

Memorandum



CITY OF DALLAS

DATE September 11, 2017

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 2017 Audit Planning**

On Monday, September 18, 2017, Grant Thornton LLP will brief the Government Performance & Financial Management Committee on Communications Related to the FY 2017 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
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Billerae Johnson, City Secretary (Interim)
Daniel F. Solis, 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
Jo M. (Jody) Puckett, Assistant City Manager (Interim)
Nadia Chandler Hardy, Chief of Community Services
Raquel Favela, Chief of Economic Development & Neighborhood Services
Theresa O'Donnell, Chief of Resilience
Directors and Assistant Directors



Grant Thornton

Presentation to the Government Performance and Financial Management Committee of the City of Dallas

Communications Related to the
FY 2017 Audit Planning

September 18, 2017

Attendees:

Dan Barron – Partner

Natalie Wood – Senior Manager

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 *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, including the Schedule of Expenditures of Federal (SEFA) and State Awards (SESA), 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 fraud and abuse with regard to federal and state programs;
- Communicating specific matters to you on a timely basis; we do not design our audit for this purpose;
- 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;
- Reporting material non-compliance with federal and state awards requirements applicable to major programs audited under Uniform Grants Guidance and the State of Texas Single Audit Circular, as well as significant deficiencies and/or material weaknesses in internal control over compliance.

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;
- 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; 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 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.

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

Audit planning	July-September 2017
IT procedures	August-September 2017
Preliminary Single Audit procedures	October – November 2017
Preliminary Financial procedures	October – December 2017
Final procedures	January – March 2018
Status meetings with management	Periodic
Closing meeting with management	TBD
Government Performance and Financial Management Committee closing meeting	TBD



Engagement Team

Audit

Dan Barron – Engagement Partner	dan.barron@us.gt.com	214-561-2440
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Tom Ruckman – Experienced Manager	tom.ruckman@us.gt.com	214-561-2351
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Business Advisory

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Aftab Hemani – Manager	aftab.hemani@us.gt.com	214-561-2584

Subcontractors

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Thaland Logan	tlogancpa@sbcglobal.net	872-293-8244
Dan Serna	dserna@serna.com	817-483-3884
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)

Audits

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

Areas of Audit Focus - CAFR

Areas of audit focus	Assertions
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



Areas of Audit Focus – CAFR (contd.)

Controls	Cycles
Controls-based approach	Payroll
Capital Assets	Valuation – gross and valuation - net

Other Areas

- Governance
- Fraud inquiries
- Information technology
- Adequacy of disclosures
- Investments/Treasury
- Debt
- Tax Revenues
- Allowance for doubtful accounts
- Net pension liability
- 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 2017

Current fiscal year testing in process.



Technical Update

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"

- Applicable to pension plans not within the scope of GASB Statement 68
- Effective for 9/30/2017 year-ends

GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"

The Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple

- Employer Plans
- Effective for 9/30/2017 year-ends

GASB Statement No. 77, "Tax Abatement Disclosures"

- Requires disclosure for the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients, and gross dollar amount of the tax abatement.
- Effective for 9/30/2017 year-ends



Technical Update Future Implementation

GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans"

- This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plans.
- Effective for 9/30/2017 year-ends

GASB Statement No. 80, "Blending Requirements for Certain Component Unit – An Amendment of GASB Statement No. 14"

- This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments.
- Effective for 9/30/2017 year-ends

Fiscal Year 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.
- Effective for 9/30/2018 year-ends



Questions and Answers

