

# Memorandum



Date October 4, 2013

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

Subject Communications Related to the FY2013 Audit

Attached are the presentation materials for the Communications Related to the FY2013 Audit. This briefing will be presented by Ben Kohnle, Partner at Grant Thornton, LLP, to the Budget, Finance and Audit Committee on Monday, October 7, 2013.

Please contact me if you need additional information.



Jeanne Chipperfield  
Chief Financial Officer

## Attachment

c: Honorable Mayor and Members of the City Council  
A.C. Gonzalez, Interim City Manager  
Warren M. S. Ernst, City Attorney  
Judge Daniel F. Solis, Administrative Judge  
Rosa A. Rios, City Secretary  
Craig D. Kinton, City Auditor  
Ryan S. Evans, Interim First Assistant City Manager  
Jill A. Jordan, P. E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Charles M. Cato, Interim Assistant City Manager  
Theresa O'Donnell, Interim Assistant City Manager  
Frank Libro, Public Information Office  
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 2013 Audit

**October 7, 2013**

**Attendees:**

**Ben Kohnle – Partner**

**Dan Barron – Partner**

**Kirt Seale – Principal**



Grant Thornton

# 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

# 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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# 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 statement and OMB Circular A-133 audit (FY 2013)

Audit planning	September – October 2013
IT Procedures	August – September 2013
Preliminary Single Audit procedures	October – December 2013
Preliminary financial procedures	November – December 2013
Final procedures	January – March 2014
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">ben.kohnle@us.gt.com</a>	214-561-2260
Dan Barron – Quality Control Partner	<a href="mailto:dan.barron@us.gt.com">dan.barron@us.gt.com</a>	214-561-2440
Natalie Wood – Experienced Manager	<a href="mailto:natalie.wood@us.gt.com">natalie.wood@us.gt.com</a>	214-561-2409
Todd Herlin – Manager	<a href="mailto:todd.herlin@us.gt.com">todd.herlin@us.gt.com</a>	214-561-2286

## Business Advisory

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

## Subcontractors

Reginald Hopkins	<a href="mailto:reggihopkins@sbcglobal.net">reggihopkins@sbcglobal.net</a>	972-686-9535
Thaland Logan	<a href="mailto:tlogancpa@sbcglobal.net">tlogancpa@sbcglobal.net</a>	872-293-8244
Dan Serna	<a href="mailto:dserna@serna.com">dserna@serna.com</a>	817-483-3884
Diccy Thurman	<a href="mailto:diccyt@owensthurman.com">diccyt@owensthurman.com</a>	214-941-2361

# Reports to be issued

- Audits:
  - Comprehensive annual financial report (CAFR)
  - Single audit (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

# Preliminary Federal and State Major Programs

- Federal:
  - Special Supplemental Nutrition Program for Women, Infants, and Children
  - Airport Improvement Program
  - Water Security Training and Technical Assistance
  - Highway Planning and Construction Cluster
  - Community Development Block Grant-Entitlements Grants Cluster
  - JAG Program Cluster
- State:
  - A Modern Streetcar System Development Program
  - Commercial Auto Theft Interdiction Squad
  - Edison/Hi Line Stemmons/Rail Transit Underpass Connection
  - Trinity Strand Trail Program
  - Katy Trail VI from Ellsworth Street to Worcola Street



## Communications Related to the Audit

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Key Areas of Focus

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# Key Areas of Focus – CAFR

<b>Critical Areas</b>	<b>Assertions</b>
Water and Sewer revenue	Existence and Occurrence
Grant Revenue	Existence and Occurrence
Capital Assets	Completeness & Existence and Occurrence
Expenditures	Completeness
Compliance and controls related to single audit	Completeness 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
- Assess corrective actions of management on prior year findings
- Actuarial information related to pension and OPEB Plans

## 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

No Information Technology control findings were identified in this year's review

<b>In-scope Systems</b>
SAP (and underlying databases)
CGI Advantage (and underlying databases)
Active Directory

  

<b>Control Areas Tested</b>
Security Administration
Change Management
Batch Job Administration



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# Technical Update

- GASB Statement No. 67 - "Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25"
  - Applies to defined benefit and defined contribution pension plans administered through trusts
  - Specifies reporting requirements for financial statements of the plans
  - New information about annual money-weighted rates of return in footnotes and 10-year RSI schedules
  - Effective for 12/31/2014 plan year-ends
- 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

# Questions and Answers

