

# **Discussion with the Audit and Accountability Committee of the City of San Antonio, Texas for the year ended September 30, 2017**

**November 29, 2017**

# Responsibilities



# 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 (SEFA) and State (SESA) Awards, is fairly stated in relation to the financial statements as a whole
- Communicating fraud and abuse with regard to federal and state programs
- Reporting material non-compliance related to laws, regulations, contracts and grant agreements, as well as significant deficiencies and/or material weaknesses in internal control related to financial reporting
- Reporting material noncompliance with federal awards requirements applicable to major program(s) audited under the Uniform Guidance requirements and the State of Texas Single Audit Circular, 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.
- Reading other information and considering whether it is materially inconsistent with the financial statements
- 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

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:
  - Entity 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

Management is responsible for:

- Preparing and fairly presenting the financial statements including supplementary information such as 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 Scope



# Audit Timeline

July 2017	Planning	<ul style="list-style-type: none"><li>• Meet with management to confirm expectations and discuss business risks</li><li>• Discuss scope of work and timetable</li><li>• Coordinate planning with management and develop work calendar</li></ul>
August 2017	Preliminary risk assessment procedures	<ul style="list-style-type: none"><li>• Identify current-year audit issues and discuss recently issued accounting pronouncements of relevance</li><li>• Develop audit plan that addresses risk areas</li></ul>
August/September 2017	Interim fieldwork	<ul style="list-style-type: none"><li>• Obtain understanding of internal control environment</li><li>• Perform walk-throughs of business processes and controls</li><li>• Perform selective substantive testing on interim balances</li><li>• Perform majority of Single Audit testing</li></ul>
December 2017-February 2018	Final fieldwork and deliverables	<ul style="list-style-type: none"><li>• Perform final phase of audit and year-end fieldwork procedures</li><li>• Meet with management to discuss results</li><li>• Present results to the Audit and Accountability Committee</li></ul>

# 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 a percentage of total assets or revenues is the appropriate benchmark for the major funds of the City's financial statements dependent upon the type of fund.
- We believe total expenditures on each major program is the appropriate benchmark for the City's federal and state financial assistance.

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



# Use of the Work of Other Auditors

Component	Other auditors	Type	Response
<b>Other unaffiliated auditors</b>			
Municipal Golf Association – San Antonio	Akin Dohery Klein & Feuge, P.C.	Blended	Audit
CPS Energy	Baker Tilly Virchow Krause, LLP	Discrete	Audit
SA Energy Acquisition Public Facility Corporation			
San Antonio Fire and Police Pension Fund	BDO USA LLP	Discrete	Audit
Hemisfair Park Area Redevelopment Corporation	BKD	Blended	Audit
Port Authority of San Antonio dba Port San Antonio		Discrete	
Brooks Development Authority	Garza/Gonzalez & Associates	Discrete	Audit
San Antonio Fire and Police Retiree Health Care Fund			
San Antonio Housing Trust Finance Corporation	Gregory & Crutchfield, LLC	Discrete	Audit
San Antonio Housing Trust Foundation, Inc.			
San Antonio Housing Trust Public Facility Corporation			
San Antonio Economic Development Corporation	Leal & Carter, P.C.	Blended	Audit
Westside Development Corporation			

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 Other Auditors (Cont.)

Component	Other auditors	Type	Response
<b>Other unaffiliated auditors</b>			
Pre-K 4 SA San Antonio Water System (SAWS) Urban Renewal Agency of the City of San Antonio dba Office of Urban Redevelopment of San Antonio (OUR SA)	RSM US LLP	Major Fund Discrete Blended	Audit
Visit San Antonio	Weaver and Tidwell	Blended	Audit

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 internal specialists to assist with the audit:

1. GT will utilize our New York Pricing Group to provide an independent estimate 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, 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

# Significant risks and other areas of focus

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

Significant Risks	Planned procedures
Fraud	<ul style="list-style-type: none"> <li>• Team to hold discussions with numerous parties within the City including management and the offices of the City Auditor, City Manager, General Counsel, Information Technology and the Office of Municipal Integrity.</li> <li>• Perform test of journal entries according to specific criteria</li> <li>• Perform data analytics to identify unusual transactions</li> </ul>
Airport Revenues	<ul style="list-style-type: none"> <li>• Obtain understanding of controls over the airport revenue process.</li> <li>• Perform reasonableness test on facilities rental fees, landing fees, and car rental fees based on activity volume and established rates.</li> <li>• Perform substantive testing over a sample of parking revenues transactions.</li> <li>• Test a sample of receivables for appropriateness</li> </ul>
Grant Revenues	<ul style="list-style-type: none"> <li>• Obtain understanding of controls over the grant revenue process.</li> <li>• Perform controls and substantive testing over a sample of grant revenues transactions.</li> <li>• Ensure recorded transactions are appropriate in accordance with the grant agreement.</li> <li>• Reconcile reported grant revenues with the SEFA and SESA.</li> </ul>
Solid Waste Management Revenues & Other Revenues	<ul style="list-style-type: none"> <li>• Obtain understanding of controls over each identified significant revenue stream process.</li> <li>• Perform substantive testing over a sample of transactions within each significant revenue stream.</li> <li>• For significant revenue streams with few transactions or customers, confirm revenue and receivables balances.</li> <li>• Perform analytics to identify unusual fluctuations or areas of additional risk.</li> </ul>

# Significant risks and other areas of focus (continued)

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

Other Areas of focus	Planned procedures
Capital Assets	<ul style="list-style-type: none"><li>• Perform substantive testing over a sample of additions for each major fund.</li><li>• Examine the status of construction in progress projects.</li><li>• Perform reasonableness test to ensure depreciation is being calculated properly.</li></ul>
Employee Compensation	<ul style="list-style-type: none"><li>• Recalculate significant year-end accruals based on payroll data and HR policies.</li><li>• Evaluate reasonableness of third-party OPEB estimates using firm specialists.</li><li>• Agree third-party OPEB estimates to recorded values.</li></ul>
Risk Financing	<ul style="list-style-type: none"><li>• Evaluate reasonableness of third-party workers' compensation and other insurance reserves estimates using firm specialists.</li><li>• Agree third-party workers' compensations and other insurance reserves estimates to recorded values.</li></ul>
Compliance with Uniform Guidance	<ul style="list-style-type: none"><li>- Identify major programs and determine the compliance requirements which are direct and material.</li><li>- Identify and test key controls over compliance.</li><li>- Select a sample of transactions subject to compliance requirements.</li></ul>

# Significant risks and other areas of focus (continued)

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

# Significant risks and other areas of focus (continued)

Other Areas of focus	Planned procedures
Adequacy of Disclosures	<ul style="list-style-type: none"> <li>Review the disclosures in the Comprehensive Annual Financial Report and ensure financial information agrees to the general ledger and required disclosures are included.</li> </ul>
Computer Data Acquisition Analysis	<ul style="list-style-type: none"> <li>Review reports that analyzed 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.</li> </ul>
Implementation of New Accounting Standards	<p>GASB 77, <i>Tax Abatements</i>; GASB Statement No. 80, <i>Blending Requirements for Certain Component Units</i> – an amendment of GASB Statement No. 14; and GASB Statement No. 82, <i>Pension Issues</i> – an amendment of GASB Statements No. 67, No. 68, and No. 73 - Review the City's response to the new standards and determine if the standard has been appropriately applied and required disclosures are included.</p>

# Areas of focus for Federal and State Single Audit and other Compliance Audits

The following provides an overview of the major programs selected for testing; it 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.

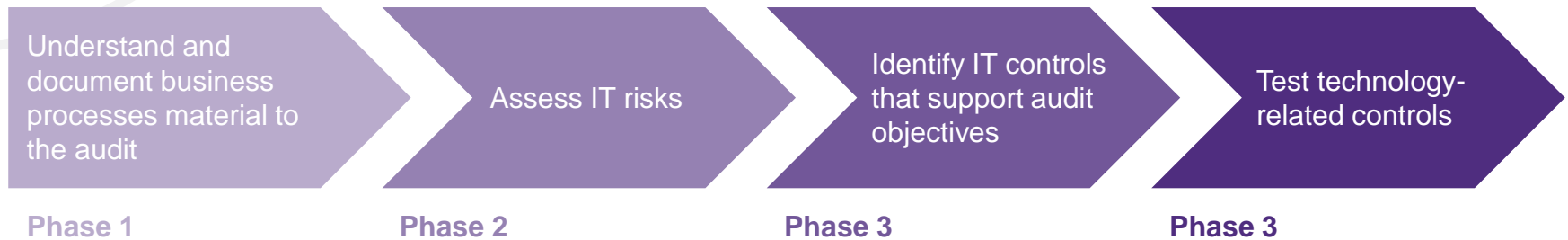
Major programs	Percentage of total
<b><u>FEDERAL</u></b>	
Child Care Cluster (CCDS) - 93.558, 93.575, 93.596	19%
Home Investment Partnerships Program (HOME) – 14.239	24%
Highway Planning and Construction Cluster – 20.205	6%
<b><u>STATE</u></b>	
Child Care Cluster (Texas Workforce Commission)	77%
Local Park Grant Program (Texas Parks and Wildlife Commission)	< 1%

Additionally, control and compliance procedures are performed for the following program:

Program	
Passenger Facility Charge	



# 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 Matters



# GASB Pronouncements Effective FY17

GASB pronouncement	Effective date	Summary
GASB Statement No. 74	Fiscal years beginning after June 15, 2016	This Statement establishes financial reporting standards for state and local governmental OPEB plans that are administered through trusts or equivalent arrangements. The Statement requires a statement of fiduciary net position and a statement of changes in fiduciary net position, more extensive disclosures and supplementary information related to the measurement of the OPEB liabilities for which assets have been accumulated.
GASB Statement No. 77, <i>Tax Abatement Disclosures</i>	Reporting periods beginning after December 15, 2015. Effective for the City: September 2017	This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues
GASB Statement No. 79, <i>Certain External Investment Pools and Pool Participants</i>	Reporting periods beginning after December 15, 2015 Effective for the City: September 2017	(Partially implemented in FY16. Certain provisions on portfolio quality, custodial credit risk, and shadow pricing in FY17). This Statement establishes that in order to measure investments at amortized cost, a qualifying external investment pool should meet certain portfolio quality requirements; qualifying external investment pool should not be exposed to custodial credit risk as described, and sets forth certain requirements for calculating shadow pricing.

# GASB Pronouncements Effective FY17

GASB pronouncement	Effective date	Summary
GASB Statement No. 79, <i>Certain External Investment Pools and Pool Participants</i>	Reporting periods beginning after December 15, 2015 Effective for the City: September 2017	(Partially implemented in FY16. Certain provisions on portfolio quality, custodial credit risk, and shadow pricing in FY17). This Statement establishes that in order to measure investments at amortized cost, a qualifying external investment pool should meet certain portfolio quality requirements; qualifying external investment pool should not be exposed to custodial credit risk as described, and sets forth certain requirements for calculating shadow pricing.
GASB Statement No. 80, <i>Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14</i>	Reporting periods beginning after June 15, 2016. Effective for the City: September 2017	This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.
GASB Statement No. 82, <i>Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73</i>	Reporting periods beginning after June 15, 2016. Effective for the City: September 2017	This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements

# GASB Pronouncements Effective FY18

GASB pronouncement	Effective date	Summary
GASB Statement 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	Fiscal years beginning after June 15, 2017. Effective for the City: September 2018	<p>The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability</p> <p>This Statement replaces Statements No. 43, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>, as amended, and No. 57, <i>OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans</i>. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, <i>Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans</i>, as amended, Statement 43, and Statement No. 50, <i>Pension Disclosures</i>.</p>
GASB Statement No 81, <i>Irrevocable Split-Interest Agreements</i>	Reporting periods beginning after December 15, 2016. Effective for the City: September 2018	This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

# GASB Pronouncements Effective FY18

GASB pronouncement	Effective date	Summary
GASB Statement No. 85, <i>Omnibus 2017</i>	Reporting periods beginning after June 15, 2017. Effective for the City: September 2018	This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).
GASB Statement No. 86, <i>Certain Debt Extinguishment Issues</i>	Reporting periods beginning after June 15, 2017. Effective for the City: September 2018	This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

# Questions?



# Contact Information

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This communication is intended solely for the information and use of management, the Audit and Accountability Committee, and the City of San Antonio, Texas and is not intended to be and should not be used by anyone other than these specified parties.



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