

2024 External Audit Planning Meeting

November 7, 2024 Government Performance and
Financial Management Committee Meeting



- ▶ Introduction
- ▶ Interim Communications
- ▶ Audit Process
- ▶ New Accounting Pronouncements
- ▶ Government Performance and Financial Management Committee Concerns
- ▶ Questions

Engagement Team



City of Dallas External Audit Team

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Our responsibilities under U.S. GAAS and GAGAS



We are responsible for:

- Conducting our audit in accordance with US Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAGAS) of the financial statements that have been prepared by management, with your oversight
- Forming and expressing opinions about whether the financial statements are presented fairly, in all material respects, in accordance with US 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
- Communicating fraud
- Communicating relevant significant matters to you on a timely basis
- Reporting material noncompliance related to laws, regulations, contracts and grant agreements, as well as any significant deficiencies and/or material weaknesses in internal control related to financial reporting.
- Obtaining an understanding of internal control over significant transaction cycles and perform testing to determine if controls are operating as designed. However, we do not express an opinion on effectiveness of internal control.

Our responsibilities under Uniform Guidance and UGMS



Our responsibilities related to the Federal and State Single Audits in accordance with Uniform Guidance and Texas Grant Management Standards (TxGMS), respectively, are to:

- Consider internal control over compliance related to compliance requirements for each major program. We do not express an opinion over internal controls over compliance
- Test compliance for each direct and material compliance requirement for each major program and express an opinion
- Communicate any material noncompliance for major programs, questioned costs, and significant deficiencies or material weaknesses in internal control over compliance
- Form and express an opinion on whether the Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards are fairly stated in relation to the financial statements

Responsibilities for other information in the ACFR

Our responsibilities for other information in the Annual Comprehensive Financial Report (ACFR) are to:

- Read other information such as management’s discussion and analysis and other required supplementary information (we do not corroborate it)
- Consider whether it is materially consistent with the financial statements
- Bring to management’s attention if there are any identified material inconsistencies or misstatements of fact

Those Charged with Governance and Management Responsibilities



Those Charged with Governance

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

- 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;
- 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;
- Selecting and using appropriate accounting policies;
- 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.

Engagement Timeline

**GPFM
Committee
Presentation**
March 2025

**Discuss
Developments/
Issues**
On-going

**Planning and
Preliminary Risk
Assessment**
July – Oct 2024

**Interim
Fieldwork**
July – Nov 2024

**Interim GPFM
Committee
Meeting**
Nov 2024

Audit Issuance
Feb 2025

Fieldwork
Dec 2024 – Feb 2025

Audit Approach

The audit process will be a **risk-based approach** in which we identify potential areas of risk that could lead to material misstatement of the financial statements. This includes:

- Gaining an 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

Materiality

- ▶ Materiality is the substantial likelihood that an omission or misstatement will influence the judgment of a reasonable user of the financial statements. It is ordinarily evaluated against relevant financial statement benchmarks.
- ▶ We believe that total assets, revenues, or expenditures (based on the type of fund or opinion unit) are relevant benchmarks for the City's financial statements.
- ▶ We believe that total expenditures is a relevant benchmark for the 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).

Risk Assessment Overview



Our audit process is a risk-based approach in which we identified potential areas of risk that could lead to material misstatement of the financial statements.

Financial Statement Level Risk	Planned Procedures
Management override of internal controls	<ul style="list-style-type: none"> - Testing approval of journal entries - Testing approval of cash disbursements - Testing approval of payroll disbursements - Testing bid procedure process - Testing valuation process - Testing budget amendments - Agree disclosures to support - Testing estimates for reasonableness
Audit Area Risks	Planned Procedures
Improper revenue recognition for DWU, Aviation, Convention Center, and Sanitation	<ul style="list-style-type: none"> - Testing existence, valuation, and cutoff of receivables and revenue - Obtain customer activity and detail for evidence of the service being performed and that payment was received - Recalculated revenue using authorized rates and meter readings - Perform analytical procedures
Improper grant revenue and receivable recognition	<ul style="list-style-type: none"> - Agree amounts recorded in the general ledger to the final Schedule of Federal and State Awards - Testing expenditures to ensure they were allowable costs and eligible for reimbursement - Testing receipts from granting agencies - Read grant agreements to test for compliance

Risk Assessment Overview



Other Areas	Planned Procedures
Improper revenue recognition for other funds	<ul style="list-style-type: none"> - Testing existence, valuation, and cutoff of receivables and revenue - Obtain detail for evidence of the service being performed and that payment was received - Perform analytical procedures
Capital assets	<ul style="list-style-type: none"> - Inspect records and documents related to significant projects - Vouch transactions to invoices, pay apps, and bid procedures
Long-term liabilities	<ul style="list-style-type: none"> - Testing the existence and occurrence of long-term liabilities - Testing the disclosures and presentation - Testing covenants and continuing disclosures
Misappropriation of assets through purchases	<ul style="list-style-type: none"> - Perform control testing over randomly sampled disbursements - Perform data mining procedures to identify unusual transactions
Misappropriation of assets through payroll disbursements	<ul style="list-style-type: none"> - Perform control testing over randomly sampled payroll disbursements - Perform data mining procedures to identify unusual transactions and trends
Evaluation of estimates	<ul style="list-style-type: none"> - Evaluate the reasonableness of significant estimates, such as those that were determined by management or an actuary

Risk Assessment Overview



Other Areas	Planned Procedures
Information Technology	<ul style="list-style-type: none"> - Logical security: access is authenticated and approved - Change management: testing process of implementing new applications and system changes - Computer operations: critical data is backed up regularly
Investments	<ul style="list-style-type: none"> - Testing valuation, disclosures, and Public Funds Investment Act
Risks, uncertainties, contingencies	<ul style="list-style-type: none"> - Read Council and Committee minutes - Inquire of management - Receive attorney letter - Read contracts and agreements
Data mining procedures	<ul style="list-style-type: none"> - Obtain detail of disbursements, approved vendors, payroll transactions, addresses - Testing significant vendors, employees paid after termination dates, employees with significant overtime

Other areas we plan to test:

- Passenger Facilities Charge compliance
- TCEQ compliance

Audits

- Annual comprehensive financial report (ACFR)
- Single audits: OMB Uniform Guidance and Texas Grant Management Standards
- Downtown Dallas Development Authority Tax Increment Financing District
- Dallas Convention Center Hotel Development Corporation
- Dallas Water Utilities Fund
- Airport Revenues Fund

Other Reports

- Passenger Facility Charge Compliance
- Texas Commission on Environmental Quality Financial Assurance Agreed-Upon Procedures

Tentative Federal and State Major Programs



Federal Programs

- Special Supplemental Nutrition Program For Women, Infants, and Children (ALN #10.557)
- CDBG (ALN #14.218)
- HOME (ALN #14.239)
- CDBG - Section 108 Loans (ALN #14.248)
- Highway Planning and Construction (ALN #20.205)
- Emergency Rental Assistance Program (ALN #21.023)
- Coronavirus State and Local Fiscal Recovery Funds (ALN #21.027)

State Programs

- MVCPA Commercial Auto Theft Interdiction Squad
- TDHCA-Homeless Housing and Services Program

GASB Standards- Effective in FY2024

Effective for the year ended September 30, 2024:

GASB 100 – Accounting Changes and Error Corrections

Summary: Enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Expected effect on audit: No significant impacts

GASB Standards- Effective in FY2025 and beyond:

2025

- ▶ GASB 101 – Compensated Absences
- ▶ GASB 102 – Certain Risk Disclosures

BEYOND

- ▶ GASB 103 – Financial Reporting Model Improvements
- ▶ GASB 104 – Disclosure of Certain Capital Assets

Discussion

- **Questions?**
- **Points of Concern?**
- **Additional Areas of Risk?**
- **Additional Services Requested?**

Contact Us

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