

2023 External Audit Planning Meeting

November 14, 2023 Government Performance
and Financial Management Committee Meeting



- ▶ Introduction
- ▶ Interim Communications
- ▶ Audit Process
- ▶ New Accounting Pronouncements
- ▶ Government Performance and Financial Management Committee Concerns
- ▶ Questions

Engagement Team



City of Dallas External Audit Team

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Weaver Audit Associates

Weaver Analytics

Our responsibilities under U.S. GAAS and GAGAS



We are responsible for:

- Conducting our audit in accordance with US Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAGAS) of the financial statements that have been prepared by management, with your oversight
- Forming and expressing opinions about whether the financial statements are presented fairly, in all material respects, in accordance with US 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
- Communicating fraud
- Communicating relevant significant matters to you on a timely basis
- Reporting material noncompliance related to laws, regulations, contracts and grant agreements, as well as any significant deficiencies and/or material weaknesses in internal control related to financial reporting.
- Obtaining an understanding of internal control over significant transaction cycles and perform testing to determine if controls are operating as designed. However, we do not express an opinion on effectiveness of internal control.

Our responsibilities under Uniform Guidance and UGMS



Our responsibilities related to the Federal and State Single Audits in accordance with Uniform Guidance and Texas Grant Management Standards (TxGMS), respectively, are to:

- Consider internal control over compliance related to compliance requirements for each major program. We do not express an opinion over internal controls over compliance
- Test compliance for each direct and material compliance requirement for each major program and express an opinion
- Communicate any material noncompliance for major programs, questioned costs, and significant deficiencies or material weaknesses in internal control over compliance
- Form and express an opinion on whether the Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards are fairly stated in relation to the financial statements

Responsibilities for other information in the ACFR

Our responsibilities for other information in the Annual Comprehensive Financial Report (ACFR) are to:

- Read other information such as management’s discussion and analysis and other required supplementary information (we do not corroborate it)
- Consider whether it is materially consistent with the financial statements
- Bring to management’s attention if there are any identified material inconsistencies or misstatements of fact

Those Charged with Governance and Management Responsibilities

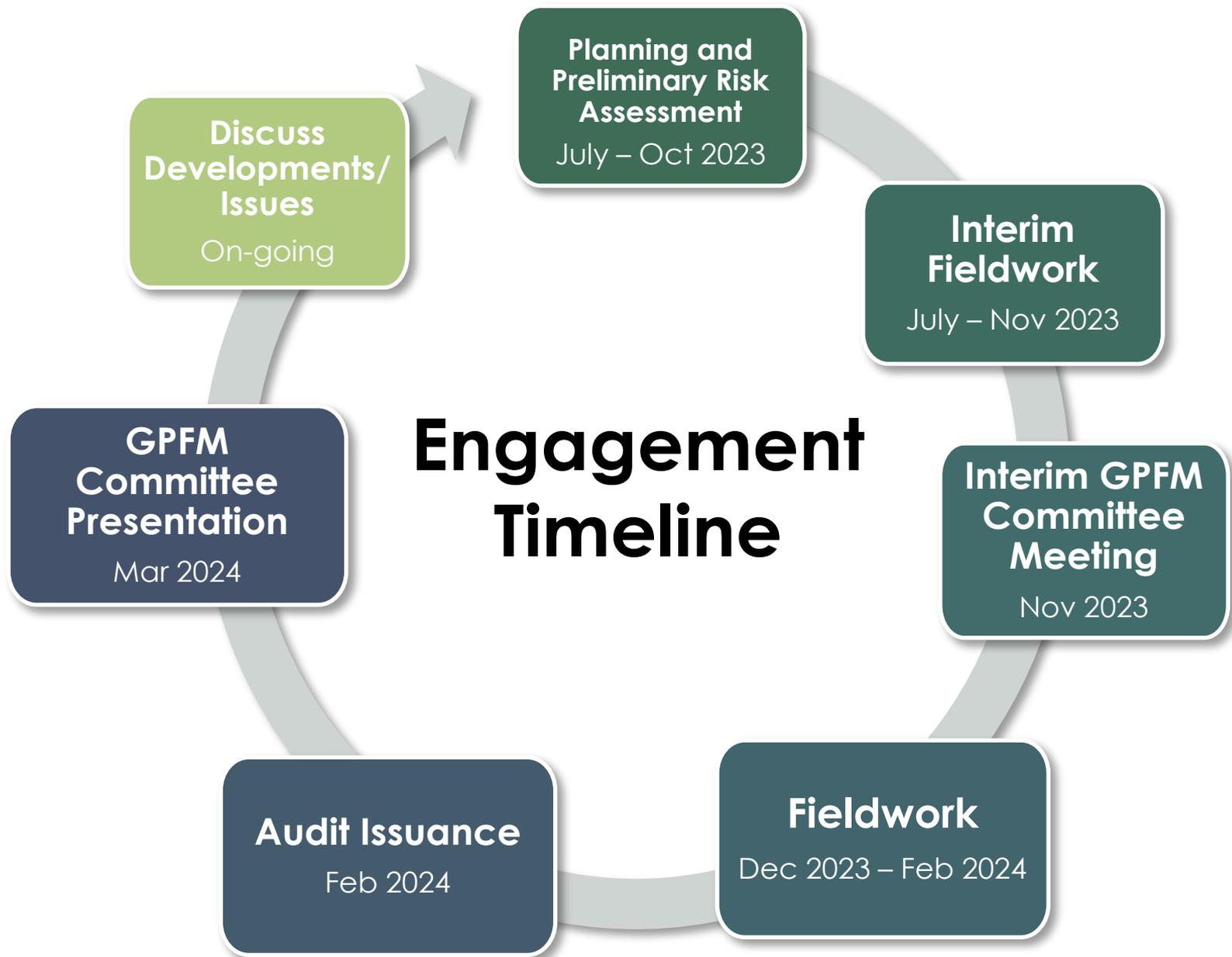


Those Charged with Governance

- Overseeing the financial reporting process;
- Setting a positive tone at the top and challenging the City's financial activities;
- Discussing significant accounting and internal control matters with management;
- Informing us about fraud or suspected fraud, including views about fraud risks;
- Informing us about other matters that are relevant to our audit, such as:
 - City strategies and related business risks that may result in heightened risks of material misstatement;
 - Matters warranting particular audit attention;
 - Significant communications with regulators;
 - Matters related to the effectiveness of internal control and your oversight responsibilities; and
 - Your views regarding our current communications and your actions regarding previous communications.

Management

- Preparing and fairly presenting the financial statements in accordance with US GAAP;
- Preparing and fairly presenting the schedule of expenditures of federal and state awards;
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting and compliance with federal and state grants;
- Communicating significant accounting and internal control matters to those charged with governance;
- Providing us with unrestricted access to all persons and all information relevant to our audit;
- Selecting and using appropriate accounting policies;
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses;
- Adjusting the financial statements, including disclosures, to correct material misstatements;
- Informing us of subsequent events; and
- Providing us with written representations.



Audit Approach

The audit process will be a **risk-based approach** in which we identify potential areas of risk that could lead to material misstatement of the financial statements. This includes:

- Gaining an understanding the City and the environment it operates in
- Using that knowledge and understanding to analyze the City's financial statements
- Determining materiality
- Identifying areas more likely to be materially misstated
- Focusing audit attention and effort on those areas

Materiality

- ▶ Materiality is the substantial likelihood that an omission or misstatement will influence the judgment of a reasonable user of the financial statements. It is ordinarily evaluated against relevant financial statement benchmarks.
- ▶ We believe that total assets, revenues, or expenditures (based on the type of fund or opinion unit) are relevant benchmarks for the City's financial statements.
- ▶ We believe that total expenditures is a relevant benchmark for the federal and state major programs.

Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).

Risk Assessment Overview



Our audit process is a risk-based approach in which we identified potential areas of risk that could lead to material misstatement of the financial statements.

Financial Statement Level Risk	Planned Procedures
Management override of internal controls	<ul style="list-style-type: none"> - Testing approval of journal entries - Testing approval of cash disbursements - Testing approval of payroll disbursements - Testing bid procedure process - Testing valuation process - Testing budget amendments - Agree disclosures to support - Testing estimates for reasonableness
Audit Area Risks	Planned Procedures
Improper revenue recognition for DWU, Aviation, Convention Center, and Sanitation	<ul style="list-style-type: none"> - Testing existence, valuation, and cutoff of receivables and revenue - Obtain customer activity and detail for evidence of the service being performed and that payment was received - Recalculated revenue using authorized rates and meter readings - Perform analytical procedures
Improper grant revenue and receivable recognition	<ul style="list-style-type: none"> - Agree amounts recorded in the general ledger to the final Schedule of Federal and State Awards - Testing expenditures to ensure they were allowable costs and eligible for reimbursement - Testing receipts from granting agencies - Read grant agreements to test for compliance

Risk Assessment Overview



Audit Area Risks	Procedures Performed
Improper revenue recognition for other funds	<ul style="list-style-type: none"> - Testing existence, valuation, and cutoff of receivables and revenue - Obtain detail for evidence of the service being performed and that payment was received - Perform analytical procedures
Capital assets	<ul style="list-style-type: none"> - Inspect records and documents related to significant projects - Vouch transactions to invoices, pay apps, and bid procedures
Long-term liabilities	<ul style="list-style-type: none"> - Testing the existence and occurrence of long-term liabilities - Testing the disclosures and presentation - Testing covenants and continuing disclosures
Misappropriation of assets through purchases	<ul style="list-style-type: none"> - Perform control testing over randomly sampled disbursements - Perform data mining procedures to identify unusual transactions
Misappropriation of assets through payroll disbursements	<ul style="list-style-type: none"> - Perform control testing over randomly sampled payroll disbursements - Perform data mining procedures to identify unusual transactions and trends
Evaluation of estimates	<ul style="list-style-type: none"> - Evaluate the reasonableness of significant estimates, such as those that were determined by management or an actuary

Risk Assessment Overview



Other Areas	Procedures Performed
Information Technology	<ul style="list-style-type: none"> - Logical security: access is authenticated and approved - Change management: testing process of implementing new applications and system changes - Computer operations: critical data is backed up regularly
Investments	<ul style="list-style-type: none"> - Testing valuation, disclosures, and Public Funds Investment Act
Risks, uncertainties, contingencies	<ul style="list-style-type: none"> - Read Council and Committee minutes - Inquire of management - Receive attorney letter - Read contracts and agreements
Data mining procedures	<ul style="list-style-type: none"> - Obtain detail of disbursements, approved vendors, payroll transactions, addresses - Testing significant vendors, employees paid after termination dates, employees with significant overtime
Implementation of New Standards – SBITAs and PPPs	<ul style="list-style-type: none"> - Sample selection of SBITAs and PPPs and recalculate related liability based off of the contract - Obtain an understanding of controls over identifying and recording SBITAs and PPPs - Use analytics to test completeness of SBITA population

Other areas we plan to test:

- Passenger Facilities Charge compliance
- Love Field Airport Modernization Corporation and related transactions
- TCEQ compliance

Audits

- Annual comprehensive financial report (ACFR)
- Single audits: OMB Uniform Guidance and State of Texas Grant Management Standards
- Downtown Dallas Development Authority Tax Increment Financing District
- Dallas Convention Center Hotel Development Corporation
- Dallas Water Utilities Fund
- Airport Revenues Fund

Other Reports

- Passenger Facility Charge Compliance
- Texas Commission on Environmental Quality Financial Assurance Agreed-Upon Procedures

Tentative Federal and State Major Programs



Federal Programs

- Clean Water State Revolving Funds (ALN #66.458)
- Drinking Water State Revolving Funds (ALN #66.458)
- Emergency Rental Assistance Program (ALN #21.023)
- Coronavirus State and Local Fiscal Recovery Funds(ALN #21.027)

State Programs

- Confiscated Monies

GASB Standards- Effective in FY2023 and beyond:

2023

- ▶ GASB 91 – Conduit Debt Obligations
- ▶ GASB 94 – Public Private Partnerships)
- ▶ GASB 96 – Subscription Based IT Arrangements
- ▶ GASB 99 – Omnibus 2022 (Part 1)
- ▶ Implementation Guide 2021-1 Update 2021 (various effective dates)

2024

- ▶ GASB 100 – Accounting Changes and Error Corrections – an amendment of GASB 62

BEYOND

- ▶ GASB 99 – Omnibus 2022 (Part 2)
- ▶ GASB 101 – Compensated Absences
- ▶ Revenue and expense recognition
- ▶ Financial Reporting Model

GASB Standards- Effective in FY2023

Effective for the year ended September 30, 2023:

GASB 91 – Conduit Debt

Summary: Provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice.

Expected effect on audit: Conduit debt associated with the Love Field Airport Modernization Corporation is still being evaluated.

GASB Standards- Effective in FY2023

Effective for the year ended September 30, 2023:

GASB 94 – Public-Private and Public-Public Partnerships (PPP) and Availability Payment Arrangements (APA)

Summary: Improve financial reporting for public-private and public-public partnership arrangements (PPPs) and Availability Payment Arrangements.

Expected effect on audit: The City is still evaluating their potential PPP and APA contracts. PPPs will require similar accounting to leases.

GASB Standards- Effective in FY2023

Effective for the year ended September 30, 2023:

GASB 96 – Subscription-Based Information Technology Arrangements (SBITAs)

Summary: Establishes a definition for SBITAs and provides uniform guidance for accounting and financial reporting for transactions that meet that definition.

Expected effect on audit: SBITAs will have to be recorded on the financial statements. The City will recognize a subscription liability and an intangible right-to-use subscription asset.

Discussion

- **Questions?**
- **Points of Concern?**
- **Additional Areas of Risk?**
- **Additional Services Requested?**

Contact Us

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