

**AUDIT COMMITTEE  
COUNCIL BRIEFING ROOM, CITY HALL  
203 E. WHEATLAND ROAD  
SEPTEMBER 4, 2019 @ 9:00 A.M.**

A meeting of the Audit Committee was held on Friday, September 4, 2019, at 9:00 a.m. with a quorum present to wit:

Patrick Harvey	Chair and Councilmember	Present
Don McBurnett	Mayor Pro Tem	Absent
Joe Veracruz	Councilmember	Present
James Talley	Commissioner	Present
Steve Rutherford	Commissioner	Present

The meeting convened in the Council Briefing Room and was called to order at 9:00 a.m. by Chair Patrick Harvey.

The following staff members were also present: Richard Summerlin, Finance Director; Tia Pettis, Asst. Finance Director; Lauren Tesmer, Accountant; Georcha West, Accountant; Jennifer Otey, Budget Analyst; Kristin Downs, City Secretary; and Marlon Williams, representing McConnell & Jones LLP.

**Approval of Minutes:**

A motion was made by Commission James Talley; seconded by Commissioner Steve Rutherford to approve the minutes from the July 18, 2019 Regular Meeting, passing 4-0 in favor.

**Discuss the upcoming FY19 external financial audit and areas of special focus with McConnell & Jones LLP:**

Director Summerlin stated management is committed to an internal audit and the focus this year will be on the IT Department. Chair Harvey spoke on the importance of the IT Department and current ransomware issues that are affecting cities.

Mr. Williams, McConnell & Jones LLP spoke on the following; engagement scope and objectives, engagement milestones and timelines, risks of material misstatement and noncompliance, planning and risk assessment, and required communication.

Implementation of New Accounting Pronouncements:

**Effective in 2019**

**GASB Statement No. 83, *Certain Asset Retirement Obligations*:**

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

**GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements***

The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

**Effective in 2019-2020**

**GASB Statement No. 87, *Leases***

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

**GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period***

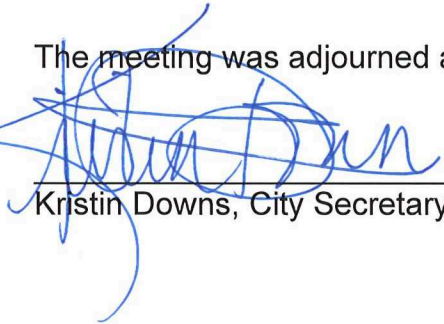
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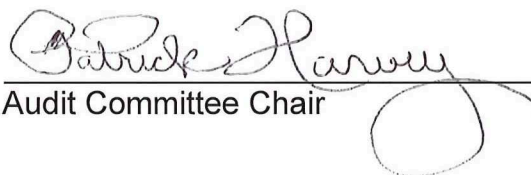
**GASB Statement No. 84, *Fiduciary Activities***

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Commissioner Talley expressed his concerns for the employees that would be working overtime during the audit process. Chair Harvey requested Mr. Williams look into the Hotel & Motel taxes; making sure the proper paperwork is filled out, submitted in a timely manner and providing a follow up once the monies have been received.

The meeting was adjourned at 10:02 a.m.

  
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Kristin Downs, City Secretary

  
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Patrick Harvey  
Audit Committee Chair

MJ

PRESENTATION TO THE AUDIT COMMITTEE OF  
**THE CITY OF DUNCANVILLE, TEXAS**

**CITY OF DUNCANVILLE, TEXAS**  
**FINANCIAL STATEMENTS**

**AUDIT PLAN FOR THE PERIOD ENDED SEPTEMBER 30, 2019**

September 4, 2019

## Discussion Topics

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- Engagement Scope and Objectives
- Key Members of the Service Delivery Team
- Engagement Milestones and Timelines
- Risks of Material Misstatement and Noncompliance
- Planning and Risk Assessment
- Implementation of New Accounting Pronouncements
- Required Communication with Those Charged with Governance
- Other Matters

## Engagement Scope and Objectives

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1. Express opinions on the company's basic financial statements:
  - Government-wide Financial Statements
  - Governmental Fund Financial Statements
  - Proprietary Funds Financial Statements
  - Notes to the Financial Statements
  - Prepared by the City
2. Apply certain limited audit procedures to the City's required supplementary information:
  - Validation of the completeness and accuracy of the liability and contributions to the Texas Municipal Retirement System
  - Validation of the completeness and accuracy of the Other Postemployment Benefit Plan
3. Observations for improvement opportunities in internal controls and operational efficiency enhancements.

## Service Delivery Team Key Members

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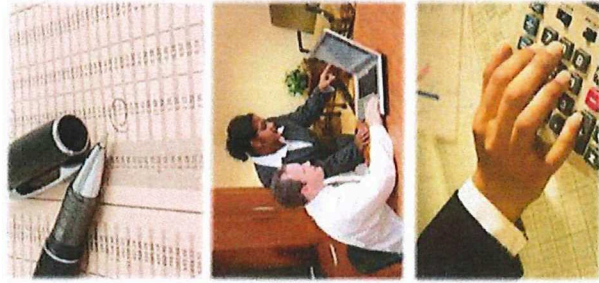


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- **Audit Team Key Members:**
  - Marlon Williams, CPA, Audit Partner
  - Ashleigh Sweet, Audit Manager
  - Victor Zavala, Audit Senior
- Audit team members are independent of the City.
- Audit team members have significant experience in public accounting and financial statement audits, including those related to governmental entities.
- The engagement team leadership will be actively involved in the planning, quality control, and reporting phases of the audit, in addition to on-going communications with management.

## Engagement Milestones & Timelines



- Entrance conference : **September 4, 2019**
- Management receives audit requests, prepare schedules and confirmations: **September 16, 2019**
- Audit planning activities: **September 9 – September 27, 2019**
- Perform interim audit fieldwork: **November 11 – November 15, 2019**
- Perform final audit fieldwork: **January 20 – February 14, 2020**
- Draft Financial Statement: **February 3, 2019**
- Review and quality control activities: **February 3 – February 14, 2019**
- Submission of final draft report to management for circulation to Audit Subcommittee : **February 19, 2019**
- Exit Conference: **February 26, 2019**
- Issue audit reports upon receipt of management representation letter for the audit: **TBD**

## Risks of Material Misstatement and Noncompliance

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### **Material misstatements may result from the following:**

- Financial recording and/or reporting errors not detected by controls.
- Fraud through intentional misstatement of financial statements; and incomplete/inaccurate disclosure of relevant facts.
- Theft or misappropriation of assets.
- Violations of laws, regulations, contracts, or grant agreements by management or employees.
- Management override of controls.
- Unusual transactions not properly accounted for; and
- Control weakness due to improper/inadequate segregation of duties and/or inadequate supervision.

All of the above factors have been considered in determining the nature, extent and timing of our audit procedures.



## Planning and Risk Assessment



### **Planning procedures include:**

- Meetings/inquiries with management and the Audit Subcommittee.
- Reviewing minutes of Board of Directors' meetings, Board Committees' meetings, and significant contractual agreements.
- Documenting our understanding of the company's internal control environment, processes and procedures.

### **Risk Assessment procedures include:**

- Review of the implications of new accounting pronouncements and auditing standards.
- Preliminary analytical procedures on account balances.
- Review significant amendments on annual budgets.
- Assessing the risks of material misstatement of the financial statements and material noncompliance.
- Finalizing the overall audit plan.

## Planning and Risk Assessment CONT'D

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- **Control and inherent risks assessed at higher than a low level:**
  - Revenue recognition, including amounts attributable to cost of revenue, deferred revenue
  - Federal funds
  - Pension related liabilities and or assets
  - Trade accounts receivable
  - Budgetary expenditures
  
- **Control and inherent risks assessed at a low level:**
  - Cash and cash equivalents
  - Capital assets
  - Prepaid expenses
  - Accounts payable and accruals

## Implementation of New Accounting Pronouncements

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### **EFFECTIVE IN 2019**

#### ▪ **GASB Statement No. 83, *Certain Asset Retirement Obligations*:**

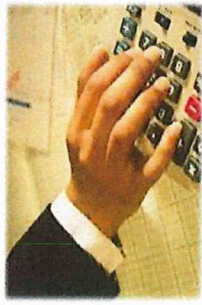
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## Implementation of New Accounting Pronouncements CONT'D



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- **GASB Statement No. 87, Leases**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.
- **GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period**  
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## Required Communication with Those Charged with Governance



- **Management's Responsibilities (included in the engagement letter):**
  - The basic financial statements, accompanying notes, preparation of required supplementary information, and all representations contained therein.
  - Selection and use of appropriate accounting policies.
  - Establishment and maintenance of effective internal controls.
  - Compliance with applicable laws and regulations, contracts and agreements.
  - Design and implementation of programs and controls to prevent and detect fraud.
- **Auditor's Responsibility (included in the engagement letter):**
  - Issue opinion on the basic financial statements.
  - Issue report under the U.S. Generally Accepted Auditing Standards.
- **Required AU Section 380 communications of significant audit results**
- **Written representations made to the auditors by management**

## **Audit Logistics**

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- Physical presence
- Portal
- City office Hours



## Other Matters

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- **Questions we have**



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