



**CITY OF PLANO, TEXAS**

Management Letter

September 30, 2004



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

December 10, 2004

The Honorable Mayor and Members of the City Council  
City of Plano  
Plano, Texas

Ladies and Gentlemen:

We have audited the basic financial statements of the City of Plano, Texas (the City) for the year ended September 30, 2004, and have issued our report thereon dated December 10, 2004. In planning and performing our audit of the basic financial statements of the City, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

A material weakness is a condition in which the design or operation of specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we noted no matters involving internal control and its operation that we consider to be material weaknesses as defined above.

During our audit we noted a certain matter involving internal control and other operational matters that are presented for your consideration. This comment and recommendation, which has been discussed with the appropriate members of management, is intended to improve internal control or result in other operating efficiencies and is summarized as follows:

### **Risk Reduction**

#### *Observation*

The City lacks a method to enable the anonymous reporting of misconduct, fraudulent activity and/or abuse.



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*Recommendation*

We recommend that the City consider establishing a fraud hotline. A fraud hotline can provide a level of anonymity to individuals in reporting potential matters to the proper officials of the City. If the City elects to implement a fraud hotline, we believe that there are certain items that the City should consider in the implementation of the hotline. These include:

- Make employees aware via intranet or other means appropriate emphasizing the anonymous nature of the hotline
- Centralized phone number
- Monitoring by human resources, in-house council or third party
- Tracking log of complaints, including initial assessment, status, and resolution

*Management Response*

Management agrees with this finding and has tasked the City's Internal Audit department with implementing reporting mechanisms and investigating reports. By January 31, 2005, Internal Audit, working with other departments, will establish a phone number, email and web form where incidences of fraud or other malfeasance can be reported 24 hours a day. After establishment and testing, these mechanisms will be publicized to employees.

\* \* \* \* \*

Our audit procedures are designed primarily to enable us to form an opinion on the basic 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 City gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss this comment and recommendation with you at any time.

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

Very truly yours,

**KPMG LLP**

**CITY OF PLANO**

Status of Prior Year's Recommendations

September 30, 2004

<b>Recommendation</b>	<b>Year</b>	<b>Implemented</b>
We recommend that the City ensure that all departments properly follow all procurement policies and procedures. The Purchasing Department should be strengthened to ensure that the City's purchasing policies and procedures are being followed by all departments of the City. This would help mitigate the risk of fraud related to the procurement of professional services, and avoid management override of the set approval process. Additionally, with the decentralization of procurement activities at the City, it is crucial that proper approval records be provided to the Purchasing Department, to allow that department to ensure that proper approval was obtained prior to disbursement being made by the accounting department.	2003	✓