

# ***Dallas County***

*Report to Management  
Year Ended September 30, 2009*



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Commissioners Court  
Dallas County, Texas

In planning and performing our audit of the financial statements of Dallas County, Texas (the "County") for the year ended September 30, 2009 (on which we have issued our report dated March 19, 2010), in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

However, in connection with our audit, we have identified, and included in the attached Appendix I, certain matters related to the County's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have also identified, and included in the attached Appendix I, other deficiencies involving the County's internal control over financial reporting as of September 30, 2009 that we wish to bring to your attention.

This report does not include the communications to the Dallas County Hospital District on internal control over financial reporting and other matters that are reported on separately in our report thereon dated December 18, 2009.

The definition of a deficiency, a significant deficiency, and a material weakness is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

Although we have included management's written response to our comments in the attached Appendix I, such responses have not been subjected to the auditing procedures applied in our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

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

Yours truly,

*Deloitte & Touche LLP*

## APPENDIX I

### SECTION I — SIGNIFICANT DEFICIENCIES

We consider the following deficiency in the County's internal control over financial reporting to be a significant deficiency as of September 30, 2009:

#### *FINANCIAL ACCOUNTING AND REPORTING*

##### *Item 09-01 Significant Deficiency – Financial Accounting and Reporting*

Criteria: Proper procedures and controls should be in place to properly account for and reconcile the general ledger accounts of the County.

Condition Found (including cause): Financial accounting and reporting in a County environment is very complex and requires not only an understanding of the internal processes of the County, but also a strong accounting knowledge and ability to analyze transactions and determine their impact on financial statements. A number of accounting non standard transactions are recorded only once a year, at year end, which increases chance for error. Such transactions include fund balance reservations, net asset restrictions, fund classifications, revenue recognition, year-end accounts payable and accruals. While the County has made substantial improvements in its financial accounting and reporting process, the County still is challenged in issuing timely financial information and in ensuring that the financial statements prepared by management are free from error.

Perspective: Significant adjusting entries were recorded as a result of the audit.

Asserted Effect: The lack of reconciliation and analysis of certain accounts on the general ledger caused audit adjustments that if not detected and corrected by management during the audit process would have caused the financial statements to be misstated or misleading.

Recommendation: Implement and perform the following procedures:

- Enhance the internal control review process of transactions recorded at year end. Ensure that year end procedures are documented and properly communicated to staff.
- Identify the training needs for the existing staff based on the comparison of the qualifications and skills available and those needed to perform their responsibilities at the required level of expertise.
- Ensure that all policies and procedures are documented in a detailed written procedures manual. A comprehensive accounting policies and procedures manual should be a readily accessible reference available to accounting personnel to ensure that accounting policies and procedures are known and followed. Such a manual also benefits the County during turnover of key accounting individuals. With thoroughly documented policies and procedures, the learning period of new employees is reduced and management would have increased assurance that accounting policies and procedures are consistently followed during the transition period.

Management Response: We agree with the finding. Requirements of GAAP, SEC, rating agencies, grantors, and legislators are becoming increasingly complex. Management continually reviews staffing, assignments and reporting criteria to optimize internal controls within limits of the official budget. The accounting policy and procedure manual is updated and expanded annually to address risks and new processes.

Corrective action will include:

- In-house training on elimination entries by financial management
- Sign-off with comments on draft financial by grants management

## **SECTION II — DEFICIENCIES**

We identified, and have included below, deficiencies involving the County's internal control over financial reporting as of September 30, 2009, that we wish to bring to your attention:

### ***ACTUARIAL VALUATION ASSUMPTIONS – TURNOVER, RETIREMENT, DISABILITY***

Observation: The retirement rates used for determining annual required contributions and actuarial accrued liabilities for the County's pension plan and other post employment benefits ("OPEB") in accordance with GASB 27 & 45, respectively, are those used in the Texas County and District Retirement System ("TCDRS"). Based on inquiries with TCDRS personnel, our understanding is there is not an analysis performed specifically for this assumption as it applies to Dallas County. This assumption is developed in total for all the employers that participate in the TCDRS. Therefore, there may or may not be a direct relationship between the actual retirement experience for Dallas County and this assumption.

Recommendation: We recommend a more thorough analysis be performed to either support the retirement age assumption or to develop an assumption specific to Dallas County for use in the GASB 27 & 45 valuation. Our understanding of TCDRS as it applies to Dallas County is the County and the County's actuary can request the data needed to perform this analysis from TCDRS.

Actual emerging experience should be monitored by the County and/or County's actuary to ensure that all valuation assumptions continue to be best estimates of future plan experience.

Management Response: Agreed. The GASB45 actuarial analysis for OPEB is prepared biannually (effective first day of each even numbered fiscal year). The County's OPEB actuary for FY2010 will be provided retirement age assumptions more closely aligned to Dallas County.

The GASB27 actuarial analysis for Pension is prepared annually (based on December year end for TCDRS). We understand the County's information is used but will review the data more closely.

### ***ACCOUNTS RECEIVABLE AGING AND ALLOWANCE***

Observation: The County does not have an organized process in place to track the detailed aging of all accounts receivables balances. The County has several fee offices that maintain detailed accounts receivable listings. However, current systems do not allow the County to age accounts receivables. Such agings are important when determining the adequacy of allowance for doubtful accounts and potential write offs of old outstanding receivables.

Recommendation: Develop a process to track the aging of the County's receivables. The aging schedules should be used to track collectability and collections to support changes to the allowance for doubtful accounts. In addition, the County should document how the percentage of collectability is derived for each type of receivable. The schedules should be formulated to agree directly to the County's financial statements and footnotes.

Management Response: Agreed. Disparate systems for the County's various operational divisions limit options for development of aging reports. However, Audit staff expanded automated extract/analysis techniques using ACL and an external firm for FY2009. Additionally, the report outcomes from the new civil courts system and tax system are significantly more useful. The County IT continues to emphasize

receivable reporting for justice courts but the greatest improvements are pending purchase of new justice court financial software.

## **INFORMATION TECHNOLOGY DEFICIENCIES**

### ***CHANGING INFORMATION TECHNOLOGY ("IT") SYSTEM ACCESS FOR TERMINATED AND TRANSFERRED EMPLOYEES***

Observation: The terminated user accounts are not being disabled from the various IT systems including Windows network, Unix, Odyssey, mainframe, and the data center access system. In addition, the changes to IT system access of transferred employees may not always be communicated to the IT department for appropriate access modifications. If terminated user access is not removed in a timely manner, it may lead to a terminated employee accessing the IT systems and executing unauthorized transactions. Similarly, if transferred employee access is not appropriately modified, these employees may have access that is incompatible with their job requirements.

Recommendation: Management should implement a process to ensure that the terminated and transferred employee access is modified consistently and on a timely basis. In addition, a periodic user access review should be performed to ensure that all inappropriate user access privileges are corrected in a timely manner.

Management Response: The current focus is on Active Directory. A process has been implemented, in accordance with Policy, where IT will disable accounts (based on a list received from the Auditor's office) and after 90 days the accounts are deleted. The long term goal is to automate the process in Oracle and Active Directory.

### ***STRONG PASSWORD REQUIREMENT PARAMETERS FOR NETWORK, MAINFRAME, ODYSSEY, UNIX AND ORACLE DATABASE SYSTEMS***

Observation: Strong password requirements such as minimum length and complex passwords have not been established for the mainframe and network systems. The strong password requirements for Oracle applications can be improved by configuring the settings to require the use of complex passwords. For the Oracle database, the strong password requirement parameters are not configured. For the Unix systems, the password parameters were inconsistently applied; 24 users were noted to be lacking password parameters that would force them to use strong passwords. The Odyssey system does not force the use of strong passwords.

Passwords provide accountability for usage of computer resources, if strong passwords are not implemented, management cannot effectively establish accountability and unauthorized transactions may be executed without appropriate approvals.

Recommendation: Management should implement strong password parameters for all the systems as per the established County information security policy.

Management Response: We are currently in the process of developing a decommission plan for the mainframe. Due to this, it is not financially feasible to modify the mainframe systems to use strong passwords.

Strong password parameters are scheduled to be implemented on the Active Directory ("AD") February 1, 2010.

Oracle password parameters meet the DC IT Security policy requirements except for complex passwords. The automated password reset tool used by the DC Service Desk does not allow for the use of complex passwords.

Odyssey is in the process of upgrading the hardware and software. If the new revision of the software has strong password functionality then it will be enabled. Testing with the current version of the software to enable AD authentication proved unsuccessful.

### ***PERIODIC USER ACCESS REVIEWS***

Observation: It is a leading practice in IT departments to review the user access to the financial systems on a periodic basis. At Dallas County, the users' access is not formally reviewed and approved by the system owners on a periodic basis that would enable management to detect any inappropriate access from terminated employee accounts not being disabled (as noted in Changing IT System Access for Terminated and Transferred Employees comment above). Additionally, two ex-vendors were noted to have administrative access to the County's network which is no longer needed. For some of the systems, although the review is performed, the formal documentation is not being retained to establish responsibility and accountability of this review process. If a formal review process is not in place, management cannot ascertain that the review was appropriately completed.

Recommendation: Management should implement a formal process to perform periodic review process and retain appropriate documentation.

Management Response: We are currently changing the structure of the Active Directory to include vendor groups to separate and easily identify vendors for review.

Processes and Procedures are being reviewed for the entire IT Department. As policies and procedures are developed and implemented based on available resources an account review process will be considered.

### ***PROGRAMMERS' ACCESS TO PRODUCTION ENVIRONMENT***

Observation: One programmer was noted to have access to production systems that support the Oracle Financial system and the mainframe system. Programmers should be restricted from having direct access to production systems so that appropriate segregation of duties is maintained. Proper segregation of duties prevents programmers from implementing program changes autonomously, circumventing the authorization and testing requirements.

Recommendation: Management should restrict programmer access to production systems so that all changes are forced to follow the appropriate change control procedures.

Management Response: Due to the size of the Dallas County IT Department some of our programmers have the responsibility of supporting our production environment therefore requiring access.

### ***ACCESS TO ODYSSEY DATA BASE ADMINISTRATOR ("DBA") FUNCTION***

Observation: The Odyssey DBA function is currently available to server administrators and programmers through a default account which may not be required. Excessive access should be removed to ensure that the IT system access is in line with the job requirements of the server administrators and programmers.

Recommendation: Management should consider disabling the default settings to restrict the ability of the server administrators and programmers to function as DBAs.

Management Response: The default SQL admin account was disabled during the audit when the account was identified as being enabled.

### ***VENDOR ACCESS TO COUNTY'S SYSTEMS***

Observation: The Odyssey court system product vendor who is also the implementation services provider has administrative privileges to the County's system. In addition, two administrator level accounts, which belonged to a hardware vendor, were no longer needed for business reasons but were noted to be active. If the accounts which are no longer needed are not removed on a timely basis, such accounts can be used by the vendors to access the systems and perform unauthorized transactions. The current vendor access to the production system should be monitored to ensure that no unauthorized transactions are implemented.

Recommendation: Management should consider reviewing all accounts on a periodic basis, with additional emphasis on high risk accounts such as external vendor access accounts. The current vendor access to the production systems should be limited and monitored to ensure that no inappropriate transactions are executed.

Management Response: Vendor access to the Odyssey system is managed through our VPN access. VPN accounts are disabled and only activated when vendor access is required and with the oversight of a DC employee. The process is followed and enforced however it is not formally documented as part of IT processes and procedures.

The two administrator level accounts for the ex-hardware vendors have been deleted from the Active Directory.

### ***CHANGE CONTROL PROCESS***

Observation: Although a change control process has been implemented, the formal documentation process is not being followed consistently. During the testing, it was noted that the changes are formally approved after implementation of the change. If the change control processes are not followed in the appropriate sequence (approval before implementation) and in a timely manner, the controls may be weakened, leading to lack of authority or accountability for various steps in the change control process.

Recommendation: Management should consider improving the existing procedures to force the users to follow the change control process and ensure all changes are formally approved before implementation in the production system.

Management Response: When the Change Control Process was implemented in March 2008, some changes were identified and daily and routine changes could be implemented with Manager Approval and “after the fact” change requests.

At this time, the Change Request process is being reviewed with the goal of improving change management and implementation as well as communicating changes prior to implementation with all stakeholders.

## **SECTION II — OTHER MATTERS**

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

### **RECENTLY ISSUED GOVERNMENT ACCOUNTING STANDARDS BOARD ("GASB") STATEMENTS**

#### ***GASB 51: ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS***

The GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was issued and is effective for the County beginning in fiscal year 2010. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

#### ***GASB 53: ACCOUNTING AND FINANCIAL REPORTING FOR DERIVATIVE INSTRUMENTS***

The GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, was issued and is effective for the County beginning in fiscal year 2010. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The statement requires that the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. Additional information about derivatives is disclosed in the notes to the financial statements, including identification of the risks to which hedging derivative instruments themselves expose a government.

#### ***GASB 54: FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS***

The GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was issued and is effective for the County beginning in fiscal year 2011. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

#### ***GASB 57: OPEB Measurements by Agent Employers and Agent Multiple Employer Plans***

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. This Statement is effective for the County in fiscal year 2012.

#### ***GASB 58: Accounting and Financial Reporting for Chapter 9 Bankruptcies***

GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. For governments that are not expected to emerge from bankruptcy as going concerns, this Statement requires remeasurement of assets to a value that represents the amount

expected to be received. This Statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item. This Statement is effective for the County in fiscal year 2010.

Recommendation: Review GASB Statement Nos. 51, 53, 54, 57 and 58 and their implications to determine the potential impact on the County's financial statements.

Management Response: The Statements will be reviewed for determination of their potential impact to the County's financial statements.

### SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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## **APPENDIX II**

### **MANAGEMENT'S RESPONSIBILITY FOR AND THE OBJECTIVES AND LIMITATIONS OF INTERNAL CONTROL**

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

#### **Management's Responsibility**

The County's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

#### **Objectives of Internal Control over Financial Reporting**

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

#### **Inherent Limitations of Internal Control over Financial Reporting**

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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