



Communications Relating to the FY 2019 Audit

City of Dallas



This communication is intended solely for the information and use of management and the Government Performance and Financial Management Committee of the City of Dallas and is not intended to be and should not be used by anyone other than these specified parties.

Risk Assessment Overview

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

Areas of focus	Results
Water and sewer revenues and receivables	<ul style="list-style-type: none">- Tested existence and accuracy of receivables at 9/30 year-end by reviewing customer activity, invoices, and subsequent payment.- Tested revenues by recalculating water and sewer charges using readings and rates per City Ordinance. <p>Results: No exceptions noted.</p>
Airport revenues and receivables	<ul style="list-style-type: none">- Tested existence and accuracy of receivables at 9/30 year-end by reviewing invoice, examining evidence that services were provided, and verifying subsequent payment was received.- Tested revenues by reviewing invoice, examining evidence that services were provided, and verifying payment was received. <p>Results: No exceptions noted.</p>
Grant revenues and receivables	<ul style="list-style-type: none">- Tested existence and accuracy of receivables at 9/30 year-end by reviewing applicable agreement, ensuring eligibility requirements were met, and verifying payments from awarding party.- Tested revenues by reviewing applicable agreement, ensuring eligibility requirements were met, and verifying payments from awarding party.- Reconciled amounts reported as grant revenues to the SEFA/SESA. <p>Results: No exceptions noted.</p>

Risk Assessment Overview (continued)

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

Areas of focus	Results
Other revenues and receivables	<ul style="list-style-type: none">- Tested existence and accuracy of receivables at 9/30 year-end by reviewing invoice, examining evidence that services were provided, and verifying subsequent payment was received.- Tested revenues by reviewing invoice, examining evidence that services were provided, and verifying payment was received. <p>Results: No exceptions noted.</p>
Compliance and controls related to Federal and State Single Audit major programs	<ul style="list-style-type: none">- Tested compliance and the effectiveness of internal controls over compliance in accordance with Uniform Guidance and the State of Texas Single Audit Circular. <p>Results: See Single Audit slide</p>

Risk Assessment Overview (continued)

The following provides an overview of other audit focus areas.

Areas of focus	Results
Controls- based approach	Payroll- no exceptions noted
Controls- based approach	Disbursements- no exceptions noted

Other Areas:

- Governance
- Account inquiries were made through out the audit with employees of the City while testing individual transactions
- Fraud and non-compliance inquiries were made during the planning process, throughout our audit, and during concluding
- Information technology
- Adequacy of disclosures
- Investments/treasury
- Debt, including compliance and ratios
- Tax revenues
- Allowance for doubtful accounts
- Capital assets
- Investments
- Compliance with Public Funds Investment Act
- Revenue and GO bond issuances
- Employee compensation
- Operating expenditures
- Landfill closure and post-closure
- Passenger Facility Charge compliance
- Dallas Convention Center Hotel Development Corporation
- Love Field Airport Modernization Corporation and related transactions

Federal and State Major Programs

Federal Programs Audited	State Programs Audited
Continuum of Care	Confiscated Monies - State
Community Development Block Grant (CDBG)	ABTPA Cargo Theft
Housing Opportunities for Persons with AIDS (HOPWA)	Zang Triangle Sustainable Development Infrastructure
Emergency Solutions	CJD Rifle Resistant Body Armor
Homeland Security	TPWD Urban Outdoor

Single Audit – Current Year Draft Findings

Source	Program	Award #	Finding	Severity	Status
Federal	Continuum of Care	14.267	Testing still in process; however, finding noted	Still to be determined	Finding

Testing and/or reviews still in process on the major programs.

Scope of IT Control Testing

- The scope of the IT Controls Testing included the following IT governance areas:
 - Security administration;
 - Change management; and
 - Batch job administration.
- The following applications were included in our review:
 - SAP (and underlying databases);
 - Advantage financial system (and underlying databases); and
 - Active directory.
- IT control observations were identified during this year's IT testing:
 - Segregation of duties conflict within IT function where user security administration access have ability to perform change management in SAP;
 - Inappropriate access to promote application changes in SAP;
 - Changes to SAP were not being formally tested and approved prior to implementation; and
 - User accounts and associated permissions within SAP were not being formally, proactively reviewed for appropriateness.

Reports Issued

- Financial statements and single audits:
 - Comprehensive annual financial report (CAFR)
 - Single Audits
 - Federal (Uniform Grants Guidance)- to be issued
 - State (State of Texas Single Audit Circular) - to be issued
- Separate reports:
 - Airport Revenues Fund and Passenger Facility Charge compliance
 - Dallas Convention Center Hotel Development Corporation
 - Dallas Water Utilities
 - Downtown Dallas Development Authority Tax Increment Financing District
 - Texas Commission on Environment Quality financial assurance agreed-upon procedures

Results of Financial Statement Audits

- Comprehensive Annual Financial Report (CAFR):
 - Unmodified "clean" opinions
 - Includes GFOA Certificate of Achievement for 2018 CAFR. The City has received this award for thirteen years in a row.
 - No scope limitations
 - Continued open and effective communication with management
- Federal Single Audit Report:
 - Pending completion
 - Continuum of Care – similar repeat finding
- State Single Audit Report:
 - Pending completion

Other Required Communications

Professional standards require that we communicate the following matters to you, as applicable.

Going concern matters
Fraud and non-compliance with laws and regulations
Significant deficiencies and material weaknesses in internal control over financial reporting
Use of other auditors
Use of internal audit
Related parties and related party transactions



Other Required Communications

(continued)

Disagreements with management
Management's consultations with other accountants
Significant issues discussed with management
Significant difficulties encountered during the audit
Other significant findings or issues that are relevant to you and your oversight responsibilities
Modifications to the auditor's report
Other information in documents containing audited financial statements



Quality of Accounting Practices

Accounting policies	Accounting policies used are considered appropriate in all material respects.
Accounting estimates	<ul style="list-style-type: none">• Depreciation of capital assets• Allowance for receivables• Accruals for self-insurance liabilities, including Incurred But Not Reported (IBNR) Claims• Arbitrage rebate liability• Net pension and OPEB assets, liabilities and related disclosures• Landfill closure and post-closure <p>We performed test to satisfy ourselves that these amounts are materially correct.</p>
Disclosures	<ul style="list-style-type: none">• We have assessed the financial statements and disclosures for clarity and completeness.• Footnote disclosures in the financial statements appear overall to be neutral, consistent, and clear.



Financial Trends



Financial Highlights – Government-Wide (In Millions)

Definitions:

- "Change in net position (deficit)": essentially "net income (loss)"
- "Total net position (deficit)": the excess (deficit) of assets vs. liabilities
- "Unrestricted net position": "remaining" net position after deducting "net investment in capital assets" and "restricted" components
- "Capital Assets, net": long-term capital assets, net of accumulated depreciation

Financial Trends

<u>Government-Wide:</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Governmental:					
Change in net position (deficit)	\$ 118	\$ 1,228	\$ (494)	\$ (742)	\$ 256
Total net position	\$ (2,704)	\$ (2,822)	\$ (3,847)	\$ (3,353)	\$ (2,679)
Ending unrestricted net position (deficit) (1)	\$ (5,752)	\$ (5,904)	\$ (6,773)	\$ (6,164)	\$ (5,393)
Capital assets, net (3)	\$ 4,277	\$ 4,084	\$ 3,917	\$ 3,829	\$ 3,735
Business-type:					
Change in net position	\$ 42	\$ 152	\$ 111	\$ (4)	\$ 93
Total net position	\$ 3,463	\$ 3,420	\$ 3,319	\$ 3,208	\$ 3,280
Ending unrestricted net position (2)	\$ (224)	\$ (87)	\$ (50)	\$ 1,946	\$ 239
Capital assets, net (3)	\$ 7,071	\$ 6,890	\$ 6,680	\$ 6,468	\$ 6,057

Key Observations:

- (1) The "Governmental" unrestricted net (deficit) position decreased annually from 2015-2017 and increased annually from 2018-2019.
- (2) The "Business-type" unrestricted net position increased in 2016 and decreased annually from 2017-2019.
- (3) "Capital Assets, net balances (both "Governmental" and "Business-type") have increased annually from 2015-2019.

Financial Highlights – Governmental Tax Rate, Assessed Value and Debt (In Millions)

Definitions:

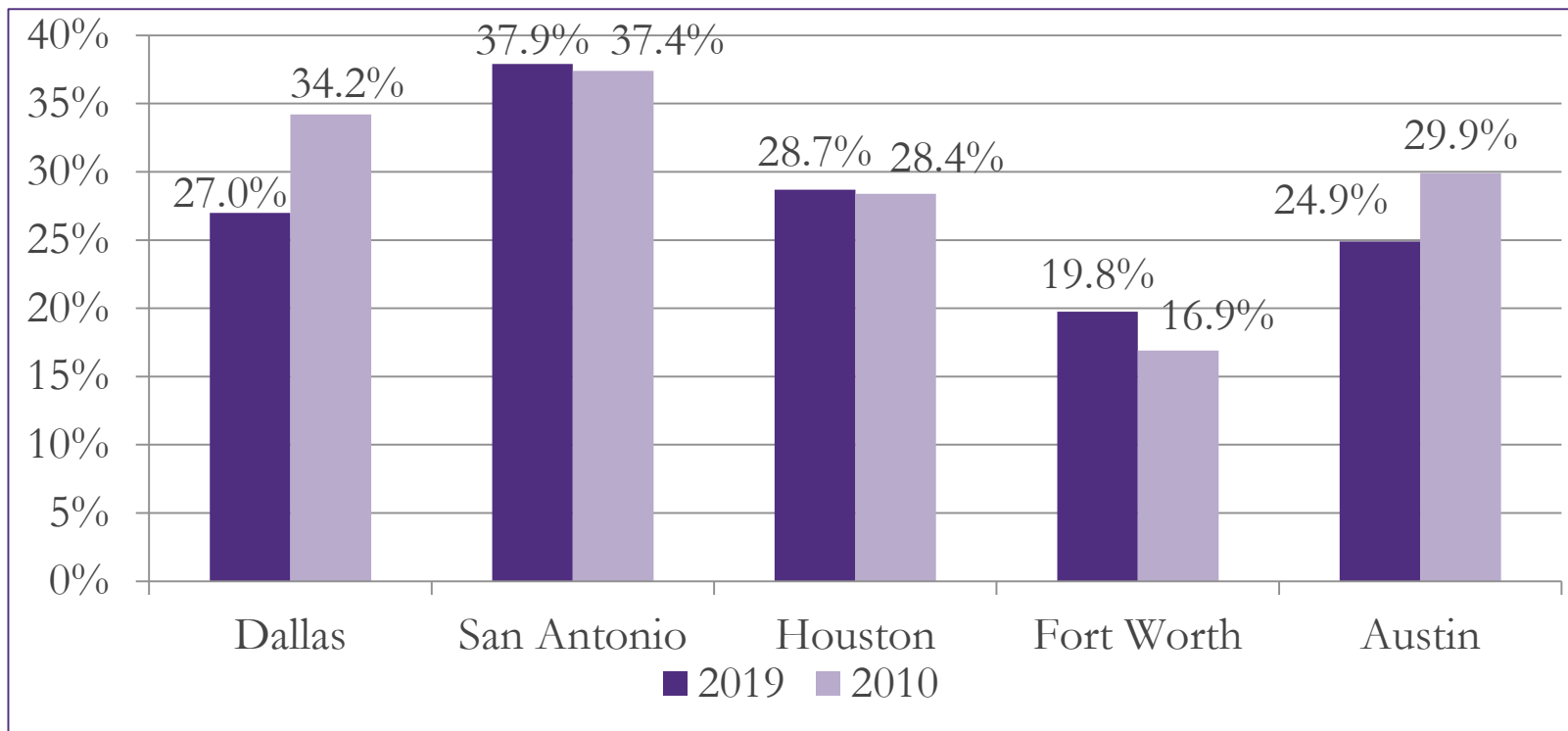
- The "Tax Rate" is the City's tax rate in total (per \$100 of valuation) with components for general fund or debt service shown separately
- "Taxable Assessed Valuation" is the total value of the City's tax base upon which the tax rate is levied
- Total "General Obligation Debt" is debt backed by the full faith and credit of the City

<u>Governmental:</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Tax Rate (per \$100 valuation)					
Total (1)	0.7767	0.7804	0.7825	0.7970	0.7970
General Fund	0.5667	0.5580	0.5601	0.5646	0.5646
Debt Service (2)	0.2100	0.2224	0.2224	0.2324	0.2324
 Taxable Assessed Valuation (in billions) (3)	 \$ 130.1	 \$ 118.3	 \$ 110.4	 \$ 100.3	 \$ 93.1
Total General Obligation Debt (4)	\$ 1,808	\$ 1,558	\$ 1,355	\$ 1,492	\$ 1,559
Debt Service expenditures as a percentage of non-capital expenditures (5)	16.46%	15.23%	16.20%	16.60%	16.34%

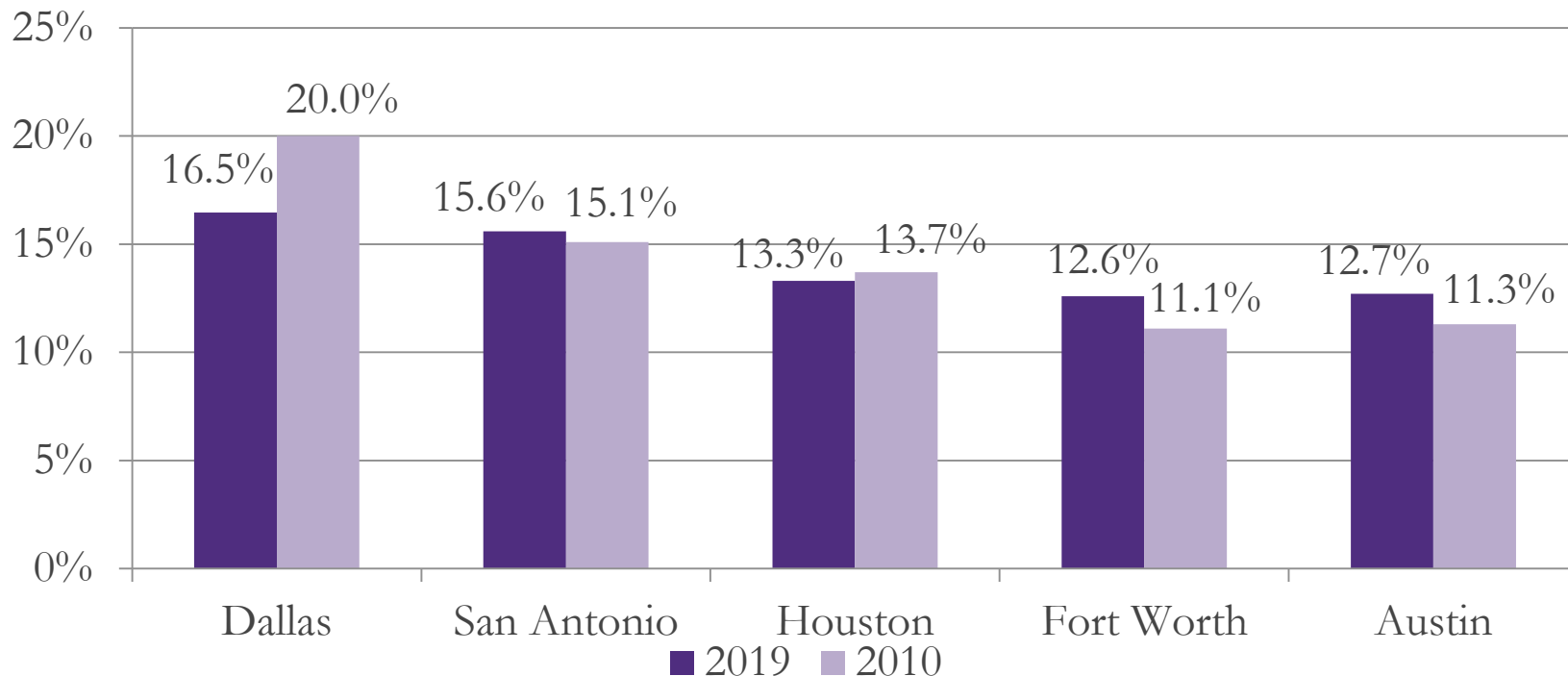
Key Observations:

- (1) The total tax rate remained unchanged from 2015-2016. Total tax rate decreased annually from 2017-2019.
- (2) The tax rate component for debt service decreased in 2017 and 2019.
- (3) The taxable assessed valuation increased annually from 2015-2019.
- (4) Total General Obligation debt decreased in 2016 and 2017 and increased in 2018 and 2019.
- (5) Debt service expenditures as a % of non-capital expenditures increased in 2016, decreased in 2017-2018, and increased in 2019.

Debt Service Component of Tax Rate as a Percentage of Total Rate



Debt Service Expenditures as a Percentage of Non-Capital Expenditures



Financial Highlights – General Fund (In Millions)

Definitions:

- The general fund essentially accounts for all activities that are not required to be accounted for elsewhere
- Transfers in (out) of general fund, net reflects all transfers from (to) other funds of the City, net

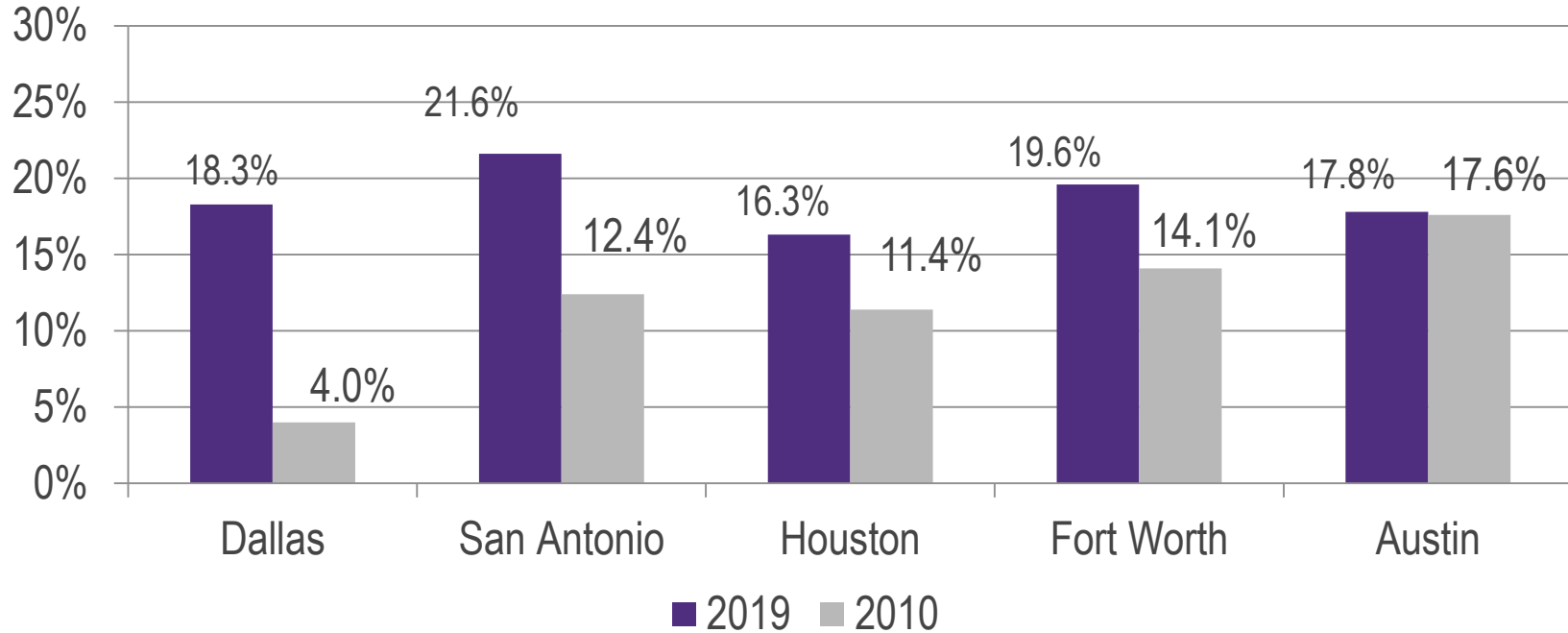
Financial Trends:

	2019	2018	2017	2016	2015
General fund balance: (1)					
Total	\$ 297.2	\$ 256.3	\$ 235.2	\$ 191.0	\$ 200.1
Unreserved/unassigned	\$ 234.2	\$ 212.8	\$ 171.7	\$ 153.7	\$ 141.6
General fund expenditures (2)	\$ 1,280.7	\$ 1,235.6	\$ 1,160.0	\$ 1,122.7	\$ 1,138.8
Unreserved/unassigned general fund balance as a percentage of expenditures (1)	18.29%	17.22%	14.80%	13.70%	12.40%
Excess (deficiency) of revenues over (under) expenditures (3)	\$ 30.2	\$ 9.8	\$ 32.8	\$ (1.6)	\$ 11.4
Transfers in (out) of general fund, net (4)	\$ (165.3)	\$ (51.6)	\$ 11.3	\$ 6.2	\$ 7.5

Key Observations:

- (1) The total general fund balance decreased in 2016, and increased annually from 2017-2019. The unreserved/unassigned general fund balance increased annually from 2015 to 2019. The "unreserved/unassigned general fund balance as a percentage of expenditures" increased annually from 2015 to 2019.
- (2) General fund expenditures have remained relatively consistent from 2015-2019.
- (3) Revenues have been in excess of expenditures from 2015-2019, except in 2016.
- (4) Transfers have been transfers-in from 2015-2017 and transfers-out in 2018 and 2019.

Unassigned/Unreserved General Fund Balance as a Percentage of General Fund Expenditures



Financial Highlights – Business-Type "Enterprise" Activities (In Millions)

Definitions:

- Income (loss) before transfers and contributions is essentially "operating income (loss)"
- Revenue bond coverage is "net revenues, as defined" divided by total debt service expenditures

Financial Trends:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Income (loss) before transfers and contributions:					
Dallas Water Utilities (3)	\$ 30.5	\$ 123.4	\$ 111.5	\$ 24.9	\$ 77.7
Convention Center*	\$ 16.5	\$ 13.7	\$ 5.7	\$ 4.8	\$ 6.9
Airport Revenue	\$ 25.4	\$ 16.4	\$ (8.1)	\$ (11.0)	\$ 7.3
Sanitation	\$ (7.7)	\$ 11.2	\$ 3.6	\$ (13.6)	N/A
Total Capital Assets, net					
Dallas Water Utilities	\$ 5,366	\$ 5,200	\$ 5,034	\$ 4,889	\$ 4,601
Convention Center*	\$ 433	\$ 450	\$ 464	\$ 479	\$ 495
Airport Revenue	\$ 1,204	\$ 1,187	\$ 1,136	\$ 1,059	\$ 960
Sanitation	\$ 66	\$ 51	\$ 44	\$ 39	N/A
Revenue Bond Coverage:					
Dallas Water Utilities (1)	1.74	1.96	1.85	1.74	1.54
Convention Center* (2)	2.1	2.0	1.7	1.8	2.0
Airport Revenue	N/A	N/A	N/A	N/A	N/A
Sanitation	N/A	N/A	N/A	N/A	N/A

Key Observations:

- (1) Revenue bond coverage for Dallas Water Utilities remained relatively consistent from 2015 to 2019.
- (2) Revenue bond coverage for Convention Center has remained consistent from 2015-2019.
- (3) Dallas Water Utilities net income decreased in 2016, increased in 2017-2018, and decreased again in 2019.

*The operations of the Convention Center include the Kay Bailey Hutchison Convention Center, American Airlines Center, Union Station, the City Fountain, and Office of Special Events.

**The Sanitation fund was presented as a major fund for the first time during FY 2016. As such, other prior year balances are not available.

Financial Highlights – Risk Funds, OPEB (Other Postemployment Benefits), Pension and Landfill Obligations (In Millions)

Definitions:

- The risk funds account for the City's self-insured health, worker's compensation and general liability programs
- The net OPEB obligation is the actuarially-determined liability for benefits to be provided to retired employees
- The landfill closure and post-closure liability is estimated based upon percentage utilized

Financial Trends:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Internal service fund balance (deficit): (1)					
Risk funds fund deficit	\$ (23.5)	\$ (213.2)	\$ (112.0)	\$ (64.2)	\$ (51.5)
Risk funds claims total liability	\$ 85	\$ 248.1	\$ 137.4	\$ 79.4	\$ 68.7
Risk funds fund deficit as a % of total general fund balance (2)	7.91%	83.22%	47.62%	33.59%	25.74%
Net Other Post Employment Benefit "OPEB" obligation (5)	\$ -	\$ -	\$ 264.2	\$ 252.2	\$ 241.5
Landfill closure and post-closure liability (4)	\$ 43.5	\$ 41.5	\$ 40.2	\$ 35.9	\$ 30.6
Net pension liability (3)	\$ 4,739	\$ 3,175	\$ 7,262	\$ 9,050	\$ 5,600
Net OPEB liability (5)	\$ 565	\$ 511	\$ -	\$ -	\$ -

Key Observations:

- (1) The City's self-insured risk activities are essentially being funded on a "pay-as-you-go" basis.
- (2) The risk funds fund deficit as a % of total general fund balance increased annually from 2015 – 2018, then decreased in 2019.
- (3) The net pension liability decreased annually in 2017 and 2018, then increased in 2019.
- (4) The City's unfunded landfill closure and post-closure liability increased slightly in 2016 and has increased annually from 2017-2019.
- (5) Per GASB Statement number 75, it is required by the City to accrue a liability on its financial statements for its unfunded OPEB benefits. Implementation of GASB 75 was adopted during the fiscal year ending September 30, 2018.

Appendix



Internal Controls Matters

Responsibility

We are responsible for obtaining reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. Control deficiencies that are of a lesser magnitude than a significant deficiency will be communicated to management.

Definitions

- A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, misstatements on a timely basis.
- A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.
- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

Significant Deficiencies

Significant deficiencies were identified related to Information Technology General Controls

- End users with security administration access in SAP
- Inappropriate access to promote application changes in SAP

Selected pronouncements adopted for the year ending September 30, 2019:

Pronouncement	Effective Date
<p>Effective for FY19:</p> <p><u>GASB Statement No. 83 - Certain Asset Retirement Obligations</u></p> <ul style="list-style-type: none">- This Statement addresses accounting and financial reporting for certain asset retirement obligations.- Effective for 9/30/19 year-ends	<p>Adopted in FY2019. The implementation did not result in any changes to the financial statements</p>
<p><u>GASB Statement No. 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</u></p> <ul style="list-style-type: none">- This primary objective of the statement is to improve information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements- Effective for 9/30/19 year-ends	<p>Adopted in FY2019. The implementation of this statement added additional note disclosures for the long-term debt, and this information is found in Note 11</p>

Recently Issued Guidance

- GASB Statement No. 84 - Fiduciary Activities
 - This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
 - Effective for 9/30/20 year-ends
- GASB Statement No. 87 - "Leases"
 - This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as deferred inflows of resources or deferred outflows of resources based on the payment provisions of the contract.
 - Effective for 9/30/21 year-ends
- GASB Statement No.90 - "Majority Equity Interests-an amendment of GASB Statements No.14 and No.61"
 - The primary objective of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization.
 - Effective for 9/30/20 year-ends
- GASB Statement No.91 - "Conduit Debt Obligations"
 - The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.
 - Effective for 9/30/22 year-ends
- GASB Statement No.92 - "Omnibus 2020"
 - The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
 - Effective for 9/30/21 year-ends

Use of Other Auditors

Component	Other auditors	Benchmark*	Response**
Other unaffiliated auditors			
Dallas Development Fund and Subsidiaries	CohnReznick	0.03%, 0.01%	Comprehensive
Dallas Housing Acquisition and Development Corporation	Emma Walker, P.C.	0.01%, 0.01%	Comprehensive
Dallas Police and Fire Pension System	BDO	14.18%, 7.36%	Comprehensive
Supplemental Police and Fire Pension Plan	BDO	0.13%, 0.10%	Comprehensive

* The benchmark is based on the percentage of the City's consolidated assets and revenues, respectively. Our firm audited approximately 86% and 93%, respectively.

** A comprehensive response consists of an audit of the component's financial information, planned within the context of our overall audit of the City. A targeted response consists of the component auditor performing specific audit procedures that are determined by our firm to respond to identified risks.

In our auditor's report on the City, we make reference to the audit performed by the other unaffiliated auditors.

Use of the Work of Others

Other Auditors

Juliet Williams, P.C.

Logan & Associates

Owens & Thurman, P.C.

Specialists

GT IT/Advisory – review of information technology environment

Grant Thornton Pricing Group – reviewed investment valuations

Grant Thornton Compensation & Benefits Consulting Group – evaluated assumptions utilized in workers' compensation, health insurance and general claims, OPEB, and pension actuarial valuations

Harvest Investments – Investment valuation related to short-term investments

Specialists

Holmes Murphy– performed OPEB actuarial analysis, insurance IBNR analysis

Segal Consulting (DPFP) and Gabriel, Roeder, Smith & Company (ERF) – performed pension actuarial analysis

Bickmore – calculated self-insurance workers' compensation liability, general liability, and auto liability

Hilltop Holdings – performed arbitrage rebate liability

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.

This communication is intended solely for the information and use of management and the Government Performance and Financial Management Committee of the City of Dallas and is not intended to be and should not be used by anyone other than these specified parties.