

# Memorandum



Date October 31, 2014

To Honorable Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

Subject Communications Related to the FY 2013 Audit FY 2014 Audit Plan

On November 3, 2014, the Budget, Finance and Audit Committee will be briefed on Communications Related to the FY 2013 Audit FY 2014 Audit Plan. The briefing will be presented by Ben Kohnle, Partner at Grant Thornton LLC.

Please let me know if you need additional information.



Jeanne Chipperfield  
Chief Financial Officer

## Attachment

c: Honorable Mayor and Members of City Council	Jill A. Jordan, P.E., Assistant City Manager
A.C. Gonzalez, City Manager	Joey Zapata, Assistant City Manager
Warren M.S. Ernst, City Attorney	Mark McDaniel, Assistant City Manager
Craig D. Kinton, City Auditor	Eric D. Campbell, Assistant City Manager
Rosa A. Rios, City Secretary	Forest E. Turner, Chief Wellness Officer
Daniel F. Solis, Administrative Judge	Sana Syed, Public Information Officer
Ryan S. Evans, First Assistant City Manager	Elsa Cantu, Assistant to the City Manager



# Presentation to the Budget, Finance and Audit Committee of The City of Dallas

## Communications Related to the FY 2013 Audit November 3, 2014

### Attendees:

Ben Kohnle – Partner

Kirt Seale – Principal

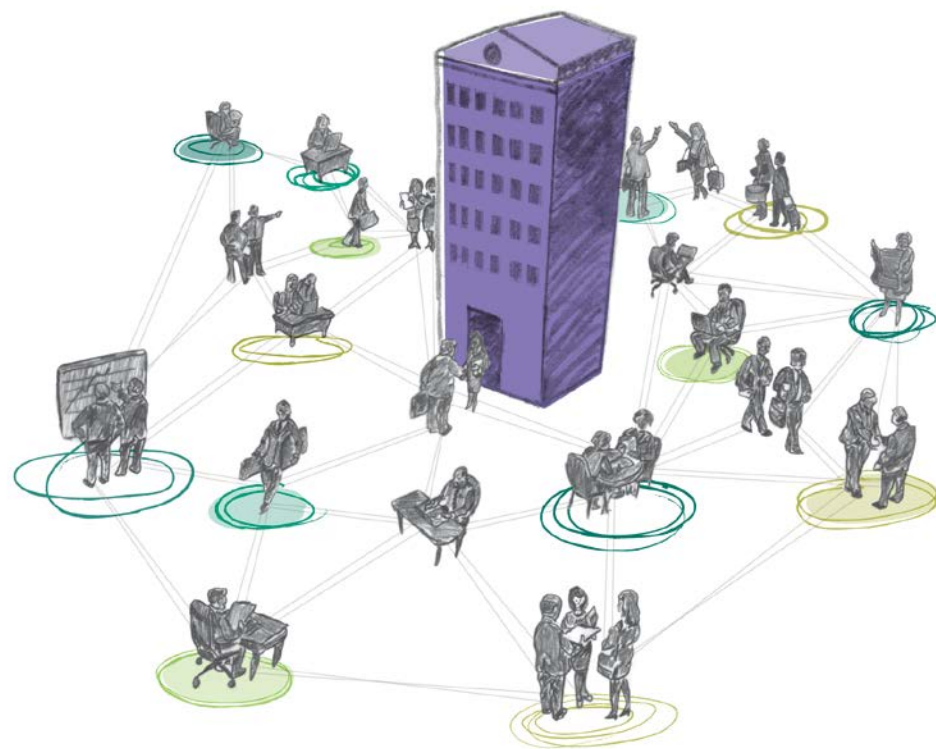


# Our values are CLEARR

To achieve our global vision, we capitalize on our strengths by embracing the following values:

- Unite through global **Collaboration**
- Demonstrate **Leadership** in all we do
- Promote a consistent culture of **Excellence**
- Act with **Agility**
- Ensure deep **Respect** for people
- Take **Responsibility** for our actions

Our values serve as the foundation of each step we take toward achieving our vision. They guide our decision-making and provide a framework for our people to make correct and appropriate choices.



# Our responsibilities

We are responsible for:

- Performing an audit under US Generally Accepted Auditing Standards (GAAS) and Generally Accepted Government Auditing Standards (GAGAS).
- Performing an audit in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular and issuing reports on compliance and controls over financial reporting and major federal and state programs.
- Forming and expressing opinions about whether the financial statements prepared by management, with your oversight:
  - are materially correct
  - are fairly presented
  - conform with US Generally Accepted Accounting Principles (GAAP)
- Forming and expressing an opinion about whether certain required supplementary information is fairly stated in relation to the financial statements as a whole
- Reading other information and considering whether it is materially inconsistent with the financial statements
- Communicating specific matters to you

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

# Those Charged with Governance and Management responsibilities

## Those Charged with Governance

Those charged with governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the City's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit

## Management

Management is responsible for:

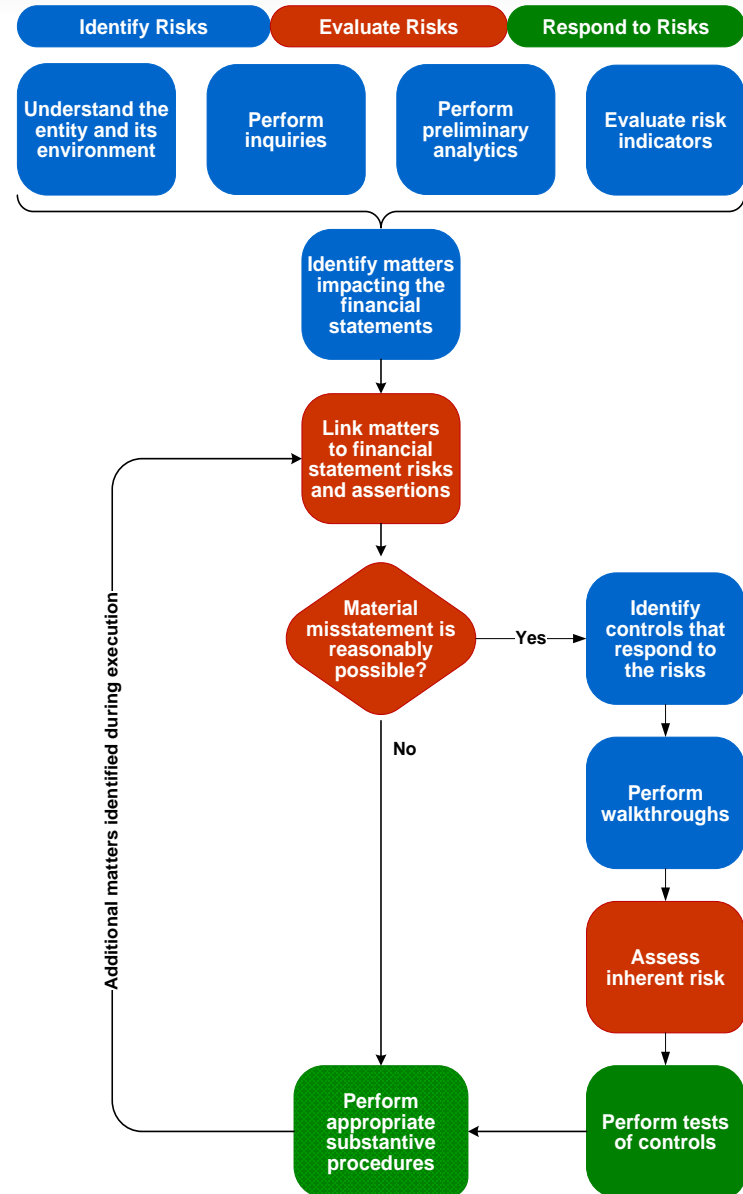
- Preparing and fairly presenting the financial statements and the schedules of expenditures of federal and state awards in conformity with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with certain written representations



# Horizon audit methodology

We approach our audits by:

- Understanding the City's business, including the environment the City operates in
- Using that knowledge and understanding to analyze the City's financial statements
- Determining materiality
- Identifying areas more likely to be materially misstated
- Focusing audit attention and effort on those areas



# Materiality

Essentially, materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is based on a relevant financial statement benchmark.

- **Based on relevant financial statement benchmarks we believe that Total Assets/ or Total Revenue (by opinion unit) is the appropriate benchmark for the City.**

Financial statement items greater than materiality are in scope. Other areas less than materiality may be in scope if qualitative factors are present (for example, related party relationships or transactions and fraud risk).



# Areas of Audit Focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	
Governance	Fraud inquiries and procedures
Tax revenues	Information technology
Water & Sewer revenues and receivables	Adequacy of disclosures
Tax Revenues	Allowance for doubtful accounts
Investments/Treasury	Pension and OPEB expenses, assets, liabilities, and other disclosures
Payroll and related liabilities	Self-insurance expenses and liabilities, including IBNR
Operating expenditures and related payables	Dallas Water Utilities
Debt	Love Field Airport Modernization Corporation and related transactions
Capital Assets	Grants and Expenditures and Compliance and Controls related to Federal and State Major Programs
Passenger Facility Charge compliance	Airport Revenues Fund
Dallas Convention Center Hotel Development Corporation	Bond issuances



# Scope of IT Control Testing

- The scope of the IT Controls Testing included the following IT governance areas:
  - Security Administration
  - Change Management
  - Batch Job Administration
- The following applications were included in our review:
  - General ledger/financial system (CGI)
  - SAP billing system
  - Active Directory

# Reports issued

## Financial statement audits:

- Comprehensive annual financial report (CAFR)
- Single audits
  - Federal (OMB Circular A-133)
  - State (State of Texas Single Audit Circular)

## Separate reports:

- Airport Revenues Fund and Passenger Facility Charge compliance
- Dallas Convention Center Hotel Development Corporation
- Dallas Water Utilities
- Downtown Dallas Development Authority Tax Increment Financing District
- Texas Commission on Environmental Quality financial assurance agreed-upon procedures
- Vickery Meadow Tax Increment Financing District

## Results of Financial Statement Audits

- Comprehensive Annual Financial Report (CAFR)
  - Unmodified "clean" opinions
  - Includes GFOA Certificate of Achievement for 2012 CAFR
  - No scope limitations
  - Continued open and effective communication with management
- Federal Single Audit Report (A-133)
  - Unmodified opinions for all programs
  - All prior year findings have been remediated
- State Single Audit Report
  - Unmodified opinions for all programs
  - One instance of a control deficiency noted
  - One instance of a material weakness noted

## Results of Financial Statement Audits-continued

### *Summary of adjustments:*

There were no adjusting journal entries recorded or passed as a result of the financial statement audits.

### *Internal Control Findings:*

No material weaknesses or significant deficiencies were identified in relation to the financial statement audits.



# CAFR – Status of prior year internal control findings

Capital Assets	Aviation Construction in progress not being transferred correctly to capital assets. Depreciation expense catch-up for depreciation related to prior fiscal years.	Deficiency	Completed



## Single Audits – Current year compliance findings

Source		State Award #			
State	Katy Trail VI from Ellsworth Street to Worcola Street	CSJ: 0918-45-808	The City did not have proper documentation that they verified the contractor used was not suspended or debarred. The City did not have a certification statement within the contract stating that the contractor was not suspended or debarred, nor was there documentation of the City performing an Excluded Parties List System or System for Award Management (EPLS/SAM) website search for suspended or debarred vendors. The original contract was awarded in 2006, and a supplemental amount was awarded in 2009, prior to changes in City's procedures.	Material weakness	New finding
State	Texas Department of Transportation	CSJ: 0918-45-886	Per the terms of the grant agreement, the City is required to submit monthly expense reports to North Central Texas Council of Governments (NCTCOG) via NCTCOG's online system i.e., the "Revenue and Project Tracking System". We noted that the report for the period 5/30/2013 - 6/29/2013 was prepared in error in that the grant amount and City local match amounts were reversed. We were also made aware that no monthly reports were filed for the periods 7/20/2012 – 5/3/2013, but the reports were ultimately filed prior to this audit.	Control Deficiency	New finding

## Single Audits – Status of prior year compliance finding

Source		CFDA #			
Federal	Airport Checked Baggage Screening Program	97.100	Process not followed for department to verify vendors are not suspended/debarred when performing procurement outside of purchasing department	Noncompliance and significant deficiency	Remediated

# Other required communications

## Disagreements with management

We had no disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the City's financial statements or the auditor's report.

## Management's consultations with other accountants

We are not aware of any consultations by management with other accountants regarding accounting or auditing matters.

## Difficulties encountered during the audit

We encountered no significant difficulties, including:

- Significant delays in providing information
- Unnecessarily brief time to complete the audit
- Unavailability of expected information or City personnel, including access to information at a component unit
- Restrictions imposed by management, including any related to required supplementary information
- Extensive unexpected effort to obtain evidence



# Quality of accounting practices and alternative treatments

## Accounting policies

Accounting principles used by the City are considered appropriate in all material respects and consistent with prior year.

## Accounting estimates

The following were identified as significant estimates

- Depreciation of capital assets
- Allowance for receivables
- Accruals for self-insurance liabilities, including Incurred But Not Reported (IBNR) Claims
- Arbitrage rebate liability
- Net Pension and OPEB Assets, Liabilities and related disclosures
- Landfill closure and post-closure

We performed tests to satisfy ourselves that these amounts were free from material misstatement

## Disclosures

- We have assessed the financial statements and disclosures for clarity and completeness.
- Footnote disclosures in the financial statements appear overall to be neutral, consistent, and clear.

# Value for fees

## Deliverables

Reports on the 2013 City of Dallas financial statements, including the following: CAFR, Airport Revenue Fund (including the Schedule of Expenditures of Passenger Facility Charges), Dallas Water Utilities, Dallas Convention Center Hotel Development Corporation, Vickery Meadow TIF, and DDDA TIF

(For A-133 and State Single Audit) Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

(For A-133 and State Single Audit) Report on Compliance Related To Major Programs (OMB Circular A-133 and State of Texas Single Audit Circular) and on Internal Control Over Compliance

(For A-133 and State Single Audit) Schedule of Findings and Questioned Costs

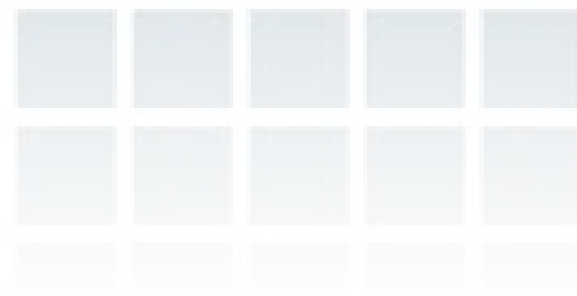
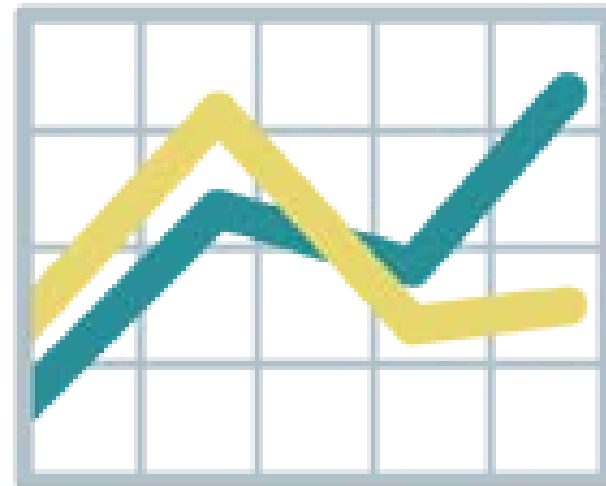
Performance of Computer Data Acquisition and Analysis

Provide timely and appropriate communication with management and City Council (Budget, Finance and Audit Committee) regarding technical audit, accounting, and internal control matters

Issue written communications to management and City Council describing significant deficiencies and/or material weaknesses, if any, noted during our audit, as applicable

Verbally communicate to management certain other deficiencies (not determined to be significant deficiencies or material weaknesses) noted during our audit, as applicable

# Financial Trends



# Financial Highlights - Summary

<u>Government-Wide:</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental:					
Change in net position (deficit)	\$ 83	\$ 18	\$ 138	\$ 398	\$ (2)
Total net position	2,163	2,081	2,075	1,936	1,538
Ending unrestricted net position (deficit)	(294)	(280)	(265)	(266)	(207)
Capital assets, net	3,413	3,290	3,218	3,119	2,653
Business-type:					
Change in net position (deficit)	\$ 119	\$ 91	\$ 135	\$ 69	\$ 70
Total net position	3,243	3,124	3,049	2,913	2,844
Ending unrestricted net position (deficit)	344	325	239	195	186
Capital assets, net	5,592	5,282	4,996	4,658	4,508
<u>Governmental:</u>					
Tax Rate (per \$100 valuation)					
Total	\$ 0.7970	\$ 0.7970	\$ 0.7970	\$ 0.7479	\$ 0.7479
General Fund	0.5439	0.5379	0.5324	0.4918	0.5230
Debt Service	0.2531	0.2591	0.2646	0.2561	0.2249
Taxable Assessed Valuation (in billions)	\$ 83.7	\$ 82.0	\$ 83.4	\$ 87.3	\$ 90.5
Total General Obligation Bonds	\$ 1,429.0	\$ 1,292.0	\$ 1,405.0	\$ 1,510.0	\$ 1,512.0
Debt Service expenditures as a percentage of non-capital expe	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2
General Fund Balance:					
Total	\$ 157.0	\$ 149.0	\$ 121.4	\$ 92.0	\$ 104.0
Unreserved/Unassigned	\$ 120.8	\$ 101.2	\$ 83.3	\$ 64.7	\$ 78.3
General Fund Expenditures	\$ 1,022.5	\$ 974.6	\$ 964.5	\$ 999.8	\$ 1,015.5
Unreserved/Unassigned General Fund balance as a percentage of expenditures	11.81%	10.38%	8.64%	6.47%	7.71%
Excess (deficiency) of revenues over (under) expenditures	\$ 0.5	\$ 22.0	\$ 27.3	\$ (35.7)	\$ (17.3)
Transfers in (out) of General Fund, net	\$ 2.3	\$ 0.1	\$ (3.1)	\$ 18.8	\$ (2.7)

# Financial Highlights – Summary (continued)

<u>Business-Type:</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities	\$ 115.8	\$ 100.6	\$ 106.9	\$ 44.4	\$ 58.3
Convention Center	(7.3)	(4.5)	1.3	(3.3)	(8.1)
Airport Revenue	(5.3)	13.2	2.7	17.1	7.5
Total Capital Assets, net					
Dallas Water Utilities	\$ 4,211	\$ 3,987	\$ 3,811	\$ 3,660	\$ 3,513
Convention Center	511	526	531	539	555
Airport Revenue	868	767	652	457	437
Ending net assets:					
Dallas Water Utilities	\$ 2,393	\$ 2,285	\$ 2,207	\$ 2,107	\$ 2,064
Convention Center	276	285	295	295	303
Airport Revenue	553	538	536	508	471
Revenue Bond Coverage:					
Dallas Water Utilities (minimum requirement 1.25)	1.85	1.73	1.58	1.4	1.43
Convention Center	1.7	1.6	2.1	1.8	1.7
Airport Revenue	N/A	N/A	N/A	13.2	10.5
Internal Service Fund Balance (deficit):					
Risk Funds fund deficit	\$ (52.2)	\$ (56.0)	\$ (65.2)	\$ (84.0)	\$ (94.7)
Risk Funds claims total liability	70.1	64.9	73.4	86.3	93.8
Risk Funds fund deficit as a % of total general fund balance	33.25%	37.56%	53.70%	91.30%	91.10%
Net Other Post Employment Benefit "OPEB" obligation	\$ 207.5	\$ 170.1	\$ 126.2	\$ 96.3	\$ 73.2
Landfill closure and post-closure liability	\$ 33.2	\$ 32.0	\$ 33.0	\$ 32.8	\$ 31.7

# Financial Highlights – Government-Wide

## Definitions:

- "Change in net assets (deficit)": essentially "net income (loss)"
- "Total net assets (deficit)": the excess (deficit) of assets vs. liabilities
- "Unrestricted net assets": "remaining" net assets after deducting "net investment in capital assets" and "restricted" components
- "Capital Assets, net": long-term capital assets, net of accumulated depreciation

## Financial Trends

<u>Government-Wide:</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental:					
Change in net assets (deficit)	\$ 83	\$ 18	\$ 138	\$ 398	\$ (2)
Total net assets	2,163	2,081	2,075	1,936	1,538
Ending unrestricted net assets (deficit) (1)	(294)	(280)	(265)	(266)	(207)
Capital assets, net (3)	3,413	3,290	3,218	3,119	2,653
Business-type:					
Change in net assets	\$ 119	\$ 91	\$ 135	\$ 69	\$ 70
Total net assets	3,243	3,124	3,049	2,913	2,844
Ending unrestricted net assets (2)	344	325	239	195	186
Capital assets, net (3)	5,592	5,282	4,996	4,658	4,508

## Key Observations:

- (1) The "Governmental" unrestricted net deficit increased annually from 2009-2013.
- (2) The "Business-type" unrestricted net assets increased annually from 2009-2013.
- (3) "Capital Assets, net balances (both "Governmental" and "Business-type") have increased annually from 2009-2013.

# Financial Highlights – Governmental Tax Rate, Assessed Value and Debt

## Definitions:

- The "Tax Rate" is the City's tax rate in total (per \$100 of valuation) with components for general fund or debt service shown separately
- "Taxable Assessed Valuation" is the total value of the City's tax base upon which the tax rate is levied
- Total "General Obligation Debt" is debt backed by the full faith and credit of the City

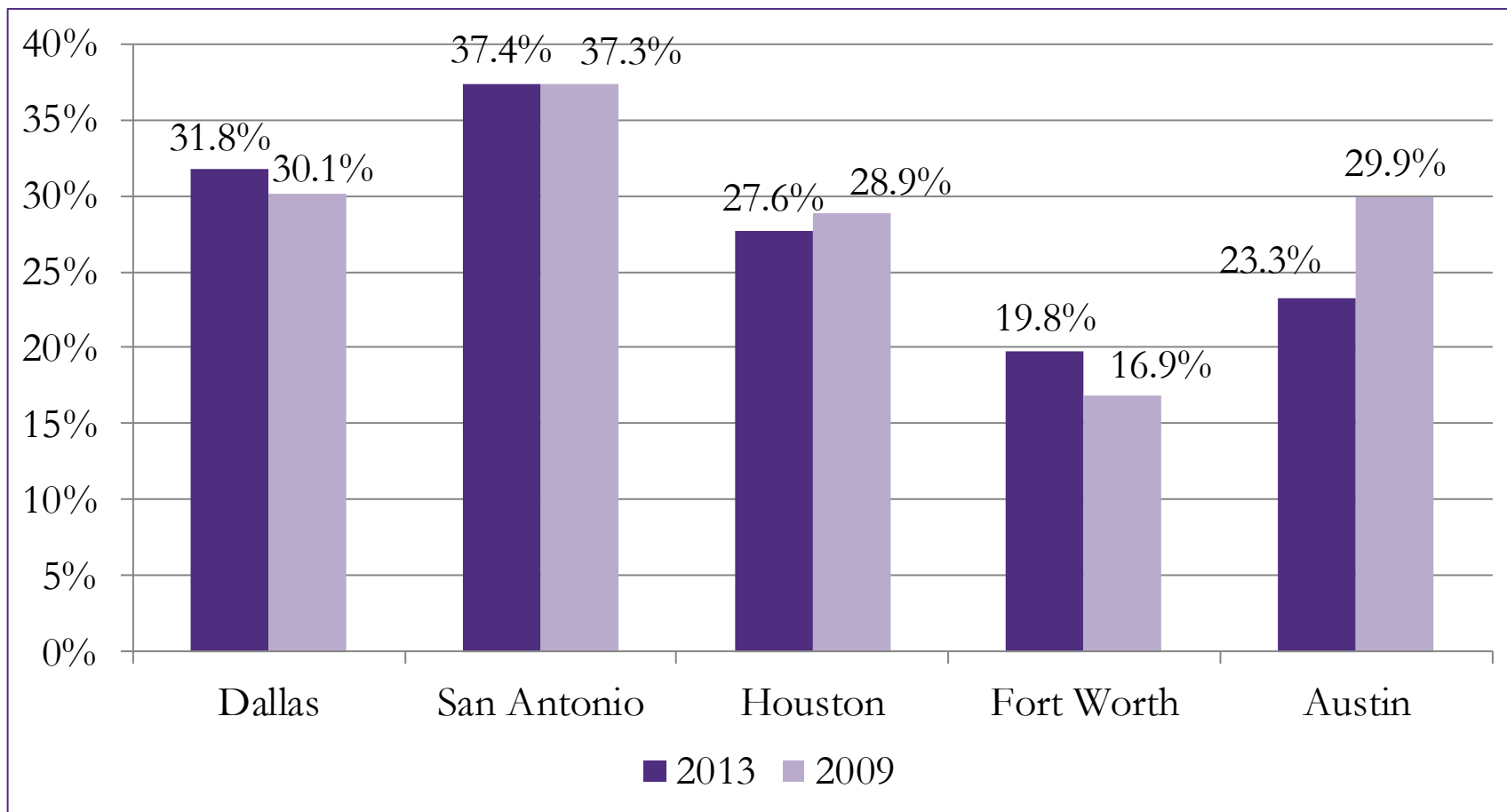
## Financial Trends:

<u>Governmental:</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Tax Rate (per \$100 valuation)					
Total (1)	\$ 0.7970	\$ 0.7970	\$ 0.7970	\$ 0.7479	\$ 0.7479
General Fund	0.5439	0.5379	0.5324	0.4918	0.523
Debt Service (2)	0.2531	0.2591	0.2646	0.2561	0.2249
Taxable Assessed Valuation (in billions) (3)	\$ 83.7	\$ 82.0	\$ 83.4	\$ 87.3	\$ 90.5
Total General Obligation Debt (4)	\$ 1,429	\$ 1,292	\$ 1,405	\$ 1,510	\$ 1,512
Debt Service expenditures as a percentage of non-capital expenditures (5)	15.88%	17.00%	17.95%	19.97%	17.34%

## Key Observations:

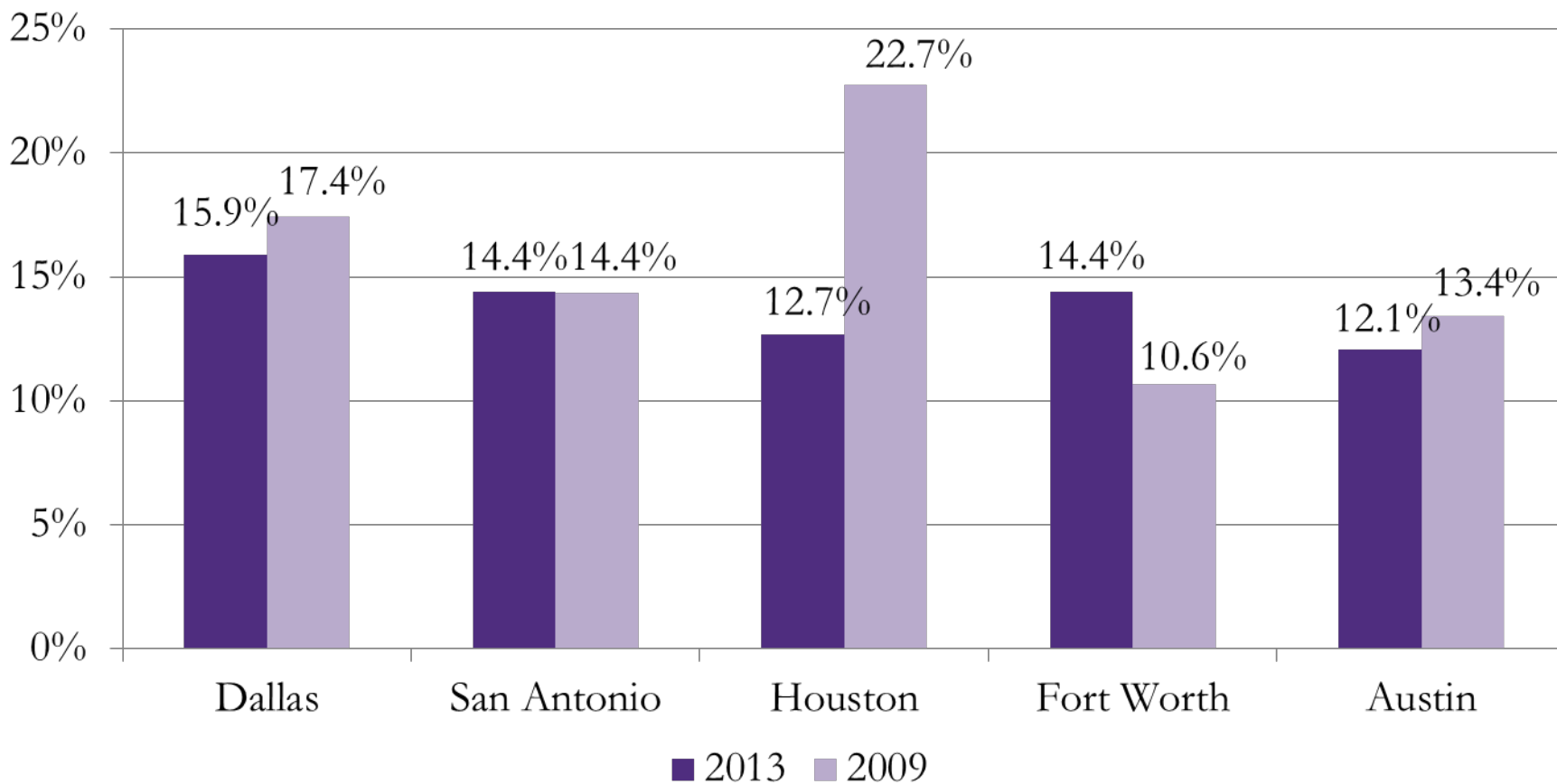
- (1) The total tax rate remained unchanged from 2009-2010, then increased in 2011 and remained unchanged through 2013
- (2) The tax rate component for debt service increased annually from 2009-2011, then decreased in 2012 & 2013
- (3) The taxable assessed valuation decreased from 2009-2012, then increased in 2013
- (4) Total General Obligation debt decreased annually from 2009-2012 then increased in 2013
- (5) Debt service expenditures as a % of non-capital expenditures increased from 2009-2010 before declining in 2011-2013

# Debt Service Component of Tax Rate as a % of Total Rate





# Debt Service Expenditures as a % of Non-Capital Expenditures



# Financial Highlights – General Fund

## Definitions:

- The General fund essentially accounts for all activities that are not required to be accounted for elsewhere
- Transfers in (out) of general fund, net reflects all transfers from (to) other funds of the City, net

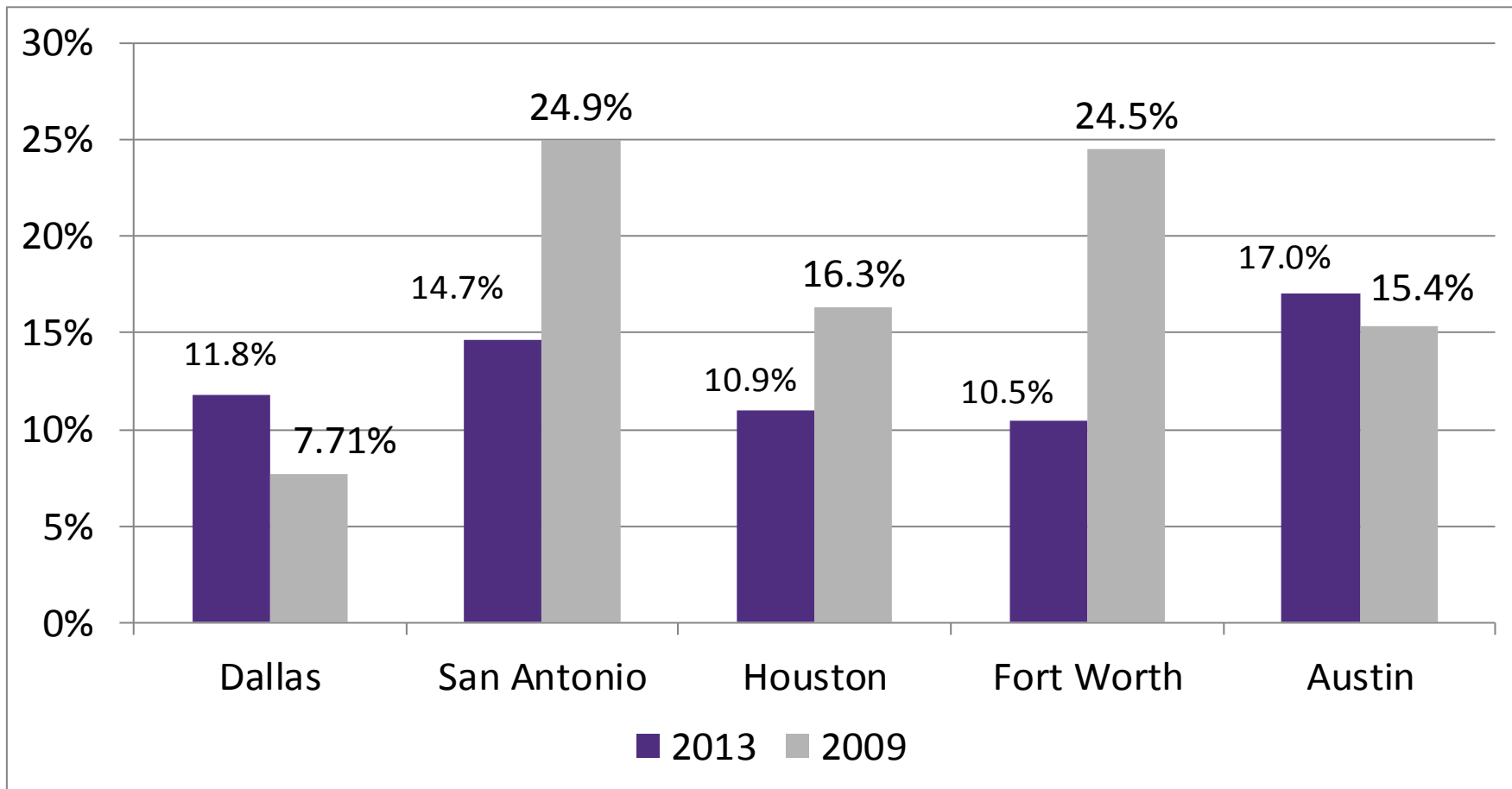
## Financial Trends:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Fund Balance: (1)					
Total	\$ 157.0	\$ 149.0	\$ 121.4	\$ 92.0	\$ 104.0
Unreserved/Unassigned	\$ 120.8	\$ 101.2	\$ 83.3	\$ 64.7	\$ 78.3
General Fund Expenditures (2)	\$ 1,022.5	\$ 974.6	\$ 964.5	\$ 999.8	\$ 1,015.5
Unreserved/Unassigned General Fund balance as a percentage of expenditures (1)	11.81%	10.38%	8.64%	6.47%	7.71%
Excess (deficiency) of revenues over (under) expenditures (3)	\$ 0.5	\$ 22.0	\$ 27.3	\$ (35.7)	\$ (17.3)
Transfers in (out) of General Fund, net (4)	\$ 2.3	\$ 0.1	\$ (3.1)	\$ 18.8	\$ (2.7)

## Key Observations:

- (1) The General Fund Balance ("total" and "unreserved/unassigned" components) and the "unreserved/unassigned general fund balance as a percentage of expenditures" decreased from 2009-2010 until increasing annually in 2011, 2012, & 2013
- (2) General Fund expenditures have remained relatively consistent from 2009-2013

# Unassigned/Unreserved General Fund Balance as a % of General Fund Expenditures



# Financial Highlights – Business-Type "Enterprise" Activities

## Definitions:

- Income (loss) before transfers and contributions is essentially "operating income (loss)"
- Revenue bond coverage is "net revenues, as defined" divided by total debt service expenditures

## Financial Trends:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities	\$ 115.8	\$ 100.6	\$ 106.9	\$ 44.4	\$ 58.3
Convention Center	(7.3)	(4.5)	1.3	(3.3)	(8.1)
Airport Revenue	(5.3)	13.2	2.7	17.1	7.5
Total Capital Assets, net (1)					
Dallas Water Utilities	\$ 4,211	\$ 3,987	\$ 3,811	\$ 3,660	\$ 3,513
Convention Center	511	526	531	539	555
Airport Revenue	868	767	652	457	437
Revenue Bond Coverage:					
Dallas Water Utilities (2)	1.85	1.76	1.58	1.4	1.43
Convention Center (3)	1.7	1.6	2.1	1.8	1.7
Airport Revenue (3)	N/A	N/A	N/A	13.2	10.5

## Key Observations:

- (1) Total Capital Assets, net increased annually between 2009-2013
- (2) Revenue Bond Coverage for Dallas Water Utilities remained relatively consistent from 2009-2011, and increased in 2012 and 2013.

# Financial Highlights – Risk Funds, OPEB (Other Postemployment Benefits) Pension and Landfill Obligations

## Definitions:

- The Risk funds account for the City's self-insured health, worker's compensation and general liability programs
- The net OPEB obligation is the actuarially-determined liability for benefits to be provided to retired employees
- The landfill closure and post-closure liability is estimated based upon percentage utilized

## Financial Trends:

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Internal Service Fund Balance (deficit): (1)					
Risk Funds fund deficit	\$ (52.20)	\$ (56.00)	\$ (65.20)	\$ (84.00)	\$ (94.70)
Risk Funds claims total liability	70.1	64.9	73.4	86.3	93.8
Risk Funds fund deficit as a % of total general fund balance (2)	33.25%	37.56%	53.70%	91.30%	91.10%
Net Other Post Employment Benefit "OPEB" obligation (3)	\$ 207.50	\$ 170.10	\$ 126.20	\$ 96.30	\$ 73.20
Landfill closure and post-closure liability (4)	\$ 33.20	\$ 32.00	\$ 33.00	\$ 32.80	\$ 31.70

## Unfunded Pension Benefit Obligation (5)

New accounting rules recently finalized

## Key Observations:

- (1) The City's self-insured risk activities are essentially being funded on a "pay-as-you-go" basis
- (2) The Risk Funds fund deficit as a % of total general fund balance increased annually 2009-2010, then decreased in 2011-2013.
- (3) The net OPEB obligation has increased annually 2009-2013, after accounting rules changed to require governments to reflect the liability beginning in 2008
- (4) The City's unfunded landfill closure and post-closure liability remained consistent from 2009-2013
- (5) New accounting rules, specifically GASB Statement Number 68, will require the City to accrue a liability on its financial statements for its unfunded pension benefit obligation. The City plans to implement this as required by GASB during the fiscal year ending September 30, 2015.

# Questions & Answers



# Commitment to promote ethical and professional excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and Internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link

- Can be found on our internal website
- Can be accessed from our external website  
([https://secure.ethicspoint.com/domain/en/report\\_customer.asp?clientid=15191](https://secure.ethicspoint.com/domain/en/report_customer.asp?clientid=15191))

Disclaimer: EthicsPoint is not meant to act as a substitute for a company's "whistleblower" obligations.

This communication is intended solely for the information and use of management and the Budget, Finance, and Audit Committee of the City of Dallas and is not intended to be and should not be used by anyone other than these specified parties.



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# **Audit Planning Meeting with the Budget, Finance and Audit Committee**

**City of Dallas, Texas**

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## **Communications Related to the FY 2014 Audit**

**November 3, 2014**

**Attendees:**

**Ben Kohnle – Partner**

**Kirt Seale – Principal**

# Discussion Regarding the City's Fiscal Year 2014 Audit

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Responsibilities

Scope and Timing

Key Areas of Focus

IT Control Update

Technical Update

# Our responsibilities

- Perform an audit
  - An audit provides reasonable, not absolute assurance
- Form and express an opinion about whether the financial statements prepared by management, with your oversight:
  - Are materially correct
  - Are fairly presented
  - Conform with generally accepted accounting principles
  - Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole
- Communicate specific matters to you

***An audit does not relieve you or management of your responsibilities.***

# Our responsibilities

## Single Audit

- Appropriately plan the audit by considering control risks
- Form and express an opinion regarding:
  - Schedule of Expenditures of Federal Awards
  - Schedule of Expenditures of State Awards
  - Compliance with major program requirements
  - Internal control over compliance
  - Summarize findings and questioned costs

# Our responsibilities for other information in the Comprehensive Annual Financial Report (CAFR), such as management's discussion and analysis and other required supplementary information

- Read the other information (we do not corroborate it)
- Consider whether it is materially inconsistent with the financial statements
- Call to management's attention identified material inconsistencies or misstatements of fact, if any

***Remember, our responsibility does not extend beyond our report.***

# Those Charged with Governance responsibilities

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the City's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views of fraud risks
- Informing us about other matters that are relevant to our audit

# Management's responsibilities

- Preparing and fairly presenting the financial statements and schedule of expenditures of federal and state awards
- Establishing and maintaining effective internal control over financial reporting and compliance
- Providing us with written representations
  - A copy of the representations will be provided to you at the end of the audit

# Communications Related to the Audit

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Responsibilities  
Scope and Timing  
Key Areas of Focus  
IT Control Update  
Technical Update



# We approach your audit by...

- Understanding your organization and the environment you operate in
- Using that knowledge and understanding to analyze your financial statements
- Determining materiality
- Identifying areas more likely to be materially misstated
- Focusing audit attention and effort on those areas
- Testing compliance with direct and material compliance requirements (OMB Circular A-133)(and State of Texas Single Audit Circular)

# Materiality

- Magnitude of an omission or misstatement that likely influences a reasonable person's judgment
- Based on relevant financial statement benchmarks
  - We believe total assets or total revenues (based on the type of fund) is an appropriate benchmark for the City
- Financial statement line items  $>$  materiality are in scope
- Other areas  $<$  materiality may be in scope if qualitative factors are present (e.g., related party transactions, fraud risk, bond coverage requirements, etc.)

# Audit timeline

## Financial statements and Federal and State Single Audits (FY2014)

Audit planning	November 2014
IT Procedures	July – August 2014
Preliminary Single Audit procedures	November – December 2014
Preliminary financial procedures	November – December 2014
Final procedures	January – March 2015
Status meetings with management	Periodic
Closing meeting with management	TBD
Budget, Finance and Audit Committee closing meeting	TBD

# Engagement Team

## Audit

Ben D. Kohnle – Engagement Partner	<a href="mailto:ben.kohnle@us.gt.com"><u>ben.kohnle@us.gt.com</u></a>	214-561-2260
Dan Barron – Quality Control Partner	<a href="mailto:dan.barron@us.gt.com"><u>dan.barron@us.gt.com</u></a>	214-561-2440
Natalie Wood – Experienced Manager	<a href="mailto:natalie.wood@us.gt.com"><u>natalie.wood@us.gt.com</u></a>	214-561-2409
Todd Herlin – Manager	<a href="mailto:todd.herlin@us.gt.com"><u>todd.herlin@us.gt.com</u></a>	214-561-2286

## Business Advisory

Kirt Seale –Principal	<a href="mailto:kirt.seale@us.gt.com"><u>kirt.seale@us.gt.com</u></a>	214-561-2367
Jeremy Huval - Manager	<a href="mailto:jeremy.huval@us.gt.com"><u>jeremy.huval@us.gt.com</u></a>	214-561-2583

## Subcontractors

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Thaland Logan	<a href="mailto:tlogancpa@sbcglobal.net"><u>tlogancpa@sbcglobal.net</u></a>	872-293-8244
Dan Serna	<a href="mailto:dserna@serna.com"><u>dserna@serna.com</u></a>	817-483-3884
Diccy Thurman	<a href="mailto:diccyt@owensthurman.com"><u>diccyt@owensthurman.com</u></a>	214-941-2361

# Reports to be issued

- Audits:
  - Comprehensive annual financial report (CAFR)
  - Single audits (OMB Circular A-133)(and State of Texas Single Audit Circular)
- Separate reports:
  - Airport Revenues Fund and Passenger Facility Charge compliance
  - Dallas Water Utilities
  - Downtown Dallas Development Authority Tax Increment Financing District
  - Vickery Meadow Tax Increment Financing District
  - Dallas Convention Center Hotel Development Corporation
  - Texas Commission on Environmental Quality financial assurance agreed-upon procedures
- Internal control deficiency letter

# Communications Related to the Audit

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Responsibilities  
Scope and Timing  
**Key Areas of Focus**  
IT Control Update  
Technical Update

# Key Areas of Focus – CAFR

<b>Critical Areas</b>	<b>Assertions</b>
Other Revenues	Existence and occurrence
Capital Assets	Valuation-gross and valuation-net
Investments	Valuation-net
Employee compensation	Completeness and accuracy
Operating Expenditures	Completeness and accuracy
Compliance and controls related to federal and state single audit major programs	Completeness and accuracy of SEFA and SESA

# Key Areas of Focus – CAFR (contd.)

<b>Controls</b>	<b>Cycles</b>
Controls – based approach	Payroll
Controls – based approach	Disbursements

## Other Key Areas:

- Governance
- Fraud inquiries
- Information technology
- Adequacy of disclosures
- Investments/Treasury
- Debt
- Tax Revenues
- Water & Sewer revenues and receivable
- Airport Revenues Fund
- Allowance for doubtful accounts
- Revenue bond issuances
- Actuarial information related to self-insurance (IBNR), workers' compensation liabilities and OPEB Plans
- Landfill closure and post-closure
- Passenger Facility Charge compliance
- Dallas Convention Center Hotel Development Corporation
- Love Field Airport Modernization Corporation and related transactions



# Communications Related to the Audit

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Responsibilities  
Scope and Timing  
Key Areas of Focus  
IT Control Update  
Technical Update

# IT Control Update

## In-scope Systems

SAP (and underlying databases)

Advantage Financial System (and underlying databases)

Active Directory

## Control Areas Tested

Security Administration

Change Management

Batch Job Administration

- **One IT control observation was identified during this year's IT testing, and it was successfully and completely remediated / fixed prior to the end of the financial year.**
- **This remediation observation involved inconsistent generation of an audit trail during IT's monitoring processes over Advantage Financial System scheduled batch jobs.**

# Discussion Regarding the City's Fiscal Year 2013 Audit

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Responsibilities  
Scope and Timing  
Key Areas of Focus  
IT Control Update  
Technical Update

# Technical Update

- GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27"
  - Applies to defined benefit and defined contribution pension plans administered through trusts
  - Sole and agent employers
    - Net pension liability to be recognized-unfunded obligation
  - Cost-sharing employers
    - Recognize liability for proportionate share of net pension liability
  - Effective for 9/30/2015 year-ends
  - Earlier application is encouraged
- GASB Statement No. 70 - "Accounting and Financial Reporting for Nonexchange Financial Guarantees"
  - The objective is to establish additional guidance regarding the recognition and disclosure of financial guarantees made and received by state and local governments.
  - Effective for 6/30/2014 year-ends
  - Earlier application is encouraged. Retroactive application (exception: cumulative amounts paid, prospective reporting permitted).

# Questions and Answers

