Memorandum

Date: February 6, 2009

To: Members of the Finance, Audit & Accountability Committee
   Chair Mitchell Rasansky, Vice Chair Jerry R. Allen, Mayor Pro Tem Dr. Elba Garcia,
   Voncie Jones Hill, Angela Hunt, Ron Natinsky and David Neumann

Subject: External Audit Plan FY 2007 - 2008

The Committee's February 9th agenda includes the Subject briefing. Grant Thornton's
Ben Kohnle will brief the Committee and his briefing materials are attached.

Should you require additional information, please let me know.

David Cook
Chief Financial Officer

C: Honorable Mayor & Members of the City Council
   Mary K Suhm, City Manager
   Tom Perkins, Jr., City Attorney
   Deborah Watkins, City Secretary
   Craig Kinton, City Auditor
   Ryan S. Evans, First Assistant City Manager
   Forest E. Turner, Interim Assistant City Manager
   Ramon Miguez, P.E., Assistant City Manager
   Jill A. Jordan, P.E., Assistant City Manager
   A.C. Gonzalez, Assistant City Manager
Preliminary Meeting with the Finance, Audit and Accountability Committee

City of Dallas, Texas

Communications Related to the FY 2008 Audit

February 9, 2009

Attendees:
Ben Kohnle – Partner
John D’Sa – Manager
Andrea Cockrell - Manager
Fulya Bayolken – Manager
Communications Related to the Audit

Responsibilities
Scope and timing
Key Areas of Focus
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
• Communicate specific matters to you

An audit does not relieve you or management of your responsibilities.
Our responsibilities for other information in documents containing audited financial statements

• 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.
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

Responsibilities
Scope and timing
Key Areas of Focus
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
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

<table>
<thead>
<tr>
<th>Event</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit planning</td>
<td>November - December 2008</td>
</tr>
<tr>
<td>Fieldwork and OMB A-133 procedures</td>
<td>January – May 2009</td>
</tr>
<tr>
<td>Status meeting with management</td>
<td>Bi-weekly</td>
</tr>
<tr>
<td>Status update</td>
<td>April 13, 2009</td>
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<tr>
<td>Closing meeting with management</td>
<td>TBD</td>
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<tr>
<td>Finance, Audit and Accountability</td>
<td>TBD</td>
</tr>
<tr>
<td>Committee meeting</td>
<td>TBD</td>
</tr>
</tbody>
</table>
# Engagement Team

## Audit

<table>
<thead>
<tr>
<th>Name</th>
<th>Email</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ben D. Kohnle – Engagement Partner</td>
<td><a href="mailto:ben.kohnle@gt.com">ben.kohnle@gt.com</a></td>
<td>214-561-2260</td>
</tr>
<tr>
<td>David Long – Concurring Partner</td>
<td><a href="mailto:david.long@gt.com">david.long@gt.com</a></td>
<td>832-476-3626</td>
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<tr>
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<td>214-561-2344</td>
</tr>
<tr>
<td>Andrea Cockrell – Manager</td>
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<td>214-561-2508</td>
</tr>
<tr>
<td>Fulya Bayolken – Manager</td>
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<td>214-561-2614</td>
</tr>
<tr>
<td>Whitney Johnson – Senior</td>
<td><a href="mailto:whitney.johnson@gt.com">whitney.johnson@gt.com</a></td>
<td>214-561-2393</td>
</tr>
<tr>
<td>Deborah Beams – Senior</td>
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<td>214-561-2628</td>
</tr>
<tr>
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<td><a href="mailto:angie.jin@gt.com">angie.jin@gt.com</a></td>
<td>214-561-2467</td>
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## Business Advisory

<table>
<thead>
<tr>
<th>Name</th>
<th>Email</th>
<th>Phone</th>
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<tbody>
<tr>
<td>Kirt Seale – Manager</td>
<td><a href="mailto:kirt.seale@gt.com">kirt.seale@gt.com</a></td>
<td>214-561-2367</td>
</tr>
<tr>
<td>David Dominguez – Manager</td>
<td><a href="mailto:david.dominguez@gt.com">david.dominguez@gt.com</a></td>
<td>214-561-2503</td>
</tr>
<tr>
<td>Jeremy Huval - Senior</td>
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<td>214-561-2583</td>
</tr>
</tbody>
</table>
Reports to be issued

- Financial statement audits:
  - Comprehensive annual financial report (CAFR)
  - Single audit (OMB Circular A-133)

- Separate reports:
  - Airport revenues fund
  - Dallas water utilities
  - Cityplace TIF
  - DDDA TIF
  - TCEQ financial assurance agreed-upon procedures

- Internal control deficiency letter
## Audit Status by Area - CAFR

<table>
<thead>
<tr>
<th>Area</th>
<th>% Complete (February 2, 2009)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>95%</td>
<td>10%</td>
</tr>
<tr>
<td>Cash</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Investments</td>
<td>40%</td>
<td>6%</td>
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<tr>
<td>A/R and Revenue</td>
<td>0%</td>
<td>8%</td>
</tr>
<tr>
<td>Grant Revenue</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>0%</td>
<td>15%</td>
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<tr>
<td>Other Assets</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>Employee Comp</td>
<td>0%</td>
<td>4%</td>
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<tr>
<td>Debt</td>
<td>0%</td>
<td>5%</td>
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<tr>
<td>Aviation</td>
<td>0%</td>
<td>8%</td>
</tr>
<tr>
<td>DWU</td>
<td>0%</td>
<td>8%</td>
</tr>
<tr>
<td>Other Sections</td>
<td>0%</td>
<td>15%</td>
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<tr>
<td>Financial Reporting</td>
<td>0%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td></td>
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</tbody>
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## Audit Status by Area – A-133

<table>
<thead>
<tr>
<th>Area</th>
<th>% Complete (February 2, 2009)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>95%</td>
<td>15%</td>
</tr>
<tr>
<td>Dept of Justice – Edward Byrne Memorial Justice Assistance</td>
<td>0%</td>
<td>11%</td>
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<tr>
<td>Community Development Block Grant-Entitlement and (HUD) Small Cities Cluster</td>
<td>15%</td>
<td>15%</td>
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<tr>
<td>Housing Opportunities for Persons with AIDS</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td>HOME Investment Partnership Program</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td>Urban Areas Security Initiative</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Flood Control Projects</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Homeland Security – Public Assistance Grants</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Air Pollution Control (State)</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Confiscated State Funds (State)</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Commercial Auto Theft Interdiction (State)</td>
<td>5%</td>
<td>2%</td>
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<tr>
<td>Financial Reporting</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
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</table>
Communications Related to the Audit

Responsibilities
Scope and timing
Key Areas of Focus
### Key Areas of Focus – CAFR

<table>
<thead>
<tr>
<th>Critical Areas</th>
<th>Assertions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water and Sewer revenue</td>
<td>Existence and Occurrence</td>
</tr>
<tr>
<td>Grant Revenue</td>
<td>Existence and Occurrence</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>Completeness &amp; Existence and Occurrence</td>
</tr>
<tr>
<td>Expenditures</td>
<td>Completeness</td>
</tr>
</tbody>
</table>

**Other Key Areas:**
- Governance
- Fraud inquiries
- Information technology
- Adequacy of disclosures
- Investments
Key Areas of Focus – CAFR

Need to Assess Corrective Actions of Management on Prior Year Internal Control Findings

- Implementation of Statement of Auditing Standards No. 112, redefined evaluation and classification of internal control deficiencies

- Material weaknesses (MW) and significant deficiencies (SD) include:
  - Bank reconciliations (MW)
  - Capital assets (MW)
  - Amortization of bond premiums and discount (MW)
  - Grant revenue reconciliation (SD)
  - Landfill liability (SD)
Key Areas of Focus – OMB A-133

Anticipated Major Programs (based on preliminary numbers)

Federal:
• Dept of Justice – Edward Byrne Memorial Justice Assistance
• CDBG - Entitlement and (HUD Administered) Small Cities Cluster
• Housing Opportunities for Persons with AIDS
• HOME Investment Partnership Program
• Urban Areas Security Initiative
• Flood Control Projects (Trinity River)
• Homeland Security – Public Assistance Grants

State:
• Confiscated State Funds
• Commercial Auto Theft
• Air Pollution Control

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Key Areas of Focus – OMB A-133

Need to Assess Corrective Actions of Management on Prior Year A-133 Findings

Federal:
- Community Development Block Grant (CDBG)
  - Significant deficiencies and noncompliance in debarment certification
  - Significant deficiency and noncompliance in allowable activities
  - Significant deficiency and noncompliance in cash management
- Housing Opportunities for Persons with AIDS (HOPWA)
  - Significant deficiency and noncompliance in cash management
- HOME Investment Partnership Program
  - Significant deficiencies and noncompliance in debarment certification
  - Significant deficiency and noncompliance in cash management
Key Areas of Focus – OMB A-133
Continued

Need to Assess Corrective Actions of Management on Prior Year A-133 Findings

Federal (continued):
• Urban Area Security Initiative (UASI)
  – Material weakness and material noncompliance in cash management

State:
• Air Pollution Control
  – Significant deficiency and noncompliance in debarment certification
Questions