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City Manager and Councilmembers  
of the City of Duncanville, Texas

RE: Report on Finance Investigation

Dear City Manager and Councilmembers:

In late May and early July of 2023, the Interim City Manager voiced concern over the operation of the finance department and management by executive staff over the period of July 2021 through April of 2023. At his recommendation with City Council consensus the City Attorney selected Ross Gannaway and Clifton and Withum Forensic Auditors to conduct a factual and legal analysis to the City Attorney to make findings, legal advice and recommendations to City Manager and City Council. As a result, the following overview, findings and recommendations were hereby submitted to establish the conduct of the Finance, Audit and Management of the City from July of 2021 through April 2023.

### **EXECUTIVE SUMMARY**

The Finance Department experienced significant turnover and loss of institutional knowledge in the second half of 2021 after July 1, 2021. A number of issues have been identified in regard to management between mid-2021 and mid-2023. However, the investigation discovered no malfeasance or loss of money by the City. While communication between Finance and the rest of the City was poor and the new Finance staff struggled with effectively operating the Munis software, there is no indication that funds were misappropriate, diverted or missing from the City.

Prior to July 2021, the Finance Department reconciled accounts manually and performed a monthly “close” at the end of each month; and, the corresponding year end books were timely closed. During the tenure of Mr. Summerlin, departments were able to see their budgets with updated year-to-date expenditures and revenue.

After June 2021 through April of 2023, bank reconciliations were not completed in a timely manner nor were the year end books closed in a timely manner. The reconciliations for the final quarter of FY 2020-21 were not completed and provided to auditors until late first quarter of 2022. The lack

of reconciliation was the primary cause of delay of the FY 2020-21 audit, and, continued to plague the Finance Department to become current. Gross failure to coordinate accounting, procurement functions with operational activities of administrative departments of the city added to the adversarial atmosphere and mistrust within the finance department and other departments which resulted in missed grant funding opportunities, late vendor payments, and late audits.

The reconciliation issues continued throughout the next fiscal year. As of August 2023, no reconciliation had been completed for any of the 2021-22 fiscal year to date. Reconciliations for all of fiscal year 2021-2022 were performed in the aggregate and provided to auditors in August 2023. While Finance personnel worked with Tyler Technologies and engaged three other software consultants to automate reconciliations during FY22, the reconciliations were attempted to be completed manually by Bey Accounting and others through January of 2024.

This ongoing failure since June 2021 continues to weigh the Finance Department and has led to failure to timely submit the statutory mandated annual audits FY 2021-2022 and FY 2022-2023 as well as other issues outlined herein.

Missing or deleted e-mails from December 2022 through April 2023 were very concerning. Recovery of those some, not all, e-mails seem to indicate that administrative leadership either was ignorant or incapable of remedy for the Munis software; and, basic public accounting procedures to reconcile the bank accounts, close the ‘books’ to complete the audit or timely pay vendors or contractors of the City was not accomplished in a professional manner.

### **ALLEGATIONS OF IMPROPRIETY**

Investigators have been advised of an allegation that there were “two sets of books” maintained by the City, implying that there was an intent to deceive or misrepresent. This allegation appears to be in reference to a period not within the scope of this investigation. However, a review was done in 2021 by Gradient, a consulting firm, evaluating spreadsheets maintained or prepared by the prior Finance director in contrast to the CAFR and budget for prior years. To the knowledge of investigators, the consultant in that case was unable to ascertain with certain the methodology utilized, purpose or cause of variations between the spreadsheets, CAFR, and budget. However, the consultant offered multiple possible acceptable explanations. The consultant recommended that the City create *a new spreadsheet* to use going forward and document the methodology used for future administrations in order to avoid subsequent confusion.

As reported in April 2023 at audit committee meeting, the City elected to use a different process for budgeting for the Utilities Fund going forward from 2021. Marlon Williams, audit partner for McConnell Jones was assigned to the City’s 2021-22 audit, as he explained in April 2023 that it is not uncommon for accountants to use spreadsheets to prepare budgets or for reconciliation purposes. He clarified at that time that while auditors verify the spreadsheets against the financial system, more than 90% of municipalities prepare their budgets in electronic spreadsheets (Spreadsheet) and roll the data into the financial system. He also addressed utility funds, which are “always a problem” with utility audits, largely due to the difference in accounting basis used

for such funds. Williams noted that it is a “good practice” to reconcile the differences, “but that not everyone does”. He certainly verified that there was not “two sets of books.”

It should be noted that three different audit firms were used by the City during Summerlin’s tenure (Finance Director until June 2021), and no audit identified concerns or management letter noted any material weakness, significant deficiency or lack of internal control with Summerlin’s work papers used to produce the Utility budget or to complete reconciliations. Further, Gradient’s recommendation to develop a new spreadsheet indicates that the use of a spreadsheet as a tool in the budget development process is not only common and customary in accounting but recommended to use spreadsheet or Excel work papers.

While this investigation focused on a different budget and accounting period than the allegation of “two sets of books” relates to, a review of the allegations made in the March 30, 2023 council meeting, the analyses done by Gradient in 2021, the information discussed before the audit committee in public meetings, and an interview with the outside auditor suggest only that the work papers used to derive Utility projections for budget purposes were not easily understood by Finance staff during the July 2021- April 2023 time period. Such work papers do not constitute “books” in the accounting sense. Investigators have seen nothing that indicates that there were “two sets of books” during the investigated period or before.

To the best of investigators’ understanding, the term “two sets of books” originated with the letter from Manager’s office read by her attorney at the March 30, 2023, council meeting. On March 28, 2023, Finance Director by e-mail forwarded the City Manager’s office the Gradient report – one could presume that this was in response to a request from Manager’s office for information to use to prepare the March 30 statement to Council. Gradient’s recommendation was to create a new spreadsheet without prior notes and move forward; moreover, there was not any allegation or conclusion by Gradient that there were two sets of books. Such allegation is patently not true.

### **CONCERNS IDENTIFIED**

We have reviewed hundreds of pages of emails, financial information, audits, work papers, and conducted staff interviews. As of result we have indicated the following issues.

#### **A. Finance/Accounting Issues**

1. There were not “two sets of books” but a spreadsheet which was used as a method to reconcile to the Munis system.
2. Beginning in August 2021, bank reconciliations were not performed timely, and no attempt was made to reconcile the city bank accounts until spring 2022. Reconciliations from fiscal year 2022 were not put into the system until early April 2023. However, the reconciliations were not adequate and had to be redone in January of 2024.

3. Non-finance employees were provided information of the City's bank account, allowing them to make direct payments to account which resulted in no record being created within the financial software and created a non-verifiable accounting issue.
4. Beginning in August 2021 through April 2023, there was no timely monthly closing process performed to reconcile the bank records by the Finance Department.
5. There were perceived deficiencies in routine Finance operations which resulted in requests to hire multiple "consultants" which produced no meaningful remedies.
6. Special funds were not properly maintained for their intended purpose and were zeroed out at the end of the fiscal year. Finance did not accurately account for public donations to Police and Fire.
7. Staff members became distrustful of Finance and declined to apply for grants because they were not confident the money would be properly handled, and they would be able to comply with reporting requirements of the grants.
8. The Finance Director struggled with Munis and seemingly dismissed the system as having been incorrectly implemented or being simply insufficient.
9. The Finance Director and Finance Department did not communicate well with other City staff who use Munis or have responsibilities regarding procurement, invoicing or budgeting in department not having accurate financial data to operate the various departments.
10. The Finance Director changed payment processes and check production on multiple occasion dates without informing impacted staff.
11. The City, particularly the Police Department, was unable to apply for available grants because Finance did not respond to requests for necessary financial information or have an accurate accounting of restricted funds.
12. Access privilege separation for IT appears to have degraded by Management because the Finance Director had access where it should not be and wanted additional access; and, IT was instructed by City Manager to provide anything requested by the Finance Director which compromised the restricted information as a security measure.
13. The three-way match process for payables and invoices (cross verification process) was undermined in practice by the Finance Director taking decentralized tasks back from departments.
14. Outside contractors had to be utilized to perform basic accounting tasks, which had not been necessary prior to July 2021 and led to confusion and inefficiency.

15. Finance did not produce monthly or timely financial statements for the Duncanville Community and Economic Development Corporation or the Duncanville Fieldhouse operations which impacted operations and governance.
16. An excessive number of emails were deleted from City emails by the City Manager, Finance Director and Finance Department Employee, which are presumed to be public records. Many of these deleted emails covered financial related topics the period of time December 2022 through April 2023.
17. Purchasing and Procurement best practices were not followed or implemented.
18. The 2020-21 audit was delayed until May 2022 (two months late), as was the 2021-22 audit, was completed on March 15, 2024 (eleven and a half months late).
19. It appears that the 2020-21 audit management comments and/or findings regarding internal control procedure, including issues of material weakness, significant deficiencies or deficiencies in internal control, were diverted by the Finance Department and/or Auditor in April, May and August of 2022 from review by the Audit Committee and City Council.

## **B. Management Issues**

1. The Manager's office did not hold the Finance Director accountable or take corrective action to address concerns about the Finance Director raised by staff. High turnover within the Finance department was driven by the management issues attributed to the Finance Director and caused a loss of historical knowledge and proficiency with the knowledge or acquiesce of the City Manager.
2. The Finance Director struggled with Munis and seemingly dismissed the system as having been incorrectly implemented or being simply insufficient. Instead of seeking assistance from Munis, Management and Finance Director engaged multiple consultants to "fix" Munis, asserting that it was not set up correctly, despite its operating successfully for more than 2 years under the prior administration.
3. There does not appear that there was a dedicated "champion" assigned to the update the implementation of Munis. Failed to hire or appoint a dedicated Project Manager to oversee Munis implementation issues was crucial to use Munis software system effectively.
4. The Manager's office approved exceptions to employment practices to hire unqualified candidates for the finance department at the request of the Finance Director. The Finance Director moved other persons not qualified or experienced personnel into accountant positions.

5. The culture of the finance department internally and with other departments worsened over 2022-2023; and, collegiality relationship other departments was not fostered to have meaningful interactions with finance department. These issues were brought to the attention of the City Manager and were not remediated.
6. Outside individuals were provided sensitive financial and budgeting information without accountability by the Manager's office under a formal consulting agreement or approval by City Council.
7. IT Department failed to serve Police Department, Fire Department and Human Resources with adequate support and financial information for retirement payroll, procurement or grant purpose with the knowledge or acquiesce of the City Manager.
8. City Manager failed to advise City Council of the gravity of the issues outlined in this letter.

### **FINDINGS**

What is clear from the investigation is that the Manager's office did not hold the Finance Director accountable to the extent that anyone interviewed believed to be necessary or appropriate. Complaints to the Manager's office about the Finance Director were dismissed summarily according to witnesses. When issues arose with the audit, the Manager's office seemed to have difficulty addressing it as a performance issue with the Finance Director, and investigators found no evidence that Manager's office ever undertook to correct Finance Director's behavior.

Rules for procurement changed as personnel changed, without publication of new policies or training which created confusion and uncertainty which exacerbated late vendor payment.

Evidence suggests that the implementation of Munis was likely imperfect, but that Summerlin, Pettis, and West were able to operate it effectively and support the users. Witness interviews built a picture of the Finance Director as uncomfortable with unfamiliar software, hostile to questions, determined to have control, and disinclined to communicate with other employees. Operating within a silo, she made changes to processes that created confusion within the organization and undermined the three-way match for payment of outstanding payables. The Finance Department experienced a significant turnover and a complete loss of historical knowledge which led to failure to perform the routine day-to-day operation of finances. Additionally, multiple consultants, software companies, and other financial personnel were hired in what appears to be an attempt to complete reconciliations, gather data for the audit, and rebuild Munis or build software around Munis to avoid utilizing the system capabilities.

It is clear that communication between Finance and other City staff now needs improvement. Moreover, this new Finance Department and City Manager will have to reestablish confidence and trust concerning the city's financial information.

## RECOMMENDATIONS

While no malfeasance was found, there was misfeasance in the accounting of Restricted funds asset forfeiture, and grant funds. Likewise, the failure to reconcile bank accounts and close monthly accounts for DCEDC and Duncanville Fieldhouse caused operational issues. According to witness information, Munis is not operating optimally, unable to provide necessary data to department managers regarding their budgets because monthly and fiscal years are not reconciled. Finally, the FY 2020-21 auditors identified internal control issues initially considered a “significant deficiency.” All of its auditors’ comments which we have recovered were never provided to the Audit Committee and City Council in April, May and August of 2022. As a result, the issue was not disclosed and had gone uncorrected until April of 2023; since that time the City has attempted to repair this issue and institute corrective measures. Each time the auditors attempted to timely provide drafts that would be perceived as negative, Finance Department was dismissive of the comments of the auditors and the negative information disappeared from the document – or, as in the case of the Management Letter, the document ceased to exist altogether.

We offer the following recommendations:

- Reconciliation should be done each month.
- Each month should have a timely closing.
- Procurement/Purchasing should review the supporting documentation to ensure the dollar amount is consistent with documentation and require competitive bidding in accordance with law when required.
- City should evaluate whether the Direct Disbursements for payroll are hitting appropriate accounts.
- The relationship of the contract employees must be reevaluated. Witnesses advised that these “employees” at the Fieldhouse were not paid timely – they waited five or six months. These employees may not be properly characterized as independent contractors.
- The three-way match should be re-instituted to guard against malfeasance.
- A comprehensive Procurement handbook should be updated or developed and future managers should not be permitted to change processes without change to policy, management approval, and training of affected staff.
- If the City elects to continue with Munis, software updates should be implemented and it may be beneficial to redesign the user roles and attributes, with the awareness that additional personnel may be needed in IT to support the project. A comprehensive, measured approach to addressing software issues is recommended, rather than allowing Finance alone to hire consultants and contractors to make changes to the system.
- Additional training and support are necessary for non-Finance personnel to be successful in using Munis.
- FY 2021-22 should be closed in Munis, then FY 2022-23 should be closed so that the system can accurately reflect YTD budgeted and actual amounts for departments to be able to manage their budgets.

- The high turnover in IT is also the director should be provided with coaching or development resources. At the same time, IT staffing levels should be evaluated for sufficiency given the demand of reimplementing Munis, implementing Energov, and maintaining normal IT services for the City. Employ a project manager to oversee implementation of future IT and software system.
- City staff should be trained on records retention requirements, including requirements related to electronic records.
- The City should ensure that a single point of contact cannot prevent the Audit Committee and Council from being made aware of concerns identified in the audit. This could be addressed in the Agreement with the auditor by either defining a position to be copied on all correspondence from the auditor, by requiring that any and all perceived weaknesses be reported to the Audit Committee, or any of a number of other strategies.
- City needs to have an annual audit schedule adopted by Finance Department on or before November 15 to provide for the fiscal year audit process.
- Conduct a review of internal control procedures and update to best practice standards.

Respectfully,

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