



2018 Audit Planning Presentation and Discussion

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

September 18, 2018



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.
- Communicating 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.
- 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 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

July / August 2018	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 / August 2018	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)
August/September 2018	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 2018 – March 2019	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

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

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.

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 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions; GASB 81 – Irrevocable Split-Interest Agreements; GASB 85 – Omnibus 2017; GASB 86 – Certain Debt Extinguishments – 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.

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

The following provides an overview of the major programs tested this year; 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.

Federal Programs	State Programs
Child Care Cluster (CCDS) – 93.558, 93.575, 93.596	Child Care Cluster (Texas Workforce Commission)
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – 10.557	TB Medicaid Waiver (Texas Department of State Health Services)
Community Development Block Grant – 14.218	Rifle-Resistant Body Armor (Texas Governor's Office)
	Texas Anti-Gang Program (Texas Governor's Office)
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.

Technical Updates – AICPA



AICPA Issues Standard on Going Concern

Summary

- The AICPA issued Statement on Auditing Standards (SAS) 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- SAS 132 addresses the auditor's responsibilities in the audit of financial statements related to an entity's ability to continue as a going concern and the implications on the auditor's report.
- SAS 132 applies to all audits of a complete set of financial statements, regardless of whether the financial statements are prepared in accordance with a general purpose or special purpose framework. When the going concern basis of accounting is not relevant for special purpose financial statements, the requirements of SAS 132 to obtain sufficient appropriated evidence regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting do not apply. However, the auditor's responsibility to perform the following are still applicable:
 - Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time
 - Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time
- SAS 132 is effective for audits of financial statements for periods ending on or after December 15, 2017 and for reviews of interim financial information for interim periods beginning after fiscal years ending on or after December 15, 2017

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

Technical Updates – GASB



GASB Pronouncements Effective – FY18

Title	Effective Fiscal Year	Summary
GASB 75- <i>Accounting and Financial Reporting for Postemployment Benefit Plans 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 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 continued

Title	Effective Fiscal Year	Summary
GASB 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 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.

GASB Pronouncements Effective – FY19

Title	Effective Fiscal Year	Summary
GASB 83- <i>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.
GASB 88 – <i>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 purchases of disclosures in notes to financial statements and requires that additional essential information related to debt including unused lines of credit; assets pledged as collateral for debt; and terms specified in debt agreements.

Questions?



Contact Information

Angela Dunlap
Engagement Partner
T: 832.476.5010
E: angela.dunlap@us.gt.com

Bhakti Patel
Engagement Senior Manager
T: 512.692.1288
E: bhakti.patel@us.gt.com

Erica Brown
Engagement Experienced Manager
T: 832.476.3703
E: erica.brown@us.gt.com



"Grant Thornton" refers to Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd (GTIL), and/or refers to the brand under which the independent network of GTIL member firms provide services to their clients, as the context requires. GTIL and each of its member firms are not a worldwide partnership and are not liable for one another's acts or omissions. In the United States, visit granthornton.com for details.
© 2017 Grant Thornton LLP | All rights reserved | U.S. member firm of Grant Thornton International Ltd

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



"Grant Thornton" refers to Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd (GTIL), and/or refers to the brand under which the independent network of GTIL member firms provide services to their clients, as the context requires. GTIL and each of its member firms are not a worldwide partnership and are not liable for one another's acts or omissions. In the United States, visit grantthornton.com for details.
© 2017 Grant Thornton LLP | All rights reserved | U.S. member firm of Grant Thornton International Ltd