

# Memorandum



CITY OF DALLAS

DATE October 30, 2015

TO Members of the Budget, Finance & Audit Committee: Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs, Lee M. Kleinman

SUBJECT Communications Related to the FY 2015 Audit

On November 2, 2015 the Budget, Finance and Audit Committee will be briefed on Communications Related to the FY 2015 Audit. The briefing will be presented by Dan Barrón, Partner at Grant Thornton LLP. The briefing is attached for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "Jeanne Chipperfield".

Jeanne Chipperfield  
Chief Financial Officer

## Attachment

c: Honorable Mayor and Members of City Council  
A.C. Gonzalez, City Manager  
Warren M.S. Ernst, City Attorney  
Rosa A. Rios, City Secretary  
Craig D. Kinton, City Auditor  
Daniel F. Solis, Administrative Judge  
Ryan S. Evans, First Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager  
Joey Zapata, Assistant City Manager  
Mark McDaniel, Assistant City Manager  
Eric D. Campbell, Assistant City Manager  
Sana Syed, Public Information Officer  
Elsa Cantu, Assistant to the City Manager

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

City of Dallas, Texas

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## **Communications Related to the FY 2015 Audit**

**November 2, 2015**

**Attendees:**

**Dan Barron – Partner**

**Natalie Wood – Experienced Manager**

**Jeremy Huval – Experienced Manager**

# Communications Related to the FY 2015 Audit

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Responsibilities

Scope and Timing

Areas of Audit Focus

IT Control Update

Technical Update

# Our responsibilities

- Perform an audit under US GAAS and GAGAS
  - 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

## Federal and State Single Audits

- 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
- Designing, implementing, evaluating, 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
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events



# Communications Related to the FY 2015 Audit

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# We approach your audit by...

- Understanding the City and the environment it 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
- Testing major programs 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 (FY2015)

Audit planning	November 2015
IT Procedures	August – October 2015
Preliminary Single Audit procedures	November – December 2015
Preliminary financial procedures	November – December 2015
Final procedures	January – March 2016
Status meetings with management	Periodic
Closing meeting with management	TBD
Budget, Finance and Audit Committee closing meeting	TBD

# Engagement Team

## Audit

Dan Barron – Engagement Partner	<a href="mailto:dan.barron@us.gt.com"><u>dan.barron@us.gt.com</u></a>	214-561-2440
Angela Dunlap – Engagement Quality Review Partner	<a href="mailto:angela.dunlap@us.gt.com"><u>angela.dunlap@us.gt.com</u></a>	832-476-5010
Natalie Wood – Experienced Manager	<a href="mailto:natalie.wood@us.gt.com"><u>natalie.wood@us.gt.com</u></a>	214-561-2409
Juliet Williams – Experienced Manager	<a href="mailto:juliet.williams@us.gt.com"><u>juliet.williams@us.gt.com</u></a>	214-563-8199

## 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 – Experienced Manager	<a href="mailto:jeremy.huval@us.gt.com"><u>jeremy.huval@us.gt.com</u></a>	214-561-2583

## Subcontractors

Reginald Hopkins	<a href="mailto:reggihopkins@sbcglobal.net"><u>reggihopkins@sbcglobal.net</u></a>	972-686-9535
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 FY 2015 Audit

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

# Areas of Audit Focus – CAFR

<b>Areas of Audit Focus</b>	<b>Assertions</b>
Water and Sewer Revenues and Receivables Airport Revenues	Existence and occurrence
Capital Assets	Valuation-gross and valuation-net
Investments	Valuation-net
Net pension liability and expense, Actuarial information related to self-insurance (IBNR), workers compensation liabilities and OPEB Plans	Presentation and disclosure Completeness and accuracy
Compliance and controls related to federal and state single audit major programs	Completeness and accuracy of SEFA and SESA
Debt compliance and ratios	Compliance with debt covenants



# Key Areas of Focus – CAFR (contd.)

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

## Other Areas:

- Governance
- Fraud inquiries
- Information technology
- Adequacy of disclosures
- Investments/Treasury
- Debt
- Tax Revenues
- Allowance for doubtful accounts
- Revenue and GO bond issuances
- Employee Compensation
- Operating Expenditures
- 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 FY 2015 Audit

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Responsibilities  
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**IT Control Update**  
Technical Update

# IT Control Update

## In-scope Systems

SAP (and underlying databases)

Advantage Financial System (and underlying databases)

Active Directory

- **IT audit testing still in progress**

## Control Areas Tested

Security Administration

Change Management

Batch Job Administration

# Communications Related to the FY 2015 Audit

Responsibilities  
Scope and Timing  
Areas of Audit 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"**
  - Net pension liability to be recognized-unfunded obligation
  - Effective for 9/30/2015 year-ends
- **GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date an Amendment to GASB Statement No. 68"**
  - The objective is to address an issue regarding application of the transition provision of Statement No. 68.
  - Effective for 9/30/2015 year-ends
- **GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"**
  - Effective for 9/30/2015 year-ends
- **GASB Statement No. 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"**
  - Effective for 9/30/15 year-ends.

# Questions and Answers

