

Memorandum



DATE November 30, 2012

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 2012 Audit Briefing

On Monday, December 3, 2012, you will be briefed on the Communications Related to the FY 2012 Audit briefing by Ben Kohnle, Partner with Grant Thornton. The briefing material is attached for your review.

If you have questions or need additional information, please let me know.



Jeanne Chipperfield
Chief Financial Officer

Attachment

cc: Honorable Mayor and Members of the City Council
Mary K. Suhm, City Manager
Rosa A. Rios, City Secretary
Thomas P. Perkins, Jr., City Attorney
Craig D. Kinton, City Auditor
Daniel Solis, 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, Assistant City Manager
Edward Scott, City Controller
Stephanie Pegues-Cooper, Assistant to the City Manager

Audit Planning Meeting with the Budget, Finance and Audit Committee

City of Dallas, Texas

Communications Related to the FY 2012 Audit

December 3, 2012

Attendees:

Ben Kohnle – Partner

Dan Barron – Partner

Kirt Seale – Principal

Discussion Regarding the City's Fiscal Year 2012 Audit

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 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.

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

Responsibilities

Scope and Timing

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IT Control Update

Technical 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)(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 2011)

Audit planning	September – October 2012
IT Procedures	September – October 2012
Preliminary Single Audit procedures	October – December 2012
Preliminary financial procedures	November – December 2012
Final procedures	January – March 2013
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	<u>ben.kohnle@us.gt.com</u>	214-561-2260
Dan Barron – Quality Control Partner	<u>dan.barron@us.gt.com</u>	214-561-2440
Natalie Wood – Manager	<u>natalie.wood@us.gt.com</u>	214-561-2409
Leigh Schaefers – Experienced Manager	<u>leigh.schaefers@us.gt.com</u>	214-561-2255
Todd Herlin – Senior	<u>todd.herlin@us.gt.com</u>	214-561-2286
Tauhidul Hoque – Senior	<u>tauhidul.hoque@us.gt.com</u>	214-561-2431

Business Advisory

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

M/WBE Subcontractors

Reginald Hopkins	<u>reggihopkins@sbcglobal.net</u>	972-686-9535
Thaland Logan	<u>tlogancpa@sbcglobal.net</u>	872-293-8244
Dan Serna	<u>dserna@serna.com</u>	817-483-3884
Dickey Thurman	<u>diccyt@owensthurman.com</u>	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
 - Vickery Meadow Tax Increment Financing
 - 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:
 - Flood Control Projects
 - Energy Efficiency and Conservation Block Grant Program (EECBG)
 - Airport Checked Baggage Screening Program
 - Urban Areas Security Initiative
 - Public Safety Partnership and Community Policing Grants
 - Water Security Training and Technical Assistance
 - Highway Planning and Construction Cluster
 - HOME Investment Partnerships Program
 - Community Development Block Grant-Entitlements Grants Cluster
- State:
 - Local Project Advanced Funding
 - Air Pollution Control Investigation and Complaint Response
 - Confiscated Monies
 - Homeless Housing and Service Program

Communications Related to the Audit

Responsibilities
Scope and Timing
Key Areas of Focus
IT Control Update
Technical Update

Key Areas of Focus – CAFR

Critical Areas	Assertions
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	

Other Key Areas:

- Governance
- Fraud inquiries
- Information technology
- Adequacy of disclosures
- Investments
- Assess corrective actions of management on prior year findings

Communications Related to the Audit

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IT Control Update

No IT control findings were identified in this year's review

In-scope Systems
SAP (and underlying databases)
AMS Advantage (and underlying databases)
Active Directory

Control Areas Tested
Security Administration
Change Management
Batch Job Administration

Discussion Regarding the City's Fiscal Year 2012 Audit

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Technical Update

- GASB Statement No. 63 - "Financial Reporting of Deferred Outflows and Inflows of Resources, Deferred Resources, and Net Position"
 - Deferred outflow-consumption of net assets applicable to a future reporting period
 - Deferred inflow- acquisition of net assets applicable to a future reporting period
 - Effective for 9/30/2013 year-ends
 - The City has elected to implement this statement early for fiscal year 2012
- GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities"
 - Identifies specific items that should be classified as deferred outflows/inflows of resources
 - Clarifies effect of deferred outflows/inflows of resources on determination of major funds
 - Debt issuance costs expense in the period incurred
 - Limits the use of the term "deferred"
 - Effective for 9/30/2014 year-ends
 - The City has elected to implement this statement early for fiscal year 2012

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 9/30/2014 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

