

# Memorandum



DATE October 7, 2010

TO Members of the Budget, Finance & Audit Committee:  
Jerry R. Allen, Chair, Ann Margolin, Vice-Chair, Vonciel Jones Hill, Angela Hunt, Delia D. Jasso, Ron Natinsky, David A. Neumann

SUBJECT Communications Related to the FY 2010 Audit

The Budget, Finance & Audit Committee's October 11, 2010 agenda includes the Subject briefing. Mr. Ben Kohnle, Audit Partner for Grant Thornton, LLP will brief the Committee. His briefing materials are attached.

Please contact me if you need additional information.



Jeanne Chipperfield  
Chief Financial Officer

## Attachment

C: Honorable Mayor & Members of the City Council  
Mary K. Suhm, City Manager  
Deborah A. Watkins, City Secretary  
Tom P. Perkins, City Attorney  
Craig D. Kinton, City Auditor  
Ryan S. Evans, First Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Forest E. Turner, Assistant City Manager

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

**City of Dallas, Texas**

---

## **Communications Related to the FY 2010 Audit**

**October 11, 2010**

**Attendees:**

**Ben Kohnle – Partner**

**Kirt Seale – IT Principal**

**Rusty Hale – Sr Manager**

**Fulya Bayolken – Manager**

# Communications Related to the 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

Audit planning	August – October 2010
Preliminary OMB A-133 procedures	September – October 2010
Preliminary financial procedures	October 2010
Final procedures	March – May 2010
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@gt.com"><u>ben.kohnle@gt.com</u></a>	214-561-2260
Dan Barron – Quality Control Partner	<a href="mailto:dan.barron@gt.com"><u>dan.barron@gt.com</u></a>	214-561-2440
Rusty Hale – Senior Manager	<a href="mailto:rusty.hale@gt.com"><u>rusty.hale@gt.com</u></a>	214-561-2380
Fulya Bayolken – Manager	<a href="mailto:fulya.bayolken@gt.com"><u>fulya.bayolken@gt.com</u></a>	214-561-2614
Todd Herlin – Senior	<a href="mailto:todd.herlin@gt.com"><u>todd.herlin@gt.com</u></a>	214-561-2286
Danielle Bolin – Senior	<a href="mailto:danielle.bolin@gt.com"><u>danielle.bolin@gt.com</u></a>	214-561-2621

## Business Advisory

Kirt Seale –Principal	<a href="mailto:kirt.seale@gt.com"><u>kirt.seale@gt.com</u></a>	214-561-2367
Heather Segura – Manager	<a href="mailto:heather.segura@gt.com"><u>heather.segura@gt.com</u></a>	214-561-2633
Jeremy Huval - Senior	<a href="mailto:jeremy.huval@gt.com"><u>jeremy.huval@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 Passenger Facility Charge compliance
  - Dallas Water Utilities
  - DDDA TIF
  - Vickery Meadows 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

# Key Areas of Focus – Single Audit

## **Anticipated Major Programs** (based on preliminary numbers)

### **Federal:**

- CDBG - Entitlement and (HUD Administered) Small Cities Cluster
- HOME Investment Partnerships Program
- Edward Byrne Memorial Justice Assistance
- Edward Byrne Memorial Justice Assistance – ARRA
- COPS Hiring Recovery Program
- Law Enforcement Technology and Camera Monitoring Staff – ARRA
- Weatherization Assistance Program –ARRA
- Energy Efficiency and Conservation Block Grant – ARRA
- Homeless Prevention and Rapid Re-Housing Program – ARRA
- Special Supplemental Nutrition Program for Women, Infants, and Children
- Workforce Investment Act cluster
- Airport Improvement Program Grant Fund

# Key Areas of Focus – Single Audit

## **Anticipated Major Programs** (based on preliminary numbers)

### **State:**

- Homeless Housing and Service Program
- Commercial Auto Theft Prevention Authority

# Communications Related to the Audit

---

Responsibilities  
Scope and timing  
Key Areas of Focus  
IT Control Update

# Update on IT Control Testing

- The scope of the IT Controls Testing included the following IT governance areas:
  - Security Administration
  - Program Maintenance
  - Program Execution
- The following applications were included in our review:
  - General ledger/financial system (AMS)
  - Pay1 billing system (SAP)

# Update on IT Control Testing

- Our testing confirmed that 14 of 15 deficiencies noted in the prior year had been remediated as of September 30, 2010.
- The remaining deficiency relates to our finding that batch processing-related privileges within SAP were not appropriately restricted as of September 30, 2010.
  - *Management response: Remediation was delayed to ensure the FY10 year-end closing was not impacted. Remediation is expected by December 2010.*
- Four additional findings noted in the current year were also remediated as of September 30, 2010.
- The IT Control Testing is currently being finalized and will be incorporated into our overall audit approach.

# Questions

