

Memorandum



CITY OF DALLAS

DATE September 11, 2018

Honorable Members of the Government Performance & Financial Management
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Communications Related to the FY 2018 Audit Planning**

On Monday, September 17, 2017, Grant Thornton LLP will brief the Government Performance & Financial Management Committee on Communications Related to the FY 2018 Audit Planning. I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich
Chief Financial Officer

Attachment

Honorable Mayor and Members of City Council
T.C. Broadnax, City Manager
Chris Caso, City Attorney (Interim)
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge

Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
Directors and Assistant Directors



Audit Planning Meeting with the Government Performance and Financial Management Committee

City of Dallas, Texas
Communications Related to the FY 2018 Audit

September 17, 2018

Attendees:

Dan Barron – Partner

Natalie Wood – Senior Manager

Kirt Seale – Principal



Our Responsibilities

We are responsible for:

- Performing an audit under US Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards* of the financial statements prepared by management, with your oversight;
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US Generally Accepted Accounting Principles (GAAP);
- Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole;
- Communicating fraud and abuse with regard to Federal and State programs;
- Communicating specific matters to you on a timely basis;
- Reporting material non-compliance related to laws, regulations, contracts and grant agreements, as well as significant deficiencies and/or material weaknesses in internal control related to financial reporting.

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.

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; and
 - 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 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, such as:
 - Entity strategies and related business risks that may result in heightened risks of material misstatement;
 - Matters warranting particular audit attention;
 - Significant communications with regulators;
 - Matters related to the effectiveness of internal control and your oversight responsibilities; and
 - Your views regarding our current communications and your actions regarding previous communications.

Management

Management is responsible for:

- Preparing and fairly presenting the financial statements in accordance with US GAAP;
- Preparing and fairly presenting the schedule of expenditures of Federal and State awards (SEFA and SESA);
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting and compliance with Federal and State grants;
- 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; and
- Providing us with written representations.

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; and
- Testing major programs compliance and controls over compliance with direct and material compliance requirements (OMB Uniform Grants Guidance)(and State of Texas Single Audit Circular).

Materiality

- Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is ordinarily evaluated against relevant financial statement benchmark(s).
- We believe that total assets or total revenues (based on the type of fund) is the relevant benchmarks for the City's financial statements.
- We believe that total expenditures is the relevant benchmark for the major Federal and State major programs.

Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).

Audit Timeline & Scope

July-September 2018	Audit Planning
September 2018	IT Procedures
October – November 2018	Preliminary Single Audit and Financial Statement Audit procedures
January – March 2019	Final Procedures
Periodic	Status Meetings with Management
TBD	Closing meeting with management Government Performance and Financial Management Committee closing meeting

Engagement Team

Audit

Dan Barron – Engagement Partner	Dan.Barron@us.gt.com	214-561-2440
Angela Dunlap – Engagement Quality Review Partner	Angela.Dunlap@us.gt.com	832-476-5010
Natalie Wood – Senior Manager	Natalie.Wood@us.gt.com	214-561-2409
Bhakti Patel – Senior Manager	Bhakti.Patel@us.gt.com	512-692-1288

Business Advisory

Kirt Seale – Principal	Kirt.Seale@us.gt.com	214-561-2367
Aftab Hemani – Manager	Aftab.Hemani@us.gt.com	214-561-2584

Subcontractors

Reginald Hopkins	reggihopkins@sbcglobal.net	972-686-9535
Thaland Logan	tlogancpa@sbcglobal.net	872-293-8244
Diccy Thurman	diccyt@owensthurman.com	214-941-2361

Reports to be issued

Audits

- Comprehensive annual financial report (CAFR)
- Single audits (OMB Uniform Grants Guidance) (and State of Texas Single Audit Circular)

Other Reports

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

Areas of Audit Focus - CAFR

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

Areas of audit focus	Assertions
Water and Sewer Revenues and Receivables Airport Revenues and Receivables	Existence and occurrence
Capital Assets	Valuation-gross and valuation-net
Investments	Valuation-Net
Net pension and OPEB liabilities and expense, actuarial information related to self-insurance (IBNR), workers compensation liabilities, and pension 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 Compliance with major program direct and material requirements
Debt compliance and ratios	Compliance with debt covenants
Controls-based approach	Payroll and disbursements

Areas of Audit Focus – CAFR (contd.)

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

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

FY 2018

Current fiscal year testing in process.

Technical Update

Governmental Accounting Standards Board (GASB) Statements effective for fiscal year ending 9/30/2018

GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"

- This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement No. 81, "Irrevocable Split-Interest Agreements"

- The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

GASB Statement No. 85, "Omnibus 2017"

- This statement addresses several different accounting and financial reporting issues identified by GASB during the implementation and application of certain GASB pronouncements.

GASB Statement No. 86, "Certain Debt Extinguishment Issues"

- This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished, and notes to the financial statements for debt that is defeased in-substance.

Technical Update Future Implementation

GASB Statements effective for fiscal year ending 9/30/2019

GASB Statement No. 83, "Certain Asset Retirement Obligations"

- This Statement establishes criteria for determining the timing and pattern of recognition and liability and a corresponding deferred outflow of resources for asset retirement obligations.

GASB Statement effective for fiscal year ending 9/30/ 2020

GASB Statement No. 84 "Fiduciary Activities"

- This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported

GASB Statement effective for fiscal year ending 9/30/2021

GASB Statement No. 87 "Leases"

- This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract

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 accessed from our external website or through this link:

https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

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

Questions and Answers

