

**Tarrant County Interlocal Agreements Follow-Up Audit  
November 2010**

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# Tarrant County Interlocal Agreements Follow-Up Audit

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# Tarrant County Interlocal Agreements Follow-Up Audit



Office of the City Auditor

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Project #10-13

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## *Executive Summary*

*Five recommendations  
fully implemented*

*One recommendation  
partially implemented*

### *Fully Implemented*

- *Individual Escrow  
Accounts, by Project*
- *Portal Enhanced*
- *Document Retention*
- *Escrow Funds  
Subject to Accounts  
Payable Procedures*
- *Written Wire  
Transfer Policy*

### *Partially Implemented*

- *Assignment  
Contracts*

The City Auditor's Office has completed a follow-up to the October 2009 Tarrant County Interlocal Agreements Audit. The follow-up audit was conducted in accordance with generally accepted government auditing standards, except for peer review. 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 on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of the follow-up was to determine the implementation status of prior audit recommendations. The initial Tarrant County Interlocal Agreements Audit included seven recommendations. Management concurred with five of the seven recommendations, partially concurred with one recommendation and did not concur with the remaining recommendation. Follow-up audit results indicated that management fully implemented all five of the recommendations for which they concurred and partially implemented the recommendation for which they partially concurred.

Escrow accounts are now established within the Lawson financial system to account for Tarrant County funds received for specific projects. The City Secretary's Office has enhanced its portal to track contracts requiring City Council action, and documents resulting from Council action are properly retained. Escrow funds expended since the initial audit were subject to policies and procedures that are applicable to the City's accounts payable function. Also, the Financial and Management Resources Department created written wire transfer policies and procedures.

Assignments were executed for Interlocal Agreements since the initial audit. However, management was still in the process of executing assignments for three Interlocal Agreements identified during the initial audit. Assignments were not made for those projects which management indicated were not intended to be assigned.

### ***Audit Scope and Methodology***

The following methodology was used in completing the audit.

- Interviewed staff from the City Secretary's Office
- Reviewed a sample of contracts to verify adequate records retention within the City Secretary's Office
- Contacted the City Attorney's Office and City Manager's Office to obtain information regarding the status of recommended assignments
- Reviewed Lawson financial records
- Reviewed the City's written wire transfer policy

## ***Status of Prior Audit Recommendations***

### ***Recommendation:***

The Director of Financial and Management Resources should consider establishing individual escrow accounts for each project and ensure disbursements do not exceed allocated funds. Authorization for fund reallocations should be obtained prior to incurring expenditures.

### ***Management's Response:***

*Concur. These funds for the Tarrant County projects have almost all been disbursed. However, going forward, this is the direction Financial and Management Resources [FMR] will take on disbursements like these.*

*Target Date: October 1, 2010 for all new disbursements like these*  
*Responsibility: Ethan Klos, Treasury Manager*

### ***Implementation Status:***

Fully Implemented. An escrow account was established to account for Tarrant County funds received for specific construction projects.

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### ***Recommendation:***

The Financial and Management Resources Director should allocate resources to review all escrow fund payments prior to disbursement in order to ensure compliance with the contract requirements.

### ***Management's Response:***

*Do Not Concur. Typically, an operating department, like Public Works, assigns a management staff member to notify FMR to pay an invoice through receipting on a Purchase Order or the submission of a Payment Authorization. This is the control that lets FMR know that work has been completed and contract requirements have been met. Because FMR does not manage City construction contracts, but handles the financial payments, departments have the responsibility to ensure that the work has been completed within contract parameters, prior to the contractors being paid.*

*Concur. FMR will review escrow funds prior to disbursement to ensure funds are available to pay.*

*Target Date: October 1, 2010 on future disbursements*  
*Responsibility: Ethan Klos, Treasury Manager*

### ***Audit Comment:***

*Under normal circumstances, user departments would be responsible for ensuring that payments are in compliance with contracts, prior to authorizing payment. However, the interlocal agreements with Tarrant County were administered differently than other contracts at the City. The City Auditor's Office noted that the Treasury Management Division of the Financial and Management Resources Department was responsible for monitoring payments made from the escrow account.*

**Implementation Status:**

Not Applicable. No follow-up work was considered necessary since management did not concur with the audit recommendation.

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**Recommendation:**

The City Manager should request that the City Attorney execute assignment contracts, as intended, for the nine interlocal agreements between the City of Arlington and Tarrant County.

**Management's Response:**

*Partially Concur. It is understood that in discussions between representatives of the City Auditor's Office and the City Attorney's Office, the Assistant City Attorney informed the Internal Auditor that assignments were not needed for all the Interlocal Agreements. Specifically, for Interlocal Agreements approved by Resolution Number 05-567, 05-572, 06-367, and 07-490, assignments were not necessary. Interlocal Agreements approved by Resolution Number 06-582, 06-583, and 08-080 do have authorized assignments, however executed copies are not found. For Interlocal Agreements approved by Resolution Number 06-050 and 07-612, it is questionable as to whether assignments are needed. However, to be consistent with previous actions it is probably preferable.*

*The City Manager, or his designee, will request the City Attorney review whether assignments for Interlocal Agreements approved by Resolution Number 06-050 and 07-612 are needed and if so, the City Manager, or his designee, will work with the City Attorney's Office to create the documentation for consideration by the Arlington City Council. The City Manager, or his designee, will also work with the City Secretary's Office to ensure executed copies of resolutions are filed appropriately.*

*Target Date: October 15, 2009 for request to City Attorney*

*Responsibility: Deputy City Manager*

**Implementation Status:**

Partially Implemented. Assignments related to two Interlocal Agreements approved by Resolutions 06-050 and 07-612 were executed on January 12, 2010 by Resolution 10-020. While the City Auditor's Office noted that assignments were intended for Interlocal Agreements approved by Resolutions 06-582, 06-583 and 08-080, the related assignment agreements were not located. However, management provided documentation to support their recent efforts to execute the assignment contracts. As of the exit conference date, the contracts were still in the process of being executed. Assignments related to the remaining Interlocal Agreements were not executed because management did not consider assignments necessary.

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**Recommendation:**

The Financial and Management Resources Director should require that data fields be added to the MOSS portal software and that the City Secretary's Office use the software as a tool to follow up on outstanding documents.

**Management's Response:**

*Concur. The City Secretary's Office is currently working to create a portal/MOSS based system to provide the needed protocol to actively follow and track contracts as they work their way through the system.*

*Target Date: September 30, 2010*

*Responsibility: Karen Barlar, City Secretary*

*Jennifer Wichmann, Administrative Services Manager*

**Implementation Status:**

Fully Implemented. The City Secretary's Office has updated its portal to follow-up on outstanding documents.

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**Recommendation:**

The City Manager should require that that City Secretary's Office obtain and retain all contracts, documents, etc. resulting from City Council action.

**Management's Response:**

*Concur. The City Secretary's Office currently retains an original of all contracts and documents resulting from City Council action after they have been circulated for all required signatures. In some instances, including these examples of interlocal agreements, when contracts are sent to outside entities for signature, they are not returned to the City Secretary's Office. In FY2010, the City Secretary's Office will develop a protocol to actively follow and track contracts as they work through the system and issue reminders when contracts have not been returned within a reasonable period of time.*

*Target Date: September 30, 2010*

*Responsibility: Karen Barlar, City Secretary*

*Jennifer Wichmann, Administrative Services Manager*

**Implementation Status:**

Fully Implemented. Audit test results indicated that contracts and documents resulting from City Council action are properly retained within the City Secretary's Office.

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**Recommendation:**

The Director of Financial and Management Resources should ensure future disbursements from escrow funds are subjected to policies and procedures that apply to [the] City's account payable functions.

**Management's Response:**

*Concur. These particular Interlocal Agreements with Tarrant County that were examined in this audit were unusual or were managed in a non-traditional manner. Authorization to disburse funds was given from the City Manager's Office [CMO] instead of the operating departments, who were actually overseeing the projects. The Financial Services Department (in place at the time this process was designed) worked with CMO to develop the process that was used to make these disbursements. When Financial Services merged with Management Resources in later 2008, these processes were re-examined and some changes were made.*

*Typically and in the future, these projects would have been handled as they are traditionally, using a model similar to our existing Accounts Payable methodology.*

*Target Date: October 1, 2010, on future disbursement*

*Responsibility: Ethan Klos, Treasury Manager*

**Implementation Status:**

Fully Implemented. Audit test results indicated that disbursements from escrow funds are subjected to policies and procedures that apply to the City's account payable function.

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**Recommendation:**

The Financial and Management Resources Director should ensure written policies and procedures are established for wire transfers.

**Management's Response:**

*Concur. All wire transfers require two approvals before being released by the bank. Treasury requires wire instructions on a company's letterhead and approval of the initiating department. A written procedure for wires has been included in a recently updated policy for the Treasury Division.*

*Target Date: Completed (September 2009)*

*Responsibility: Treasury Division*

**Implementation Status:**

Fully Implemented. The Financial and Management Resources Department has established written policies and procedures for wire transfers.