

# Memorandum



DATE September 29, 2011

TO Honorable Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair), Tennell Atkins (Vice-Chair), Monica R. Alonzo, Scott Griggs, Ann Margolin

SUBJECT Communications Related to the FY 2010 and FY 2011 Audits Briefing

Please find attached the briefing material on Communications Related to the FY 2010 and FY 2011 Audits. This briefing will be presented to the committee on Monday, October 3, 2011 by Ben Kohnle, Engagement Partner with Grant Thornton.

Please contact me if you need additional information.



Edward Scott  
City Controller

## Attachment

cc: Honorable Mayor and Members of the City Council  
Mary K. Suhm, City Manager  
Rosa A. Rios, Acting City Secretary  
Thomas P. Perkins, Jr., City Attorney  
Craig D. Kinton, City Auditor  
C. Victor Lander, Administrative Judge  
A.C. Gonzalez, First Assistant City Manager  
Ryan S. Evans, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager  
Joey Zapata, Interim Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer  
Jack Ireland, Director, Office of Financial Services  
Helena Stevens-Thompson, Assistant to the City Manager

# **Audit Status Meeting with the Budget, Finance and Audit Committee**

**City of Dallas, Texas**

---

## **Communications Related to the FY 2010 and FY 2011 Audits**

**October 3, 2011**

**Attendees:**

**Ben Kohnle – Engagement Partner**

**Dan Barron – Quality Partner**

**Kirt Seale - Principal**

# Audit timeline

## **Financial statement and OMB Circular A-133 audit (FY 2010)**

Audit planning	August – September 2010
Interim work and OMB Circular A-133	August – November 2010
Status meetings with management	Bi-weekly
Final fieldwork	March – June 2011
Reports issued	June 2011
Budget, Finance and Audit Committee discussion of final audit results	October 3, 2011

# Report issued

## Separate reports:

Vickery Meadow TIF 2007-2009

Vickery Meadow TIF 2010

DDDA TIF

Airport revenues fund and PFC compliance

Dallas water utilities

TCEQ financial assurance agreed-upon procedures

## Financial statement audits:

Comprehensive annual financial report

Single audit (OMB Circular A-133)

## Internal control deficiency letter

# Results of Audit

- Comprehensive Annual Financial Report (CAFR)
  - Unqualified "clean" opinions
  - Includes GFOA Certificate for 2009 CAFR
  - One deficiency noted
  - All 17 prior year control deficiencies have been remediated
  - No scope limitations
  - Continued open and effective communication with management
- Federal Single Audit Report (A-133)
  - Two material weaknesses and one significant deficiency noted in 2010
  - All three prior year findings have been remediated
- State Single Audit Report
  - No findings noted

# CAFR – Current year internal control findings

<b>Audit Area</b>	<b>Finding</b>	<b>Severity</b>	<b>Status</b>	<b>Remediation Status</b>
IT	Developers have been granted end-user and administrative access into SAP production environments resulting in excessive access	Deficiency	Repeat Finding	Remediated

# CAFR – Status of prior year internal control findings

Audit Area	Finding	Severity	Status	Remediation Status
Capital Assets	Construction in progress not being transferred to capital assets upon completion	Significant deficiency	Repeat Finding	Remediated
Segregation of Duties	Monitoring approved expenditures to determine that funds were used for approved purpose	Deficiency	New Finding	Remediated
IT	Segregation of duties have not been put in place regarding the administration of application-level AMS permissions as they are administered by functional staff	Deficiency	Repeat finding	Remediated
IT	Developers have been granted end-user and administrative access into the AMS and SAP production environments resulting in excessive access	Deficiency	Repeat finding	Remediated

# CAFR – Status of prior year internal control findings (continued)

Audit Area	Finding	Severity	Status	Remediation Status
IT	User access within AMS, SAP and the City's Windows domain is not formally reviewed on a periodic basis	Deficiency	Repeat Finding	Remediated
IT	A formalized process is not in place to revoke domain-level access of terminated employees	Deficiency	Repeat Finding	Remediated
IT	Several terminated/retired employees had unlocked, unexpired user accounts within the AMS and SAP production environments	Deficiency	Repeat Finding	Remediated
IT	Segregation of duties have not been put in place in relation to the AMS batch processing function as it is administered and monitored by the AMS developers	Deficiency	Repeat Finding	Remediated
IT	New or changed SAP batch processing jobs are not subject to quality assurance testing prior to implementation and insufficient documentation is retained relating to the SAP batch monitoring process	Deficiency	Repeat Finding	Remediated



# CAFR – Status of prior year internal control findings (continued)

Audit Area	Finding	Severity	Status	Remediation Status
IT	Documentation evidencing the completion of activities within the change management process is insufficient as it relates to the AMS application.	Deficiency	Repeat Finding	Remediated
IT	Developers have end-user and administrative access into the SAP application-level production environment	Deficiency	Repeat Finding	Remediated
IT	Change promotion and transport-related privileges within SAP were not appropriately restricted at time of testing	Deficiency	Repeat Finding	Remediated
IT	End-user had administrative access to SAP at the time of testing	Deficiency	New Finding	Remediated
IT	SAP batch processing monitoring process does not create an audit trail sufficient to allow for testing of the process	Deficiency	New Finding	Remediated

# CAFR – Status of prior year internal control findings (continued)

<b>Audit Area</b>	<b>Finding</b>	<b>Severity</b>	<b>Status</b>	<b>Remediation Status</b>
IT	Batch processing-related privileges within SAP were not appropriately restricted at the time of testing	Deficiency	New Finding	Remediated
IT	SAP change management process is not consistently observed when applying application-level SAP changes	Deficiency	New Finding	Remediated
IT	The formalized access provisioning process is not consistently observed when granting SAP access to newly hired employees	Deficiency	New Finding	Remediated

# A-133 – Current year compliance findings

<b>Program</b>	<b>Finding</b>	<b>Severity</b>	<b>Status</b>	<b>Expected Remediation Date</b>
Workforce Solutions of Greater Dallas / Adult Development Program-ARRA	Lack of source documents to support accounting records	Material weakness	New Finding	September 2011
Community Development Block Grants (“CDBG”) Cluster	Failure to timely enter program income into HUD IDIS system.	Significant deficiency	New Finding	Remediated
Community Development Block Grant-ARRA	Sub-recipient monitoring	Material weakness	New Finding	September 2011

# A-133 – Status of prior year compliance findings

<b>Program</b>	<b>Finding</b>	<b>Severity</b>	<b>Status</b>	<b>Expected Remediation Date</b>
Community Development Block Grant (CDBG), HOME Investment Partnership Program, Urban Area Security Initiative (UASI)	Procurement, suspension & debarment	Significant deficiency	Repeat finding	Remediated
Department of Justice – Edward Byrne Memorial Justice Assistance	Sub-recipient monitoring	Significant deficiency	Repeat finding	Remediated
Department of Justice – Edward Byrne Memorial Justice Assistance	Equipment management	Significant deficiency	Repeat finding	Remediated

# Summary of additional effort for ARRA funds and Vickery Meadow (2010)

- In 2009, The City was awarded federal funds in accordance with the American Recovery and Reinvestment Act ("ARRA").
- ARRA requires that these "stimulus funds" be audited in accordance with the City's annual OMB Circular A-133 grant compliance audit.
- During 2010, the City expended approximately \$21.2 million of these stimulus funds under various grant awards.
- This resulted in the City having a total of 17 major programs required to be audited in fiscal year 2010, vs. 9 in the previous year (fiscal year 2009) (approximately 960 incremental audit hours or \$129,000). \$150,000 is estimated for incremental effort attributable to ARRA for fiscal years 2011 and 2012.
- The City was also required to have audits performed for the Vickery Meadows tax increment financing district for fiscal years 2007-2010 for \$24,900. Vickery Meadow will also require an audit in fiscal year 2011, estimated to be approximately 80-85 hours, or \$10,000.

# Discussion Regarding the City's Fiscal Year 2011 Audit

---

Responsibilities

Scope and timing

Key Areas of Focus

IT Control 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
- 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 Federal Expenditures
  - Schedule of State Expenditures
  - Compliance with major program requirements
  - Internal control over compliance
  - Summarize findings and questioned costs



# Our responsibilities for other information in the CAFR, such as management discussion and analysis

- 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

IT Control Update

# 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)

# 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 2011)

Audit planning	September – October 2011
Preliminary OMB A-133 procedures	October – November 2011
Preliminary financial procedures	October – November 2011
Final procedures	March – May 2012
Status meeting with management	Bi-weekly
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"><u>ben.kohnle@us.gt.com</u></a>	214-561-2260
Dan Barron – Quality Control Partner	<a href="mailto:dan.barron@us.gt.com"><u>dan.barron@us.gt.com</u></a>	214-561-2440
Deborah Beams - Manager	<a href="mailto:deborah.beams@us.gt.com"><u>deborah.beams@us.gt.com</u></a>	214-561-2628
Lindsey Mathew - Manager	<a href="mailto:lindsey.mathew@us.gt.com"><u>lindsey.mathew@us.gt.com</u></a>	214-561-2548
Todd Herlin – Senior	<a href="mailto:todd.herlin@us.gt.com"><u>todd.herlin@us.gt.com</u></a>	214-561-2286
Danielle Bolin – Senior	<a href="mailto:danielle.bolin@us.gt.com"><u>danielle.bolin@us.gt.com</u></a>	214-561-2621

## Business Advisory

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

# Reports to be issued

- Audits:
  - Comprehensive annual financial report (CAFR)
  - Single audit (OMB Circular A-133)
- Separate reports:
  - Airport Revenues Fund and PFC compliance
  - Dallas Water Utilities
  - DDDA TIF
  - Vickery Meadow TIF
  - Love Field Modernization Corporation
  - TCEQ financial assurance agreed-upon procedures
- Internal control deficiency letter



# Communications Related to the Audit

---

Responsibilities

Scope and timing

**Key Areas of Focus**

IT Control Update

# 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

## **Other Key Areas:**

- Governance
- Fraud inquiries
- Information technology
- Adequacy of disclosures
- Investments
- Assess corrective actions of management on prior year findings
- Compliance and controls related to single audit

# Questions and Answers

