



Grant Thornton

2019 Audit Entrance Conference Presentation and Discussion

Audit and Accountability Committee of the City of San Antonio, Texas

September 17, 2019



Our Responsibilities

We are responsible for:

- Performing an audit under US GAAS and *Government Auditing Standards* of the financial statements prepared by management, with your oversight
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP
- Forming and expressing an opinion about whether certain supplementary information, including the Schedule of Expenditures of Federal Awards (SEFA) and the Schedule of Expenditures of State Awards (SESA) is fairly stated in relation to the financial statements as a whole.
- Reading other information and considering whether it is materially inconsistent with the financial statements
- Communicating material fraud and abuse with regard to federal and state programs
- Reporting material noncompliance with federal or state awards requirements applicable to major program(s) audited under the Uniform Guidance and State of Texas Uniform Grants Management Standards requirements as well as significant deficiencies and/or material weaknesses in internal control over compliance.
- Communicating specific matters to you on a timely basis; we do not design our audit for this purpose.
- Forming and expressing an opinion on whether the City is in compliance with the requirements described in the Passenger Facility Charge Audit Guide for Public Agencies issued by the Federal Aviation Administration.
- Performing agreed upon procedures over the City's compliance with the Texas Administrative Code Title (TAC) 30, Chapter 37, Rule 37.271.

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

Those Charged With Governance and Management Responsibilities

Those Charged with Governance are responsible for:

- 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 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
 - Your views regarding our current communications and your actions regarding previous communications

Management is responsible for:

- Preparing and fairly presenting the financial statements including supplementary information such as the SEFA (Schedule of Expenditures of Federal Awards) and SESA (Schedule of Expenditures of State Awards) in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting and compliance with federal and state grant requirements
- 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
- 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
- Providing us with written representations

Audit Timeline & Scope

June / July 2019	Planning	<ul style="list-style-type: none">• Meet with management to confirm expectations and discuss business risks• Discuss scope of work and timetable as well as identify current year audit issues• Coordinate planning with management and develop work calendar
July - September 2019	Preliminary risk assessment procedures	<ul style="list-style-type: none">• Develop audit plan that addresses risk areas• Update understanding of internal control environment• Initial Audit and Accountability Committee communications (discuss recently issued accounting pronouncements of relevance)
July / August 2019	Interim fieldwork	<ul style="list-style-type: none">• Perform walk-throughs of business processes and controls• Perform selective substantive testing on interim balances• Perform majority of Single Audit testing
December 2019 – March 2020	Final fieldwork and deliverables	<ul style="list-style-type: none">• Perform final phase of audit and year-end fieldwork procedures• Meet with management to discuss results including, misstatements and internal control matters (if any)• Present results to the Audit and Accountability Committee

Materiality

Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is ordinarily evaluated against relevant financial statement benchmark(s).

- We believe that total assets, total revenues, or total expenses is the appropriate benchmark for the major funds of the City's financial statements dependent upon the type of fund.
- We believe total expenditures for each major program are the appropriate benchmarks for the City's federal and state Single Audit.

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, bond coverage, fraud risk or significant unusual transactions).

Views of those charged with governance

Discussion points

- Risks of fraud
- Awareness of fraud
- Awareness of related party transactions; understanding of purpose of related party transactions
- Awareness of whistleblower tips or complaints
- Oversight of management's risk assessment process
- Views about the City's objectives and strategies and related risks of material misstatement
- Awareness of any internal control matters and views about management's response
- Oversight of financial reporting process
- Actions taken in response to developments in law, accounting standards and corporate governance matters
- Actions in response to our previous communications, if any

Significant Risks and Other Areas of Focus

Significant Risks

Fraud

Airport Revenues and related receivables

Solid Waste Management Revenues and related receivables

Grant Revenues and related receivables

Other Revenues and related receivables – Governmental and Business-Type activities

Compliance with Uniform Guidance and State of Texas Single Audit Circular

Other Areas of Focus

Capital Assets

Employee Compensation

Risk Financing

Cash and Investments

Operating expenses and accounts payable

Debt

Net Pension and OPEB Liabilities

Accounting estimates

Implementation of New Accounting Standards

Financial Statement disclosures

Computer Data Acquisition Analysis

Areas of Focus for Federal and State Single Audit and other Compliance Audits

The following provides an overview of the major programs identified for testing which has been determined based on a preliminary schedule of expenditures of federal and state awards. This is subject to change after a final schedule of federal and state awards is provided.

Federal Programs	State Programs
Child Care Cluster (CCDS) – 93.558, 93.575, 93.596	Child Care Cluster
Head Start – 93.600	TB Prevention and Control
	State Confiscated Property
	Immunization Grants

Other Compliance Audit
Passenger Facility Charge Program

Technology support as part of the audit process



An important component of our audit approach is to understand how IT is used in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices.

Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.

Other Auditors and Work of Others

Other Auditors and Work of Others

GT relies on the reports of other auditors for certain discretely presented and blended component units

Grant Thornton engages internal and external specialists to assist with reasonableness of the fair value of investments and actuarial assumptions for the pension and OPEB

Grant Thornton uses 4 teaming partners to complete the audit

Related Parties and Related Party Transactions

Related Parties Identified:

- City Council
- Management
- San Antonio Early Childhood Education Municipal Development Corporation (Pre-K 4 SA)
- Fiduciary Funds
- Blended component units
- Discretely presented component units.

- Please advise us of the following:
 - Affiliation of those charged with governance with related parties
 - Your understanding of the City's relationships and transactions with related parties that are significant.
 - Significant transactions with the underlying business purpose of those transactions.
 - Your concern regarding relationships or transactions with related parties and if so, the substance of those concerns.

Contact Information

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Questions?



Appendix



Significant Risks

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Procedures
Fraud	<ul style="list-style-type: none">• Team to hold discussions with various individuals within the City including management and the offices of the City Auditor, City Manager, General Counsel, Information Technology and the Office of Municipal Integrity.• Perform test of journal entries according to specific criteria.• Perform data analytics to identify unusual transactions.
Airport Revenues and related receivables	<ul style="list-style-type: none">• Obtain understanding of controls over the airport revenue process.• Perform reasonableness test on facilities rental fees, landing fees, and car rental fees based on activity volume and established rates.• Perform substantive testing over a sample of parking revenues transactions.• Test a sample of receivables for appropriateness.

Significant Risks - continued

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Procedures
Solid Waste Management Revenues and related receivables	<ul style="list-style-type: none">• Obtain an understanding of controls over each identified significant revenue stream process.• Perform substantive testing over a sample of transactions within each significant revenue stream.• For significant revenue streams with few transactions or customers, confirm revenue and receivables balances.• Perform analytics to identify unusual fluctuations or areas of additional risk.
Grant Revenues and related receivables	<ul style="list-style-type: none">• Obtain understanding of controls over the grant revenue process.• Perform controls and substantive testing over a sample of grant revenue transactions.• Ensure recorded transactions are appropriate and in accordance with the grant agreement.• Reconcile reported grant revenues with the SEFA and SESA.

Significant Risks - continued

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	Procedures
Other Revenues and related receivables – Governmental and Business Type	<ul style="list-style-type: none">• Perform analytical procedures and substantively test material other revenue and receivable balances through sampling or confirmations such as charges for services and loans receivables.
Compliance with Uniform Guidance	<ul style="list-style-type: none">• Identify major programs and determine the compliance requirements which are direct and material.• Identify and test key controls over compliance.• Select a sample of transactions subject to compliance requirements.

Other Areas of Focus

The following provides an overview of the other areas of audit focus based on our risk assessments.

Areas of focus	Procedures
Capital Assets	<ul style="list-style-type: none">• Perform substantive testing over a sample of additions for each opinion unit.• Examine the status of construction in progress projects.• Use our IT specialist to perform ITGC testing related to the depreciation expense.
Employee Compensation	<ul style="list-style-type: none">• Recalculate significant year-end accruals based on payroll data and HR policies.• Perform analytical procedures on the salaries and related benefits.
Risk Financing	<ul style="list-style-type: none">• Evaluate reasonableness of third-party workers' compensation and other insurance reserves estimates using firm specialists.• Agree third-party workers' compensations and other insurance reserves estimates to recorded values.
Computer Data Acquisition Analysis	<ul style="list-style-type: none">• Review reports that analyze interrelationships between the (1) Vendor Master File, (2) Disbursement File, (3) Human Resource File, and (4) Payroll File. The outcome of the Data Analysis is to provide GT and the City better insight into your operations, including effectiveness and efficiencies of operations as well as compliance, internal controls and potential fraud indicators.

Other Areas of Focus – continued

The following provides an overview of the other areas of audit focus based on our risk assessments.

Areas of focus	Procedures
Cash and Investments	<ul style="list-style-type: none">• Confirm material cash balances and investments with custodian.• Test valuation of investments and the related leveling, as required by GASB 72, that are not publicly traded by performing an independent assessment of the valuation methodology using Harvest Investments.• Test purchases for propriety of recorded balances.
Operating Expenses and Account Payable	<ul style="list-style-type: none">• Perform substantive analytical procedures over the various expense types.• Perform a search for unrecorded liabilities.
Debt	<ul style="list-style-type: none">• Confirm debt transactions (principal and interest payments) with financial institutions.• Test to determine interest is properly capitalized, if applicable.• Review the new debt issuances during the year.
Net Pension and OPEB Liabilities	<ul style="list-style-type: none">• Review the actuarial information provided by the City's actuary related to the City's net pension liability and OPEB liability.• Perform procedures to test the net pension and OPEB liabilities at the financial statement level.

Other Areas of Focus - continued

The following provides an overview of the other areas of focus based on our risk assessments.

Areas of focus	Procedures
Accounting estimates	The preparation of the City's financial statements requires management to make multiple estimates and assumptions that affect the reported amounts of assets and liabilities as well as the amounts presented in certain required disclosures in the notes to those financial statements. The most significant estimates relate to the valuation of investments, the determination of pension obligations, the determination of post-retirement benefit obligations, and liabilities related to self-insurance. Our procedures have been designed in part, to review these estimates and evaluate their reasonableness.
Implementation of New Accounting Standards	GASB 83 – Asset Retirement Obligations; GASB 86 – Certain Debt Extinguishment Issues; and GASB 88 – Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements – Review the City's response to the new standards and determine if the standard has been appropriately applied and required disclosures are included.
Financial statement disclosures	Our procedures will also include an assessment as to the adequacy of the City's financial statement disclosures to ensure they are complete, accurate and appropriately describe the significant accounting policies employed in the preparation of the financial statements and provide a detail of all significant commitments, estimates and concentrations of risk, amongst other relevant disclosures required by US GAAP.

Use of Other Auditors

Component	Other auditors	Type
SA Energy Acquisition Public Facility Corporation	Baker Tilly Virchow Krause, LLP	Discrete
San Antonio Water System		Discrete
CPS Energy		Discrete
San Antonio Fire and Police Pension Fund	BDO USA LLP	Fiduciary Fund
Hemisfair Park Area Redevelopment Corporation	BKD	Blended
Port Authority of San Antonio dba Port San Antonio		Discrete
Brooks Development Authority	Garza/Gonzalez & Associates	Discrete
San Antonio Fire and Police Retiree Health Care Fund		Fiduciary Fund
San Antonio Tricentennial Celebration Commission		Discrete

In our auditor's report on the City we will make reference to the audits performed by the other unaffiliated auditors that have met the independence requirements and that we believe are professionally competent.

Use of Other Auditors – continued

Component	Other auditors	Type
San Antonio Housing Trust Finance Corporation	Gregory & Crutchfield, LLC	Discrete
San Antonio Housing Trust Foundation, Inc.		Discrete
San Antonio Housing Trust Public Facility Corporation		Discrete
San Antonio Economic Development Corporation	Leal & Carter, P.C.	Blended
Westside Development Corporation		Blended
Urban Renewal Agency of the City of San Antonio dba Office of Urban Redevelopment of San Antonio (OUR SA)		Blended
Pre-K 4 SA	RSM US LLP	Major Fund
Visit San Antonio	Weaver	Blended
San Antonio Bexar County Soccer PFC	To Be Determined	Discrete

In our auditor's report on the City we will make reference to the audits performed by the other unaffiliated auditors that have met the independence requirements and that we believe are professionally competent.

Use of the Work of Others

Specialists

Grant Thornton will engage the following external and internal specialists to assist with the audit:

1. GT will utilize Harvest Investments to provide an independent estimate of a sample of the fair value of investments.
2. GT will utilize our in-house actuarial team to review the actuarial assumptions associated with the Texas Municipal Retirement System (TMRS), San Antonio Fire and Police Pension Fund, San Antonio Fire and Police Retiree Healthcare Fund, workers' compensation, other post-employment benefits (OPEB), and insurance reserves.

Third Parties

Grant Thornton will utilize the services of the following teaming partners:

1. Britts & Associates, LLP
2. Robert J. Williams CPA
3. Schriver, Carmona & Company, PLLC
4. Armstrong, Vaughan & Associates, P.C



Audit Entrance Conference Presentation

Technical Updates – AICPA



AICPA Introduces Cybersecurity Risk Management Reporting Framework

Summary

- The AICPA introduced a new cybersecurity risk management reporting framework, which will create a common language that can be used to communicate about, and report on, cybersecurity risk management efforts. The framework suggests the need for three key pieces of cybersecurity information:
 - Management's description of the organization's cybersecurity risk management program
 - Management's assertion about the program description and the effectiveness of the controls within that program
 - The CPA's opinion about the description and control effectiveness
- Two sets of criteria were issued to support this new framework:
 - *Description Criteria for Management's Description of an Entity's Cybersecurity Risk Management Program* – criteria to be used by management when describing cybersecurity risk management programs and by CPAs in their evaluation of management's description
 - *2017 Trust Services Criteria for Security, Availability, Processing Integrity, Confidentiality, and Privacy* – criteria for security, availability, and confidentiality for use by management and CPAs when evaluating the effectiveness in the cybersecurity risk management program in achieving the cybersecurity objectives



Audit Planning Presentation

Technical Updates – GASB



GASB Pronouncements Effective – FY19

Title	Effective Fiscal Year	Summary
<i>GASB 83- Certain Asset Retirement Obligations</i>	Effective for periods beginning after June 15, 2018. Effective for the City: September 2019	This statement develops requirements on recognition and measurement for asset retirement obligations (ARO), other than landfills (GASB 18) or pollution remediation obligations (GASB 49), such as nuclear power plants and sewage treatment facilities.
<i>GASB 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements</i>	Effective for periods beginning after June 15, 2018. Effective for the City: September 2019	This statement improves financial reporting by providing users of financial statements with essential information that currently is not consistently provided. This statement defines debt for purposes of disclosures in notes to financial statements and requires additional essential information related to debt including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements.

GASB Pronouncements Effective – FY20

Title	Effective Fiscal Year	Summary
GASB 84 – <i>Fiduciary Activities</i>	Effective for periods beginning after December 15, 2018. Effective for the City: September 2020.	This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.
GASB 90 – <i>Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61</i>	Effective for periods beginning after December 15, 2018. Effective for the City: September 2020.	This statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method.

Commitment to Promote Ethical and Professional Excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link can be accessed from our external website or through this link:

https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

Disclaimer: EthicsPoint is not intended to act as a substitute for a company's "whistleblower" obligations.