caller ID. The secretary then forwards the phone call to the County Auditor. As such, the Fraud Hotline is not anonymous.

Recommendation

We recommend that the County establish a completely anonymous Fraud Hotline. This would provide for an anonymous fraud hotline that would allow employees to feel comfortable reporting important matters without revealing their identity.

Views of Responsible Officials

The Fraud Hotline is currently located on the County Auditor webpage. We will investigate options to include the link on the County's homepage. Intent for the County Auditor hotline was a basic communication tool for email although letter and telephone can be used. The individual contacting the County has several options to maintain anonymity.



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Issue 2011-04: *IT Environment – Password Settings*

Condition

Password parameters for Oracle Financial end users do not follow Dallas County policy by enforcing password complexity and password history. Unix Password parameters for the DBAs supporting Oracle do not follow Dallas County policy by enforcing password complexity.

Recommendation

Dallas County password policies should be implemented across all applications, databases, and operating systems.

Views of Responsible Officials

User password complexity could not be enforced as it was not compatible with the password reset tool used by the Service Desk. A new tool has been implemented and complexity will be enforced once the legacy password utility is decommissioned. Password management tools are being reviewed, which would allow Active Directory to be used for Unix authentication.

Issue 2011-05: *IT Environment – Password Settings*

Condition

Administrator level access is currently not reviewed on a periodic basis.

Recommendation

Administrator level access should be included within the access review process and performed on a regular basis.

Views of Responsible Officials

Annual Oracle administrative access reviews are currently completed by Audit and not part of an IT access review. IT will be reviewing and implementing process and procedures and will determine if administrative access review process should be combined with Audit processes.

Issue 2011-06: *IT Environment – User Access Reviews*

Condition

Periodic user access reviews are not performed across all platforms. Per inquiry of Randy Guin and Brian Stevens, Dallas County has an automated process to check for terminated users in Oracle and performs a periodic access review based on level of access. KPMG inspected the Oracle user access review performed for 2010 and 2011 and noted that the data was not pulled within the 2011 fiscal year.



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Recommendation

Access reviews that address terminated users with active access, as well as the appropriateness of users and their level of access should be conducted on a regular and timely basis. The reviews should be completed at least annually within each fiscal year. The responsibility for these reviews is often divided between the IT department and the business.

Views of Responsible Officials

Account management process and procedures have to be modified to facilitate annual access reviews. Reviews were completed for Oracle, AIS, and CAD access.

Issue 2011-07: *IT Environment – Change Management Process*

Condition

Dallas County does not have formalized change management policies and procedures documented and in place; however, guidelines do exist for submitting a change request. Dallas County has instituted an informal change management process. Per inquiry of Randy Guin, a formal documented change management process was implemented during the last week of fiscal year 2011 and should be in place for fiscal year 2012.

Recommendation

The organization should establish a formal change management process that outlines the requirements for making changes to systems/infrastructure, applications, and databases providing control over financial reporting.

Views of Responsible Officials

Change Management Policies and Procedures will be developed and will be presented for adoption by end of Q2 2012 as part of the overall IT Security Policy update.

Issue 2011-08: *IT Environment – Backup and Recovery Procedures*

Condition

Dallas County conducts scheduled backups but does not have formalized backup and recovery policies and procedures in place.

Recommendation

Procedures should be documented that specifies the requirements and frequency for backups, the process and procedures for handling failed backups, and backup restore testing.



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Views of Responsible Officials

A project is currently underway with Netapp for a backup strategy review. The project will deliver formal documentation for backup policies and procedures.

Issue 2011-09: *IT Environment – System Development Life Cycle*

Condition

Dallas County does not follow a System Development Life Cycle (SDLC) in the development or acquisition of application programs. A PMO office is in place that handles large IT projects and has procedures in place to address project management.

Recommendation

A process should be implemented to facilitate the identification of projects that should follow the guidelines of the SDLC rather than the normal change management process. The SDLC should include provisions for user acceptance testing, data conversion, and other detailed tasks that are required in addition to the change management process. This process should also detail the requirements for program initiation, authorization, coding, testing, and approval.

Views of Responsible Officials

The documentation surrounding the utilization of ITIL and SDLC will be forthcoming upon the delivery and completion of the anticipated statement of work from Gartner that will provide Dallas County with an Applications Portfolio.

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In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses, and communicated them in writing to management and those charged with governance on June 15, 2012.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.



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This communication is intended solely for the information and use of management, the Commissioners' Court, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP