

**AUDIT COMMITTEE  
CITY HALL- BRIEFING ROOM  
THURSDAY, SEPTEMBER 19, 2017**

A meeting of the City Council Audit Committee was called to order on Tuesday, September 19, 2017 at 3:00 pm. Audit committee members present were:

Steven Rutherford	Chair and Councilmember
Dennis Schwartz	Councilmember
Leslie Thomas	Councilmember
James Talley	Committee member
Patrick Harvey	Committee member      Absent

The following staff members were also present: Richard Summerlin, Finance Director; Tia Pettis, Asst. Finance Director; Borhan Uddin, Accountant; Jamie Smith, Accountant; Kristin Downs, Admin Asst. to the City Secretary; and Todd Pruitt, representing Pattillo, Brown & Hill, LLP.

**ITEM 1.** Committee member Talley made a motion, seconded by Councilmember Schwartz, to approve the Audit Committee Meeting Minutes of March 23, 2017. The vote was unanimous.

**ITEM 2.** The committee members reviewed the Audit Committee Policies, Procedures and Activities. The policy was updated to refer to Resolution 2015-111714 approved by the City Council on November 17, 2015; Committee member James Talley questioned if the number of members could be increased if needed.

**ITEM 3.** Todd Pruitt went over the audit calendar including the interim audit scheduled for the week of October 2, 2017 and the final audit in January 2018. The audit staff will remain the same as prior years.

Discussion followed: Todd Pruitt discussed the OPEB plans and tax abatement disclosures; major staffing changes included a new Assistant City Manager, Public Works Director, Assistant Public Works Director and a new Library Director were discussed; Tia Pettis discussed the implementation of a new system at the Recreation Center; Todd Pruitt explained GASB updates and the advantages of tax abatement; Richard Summerlin mentioned cyber security and re-evaluating another software program other than Banner for FY18; Committee member Talley questioned how the city is currently handling cyber security and what processes are being taken.

Todd Pruitt asked the committee if there are any areas of special concern for the fiscal year 2018 audit.

Discussion followed: Committee member Talley and Councilmembers in attendance agreed that cyber security for the city needed to be considered. Todd Pruitt stated he would schedule a different auditor from IT to come out and focus on the city's cyber security.

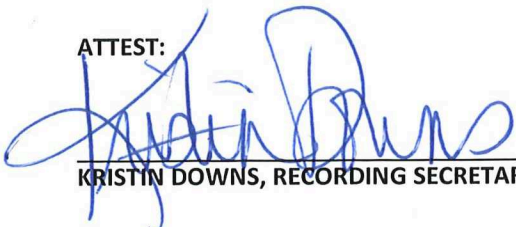
The meeting adjourned at 4:09 p.m.

APPROVED:



CHAIR, AUDIT COMMITTEE

ATTEST:



KRISTIN DOWNS, RECORDING SECRETARY

**CITY OF DUNCANVILLE  
FY2017 EXTERNAL AUDIT TIMELINE**

DESCRIPTION	DATE(S)	RESPONSIBLE PARTY
Audit Planning Meeting	09/21/17	Audit Committee, Finance and PBH
Interim narratives/schedules due (internal staff deadline)	09/29/17	Finance
<b>FY 16-17 Ends</b>	<b>09/30/17</b>	-
<b>Interim Audit Fieldwork Begins</b>	<b>10/02/17</b>	<b>Finance and PBH</b>
Deadline for all FY 16-17 payment requests	10/20/17	All City Depts.
Last check run for FY 16-17 requests	10/26/17	Finance
All audit schedules complete (internal staff deadline)	12/01/17	Finance
<b>Thanksgiving Holiday (City Dates Observed)</b>	<b>11/23/17 &amp; 11/24/17</b>	-
<b>Christmas Holiday (City Dates Observed)</b>	<b>12/25/17 &amp; 12/26/17</b>	-
Internal Review Process - adj/ address issues	12/29/17	Finance (TP & RS)
<b>New Year's Holiday (City Dates Observed)</b>	<b>01/01/18</b>	-
<b>Final Audit Fieldwork Begins</b>	<del>01/02/18</del> <sup>1/2/18</sup>	<b>Finance and PBH</b>
Draft financials to auditor	01/15/18	Finance (TP)
Full CAFR draft to auditor for review	02/02/18	Finance (TP)
Auditor review of CAFR draft complete	02/09/18	PBH
CAFR draft to audit committee for review	02/19/18	Audit Committee
Audit committee meeting to discuss CAFR/audit findings	Week of 02/26/18	Audit Committee, Finance and PBH
Presentation of Final CAFR/Audit to City Council	03/20/18	Audit Committee and PBH
Submit CAFR for GFOA Certificate of Excellence <i>(Deadline for submission is March 30th)</i>	03/23/18	Finance (TP)

<u>Audit Committee Members</u>	<u>Finance Admin Staff</u>	<u>Pattillo, Brown &amp; Hill, L.L.P. (PBH)</u>
Steven Rutherford (Chair)	Richard Summerlin (Director)	Todd Pruitt (Partner in Charge)
Dennis Schwartz (Member)	Tia Pettis (Asst. Director)	Bryan Rebel (Audit Supervisor)
Leslie Thomas (Member)	Borhan Uddin (Accountant)	
James Talley (Member)	Jamie Smith (Accountant)	
Patrick Harvey (Member)	Lisa Wren (Accting Tech)	
	Kahla Jones (Admin Assistant)	

## AUDIT COMMITTEE CHECKLIST

The Audit Committee (AC) of the Duncanville City Council is chartered to assist the City Council in fulfilling its financial and compliance oversight responsibilities. It is to be the City Council's principal agent in ensuring the independence of the City's annual financial audit, the integrity of the City management, and the adequacy of financial disclosure to the public. The checklist below is a summary of important duties that must be fulfilled in the course of serving on the committee. This checklist does not encompass all duties and is only meant as a general guide for the committee.

### Annually:

- AC and chair are appointed by City Council each year. (June)
- Review written AC policies, procedures, and activities. (Fall)
- Review scope and general intent of external audit prior to start of the audit. (Fall)
- Review external audit engagement letter and fee. AC chair to sign engagement letter.(Fall)
- Review Comprehensive Annual Financial Report (CAFR) including the financial statements, footnote disclosures, and supplemental disclosures. (Spring)
  - Includes significant transactions, changes in accounting principle, estimates and adjustments.
- Discuss with independent auditor the quality of the City's financial and accounting process and recommendations for improvements. (Spring)
- Review external audit process including adequacy of internal controls. (GAS Report)(Spring)
- Review written responses of management to "letter of comments and recommendations" from independent auditor and corrective action plans. (Spring)
- Hold separate executive sessions with management and independent auditor to discuss private matters including cooperation, responsiveness, disagreements, difficulties in performance, and any other necessary discussion. *See Executive Session Sample Questions.* (Spring)
- Report to City Council on discharge of AC responsibilities. AC chair reports at City Council meeting following completion of audit. (Spring)

### Every 5 years:

- Advise the City Council and management on the selection of the independent auditor. (Summer)

### As needed:

- Review non-audit services to be provided by the independent auditor.
- Establish, review and update a code of ethical conduct and ensure management has a system to enforce.
- Establish and maintain procedures for the receipt (confidential and/or anonymous), retention and treatment of complaints regarding accounting, auditing, and reporting practices.
- Review with legal counsel any legal matter with significant impact on City's financial reporting and and/or policies.



## **AUDIT COMMITTEE POLICIES, PROCEDURES AND ACTIVITIES**

The audit committee of the City of Duncanville was established by Resolution 2003-102109 approved by the City Council on October 21, 2003 and amended by Resolution 2015-111714 by the City Council on November 17, 2015. The committee's operational guidelines are set down herein and may be amended by a majority vote of the members of the audit committee. The authority and responsibility of the audit committee and the appointment and terms of members are designated in Resolution 2015-111714 and are incorporated herein by reference.

### **Meetings**

The audit committee is to meet at least two (2) times per year and as many times as the committee deems necessary.

### **Attendance**

Members of the audit committee are to be present at all meetings. As necessary or desirable, the chairman may request that members of management and representatives of the independent auditor be present at a meeting of the committee. A quorum of members must be present in order to conduct a meeting. If the committee consists of three (3) members, a quorum would constitute two (2) members. If the committee consists of five (5) members, three (3) out of five (5) members should be present to have a quorum.

### **Specific Duties**

#### **Financial Reporting**

The audit committee is to:

1. Review with management and the independent auditor the City's policies and procedures to reasonably ensure the adequacy of internal controls over accounting, administration, compliance with laws and regulations, and financial reporting.
2. Have familiarity, through the individual efforts of its members, with the accounting and reporting principles and practices applied by the city in preparing its financial statements. Further, the committee is to make, or cause to be made, all necessary inquiries of management and the independent auditor concerning established standards of conduct and performance, and deviations there from.
3. Review, prior to the start of the annual audit, the scope and general extent of the independent auditor's planned examination, including its engagement letter. The auditor's fees are to be arranged with management and summarized annually for committee review. The committee's review should entail an understanding from the independent auditor of the factors considered by the auditor in determining the audit scope, including:
  - Risk characteristics of the City;

- External reporting requirements;
  - Materiality of the various segments of the City's combined activities;
  - Quality of internal accounting, administrative, and compliance controls;
  - Extent of the internal auditor's involvement in audit examination; and
  - Other areas to be covered during the audit engagement.
4. Review with management the extent of non-audit services planned to be provided by the independent auditor in relation to the objectivity and independence needed in the audit.
  5. Review with management and the independent auditor instances where management has obtained "second opinions" on accounting and financial reporting policies from other accountants.
  6. Review with management and the independent auditor, upon completion of its audit, financial results for the year prior to their release to the public. The audit committee's review is to encompass the City's annual financial report, including the financial statements and footnote disclosures and supplemental disclosures required by generally accepted accounting principles, including:
    - a) Significant transactions not a normal part of the City's operations;
    - b) Selection of and changes, if any, during the year in the City's accounting principles of their application;
    - c) Significant adjustments proposed by the independent auditor;
    - d) The process used by management in formulating accounting estimates and the independent auditor's conclusions regarding the reasonableness of those estimates;
    - e) Any disagreements between the independent auditor and management about matters that could be significant to the City's financial statements or the auditor report;
    - f) Difficulties encountered in performance of the audit;
    - g) Management consultation with other accountants with respect to accounting policies or their applications; and
    - h) Major issues discussed between auditor and management prior to retention of auditor.

The audit committee shall also:

1. Evaluate the cooperation received by the independent auditor during its audit, including its access to all requested records, data and information. Also, elicit the comments of management regarding the responsiveness of the independent auditor to the City's needs. Inquire of the independent auditor whether there have been any disagreements with management that, if not satisfactorily resolved, would have caused the independent auditor to issue a nonstandard report on the City's financial statements.
2. Discuss with the independent auditor the quality of the City's financial and accounting process and any recommendations that the independent auditor may have. Topics to be considered during this discussion include improving internal



financial controls, controls over compliance with laws and regulations, the selection of accounting principles, and management reporting systems.

3. Review written responses of management to "letter of comments and recommendations" from the independent auditor and discuss with management the status of implementation of prior-period recommendations and corrective action plans.
4. Discuss with management the scope and quality of internal accounting, administrative, compliance and financial reporting controls in effect.
5. Apprise the City Council, through minutes and special presentations as necessary, of significant developments in the course of performing the above duties.
6. Recommend to the City Council any appropriate extensions or changes in the duties of the committee.
7. Recommend to the City Council the retention of the independent auditor.
8. Report annually to the City Council on the discharge of these responsibilities.

### **System of Internal Controls**

The audit committee is to:

1. Review the City's process for assessing significant risks or exposures and the steps management has taken to minimize such risks.
2. Consider and review with management and the independent auditors:
  - The effectiveness of, or weaknesses in, the City's internal controls, including the status and adequacy of management information systems and other information and security, the overall control environment, and accounting and financial controls.
  - Any related significant findings and recommendations of the independent accountants, together with management's response thereto, including the timetable for implementation of recommendations to correct weaknesses in internal controls.
3. Review internal processes for determining and managing key financial statement risk areas.
4. Review the City's process for determining risks and exposures from asserted and unasserted litigation and claims and from non-compliance with laws and regulations.

### **Ethics**

The audit committee will:

1. Establish, review and update periodically a code of ethical conduct and ensure that management has established a system to enforce this code.
2. Review management's monitoring of compliance information disseminated to governmental organizations and to the public to satisfy legal and/or regulatory requirements.

3. Review with the City's legal counsel any legal matter that could have a significant impact on the City's financial reporting and/or financial policies and other regulatory requirements related to financial disclosures.
4. Establish and maintain procedures for the receipt, retention and treatment of complaints regarding accounting, auditing and reporting practices.
5. Establish and maintain procedures for the confidential, anonymous submission by employees regarding questionable accounting, auditing or reporting matters.

**RESOLUTION NO. 2015-111714**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF DUNCANVILLE, TEXAS, REPEALING RESOLUTION 2003-102109 IN ITS ENTIRETY AND ESTABLISHING A NEW CITY COUNCIL AUDIT COMMITTEE PROVIDING FOR A PURPOSE, MEMBERSHIP MEETING, DUTIES AND RESPONSIBILITIES; AND, PROVIDING FOR AN EFFECTIVE DATE.**

**WHEREAS**, the Audit Committee of the Duncanville City Council has hereto been established to assist the City Council in fulfilling its financial and compliance oversight responsibilities by Resolution 2003-102109; and

**WHEREAS**, the Audit Committee is to be the Duncanville City Council's principal agent in ensuring the independence of the City's financial audit, the integrity of City management, and the adequacy of the financial disclosures to the public; and

**WHEREAS**, the Duncanville City Council has developed the City of Duncanville City Council Audit Committee to continue outlining the purpose, membership, meetings, and responsibilities and duties of the Committee; and

**WHEREAS**, the Duncanville City Council desires to formally adopt a new and revised City of Duncanville City Council Audit Committee.

**NOW THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DUNCANVILLE, TEXAS:**

**Section 1:** The City Council of the City of Duncanville hereby repeals Resolution No. 2003-102109 in its entirety and replacing it with a new City Council Audit Committee Resolution to hereby read as follows:

**A. Purpose**

(1) The Audit Committee of the Duncanville City Council is hereby established to assist the City Council in fulfilling its financial and compliance oversight responsibilities. It is to be the City Council's principal agent in ensuring the independence of the City's annual financial audit, the integrity of the City management, and the adequacy of financial disclosure to the public. The Audit Committee is to serve as the focal point for communication between the City Council, the independent auditor, and City management. The Audit committee's primary duties and responsibilities are to:

- Advise the City Council and management on the selection of the independent auditor.



- Serve as an independent and objective party to monitor the City's financial and compliance reporting process and internal controls system.
- Review and appraise the audit efforts of the City's independent auditor.
- Provide an open avenue of communication among the independent auditor, financial and senior management, and the Duncanville City Council.

## **B. Membership**

- (1) The Audit Committee shall be appointed annually at the first City Council meeting each June. The Audit Committee shall be comprised of three or more members as determined by the City Council, each of whom shall be independent and free from any relationship that, in the opinion of the City Council, would interfere with the exercise of his or her independent judgement as a member of the Audit Committee. Three of the members shall be appointed by the City Council from among its own members. Additionally, two members may be appointed who are not members of the City Council or the City staff in order to insure that the committee has the needed understanding of governmental finance, accounting, and auditing. Each member shall be appointed for a term of one year and the chairman of the Audit Committee shall be designated by the City Council. The City Council may, at its pleasure, replace any member of the committee at any time.
- (2) All members of the Audit Committee shall have a working familiarity with basic finance and accounting practices, as well as the compliance environment in which the City operates. Audit Committee members are encouraged to enhance their familiarity with governmental finance, accounting, auditing, laws and regulations by participating in educational programs.

## **C. Meetings**

- (1) The Audit Committee shall meet initially as soon as possible after its appointment each year, at least one additional time annually, and more frequently as circumstances require. As part of its job to foster open communication, the Audit Committee should meet at least annually with management and with the independent auditor in separate executive sessions to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately.

## **D. Responsibilities and Duties**

- (1) The Audit Committee is charged to review the City's financial reports and other financial information; the City's systems of internal controls and ethics policies that management and the City Council have established; and the City's auditing, accounting, financial and compliance reporting process. Consistent with this function, the Audit Committee should foster adherence to, and should encourage continuous improvement of the City's policies, procedures and practices.

- (2) The Audit Committee shall, subject to review and approval of the entire City Council, determine its own rules of order and shall develop, adopt, review annually, and maintain as a primary resource, a manual of policies, procedures, and activities that it will follow in accomplishing its charter responsibilities and the discharge of its duties.

**Section 2:** This Resolution shall become effective immediately upon its passage.

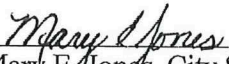
**DULY RESOLVED AND ADOPTED** by the City Council of the City of Duncanville, Texas, on the 17<sup>th</sup> day of November, 2015.

**CITY OF DUNCANVILLE, TEXAS**


**APPROVED:**

  
\_\_\_\_\_  
David L. Green, Mayor

**ATTEST:**

  
\_\_\_\_\_  
Mary E. Jones, City Secretary

**APPROVED AS TO FORM:**

  
\_\_\_\_\_  
Robert E. Hager, City Attorney

# **City of Duncanville, Texas**

**Audit Committee Meeting**

**September 19, 2017**





## **TODAY'S AGENDA**

- Engagement Objectives
- Engagements Timeline
- Standards Required to be Implemented in FY 2017
- Questions for Management/Audit Committee
- Other Questions/Comments?



## Engagement Objectives

- To express an opinion on the City's basic financial statements ✓
- To report on internal control over financial reporting and on compliance with laws, regulations, contracts, and grant agreements as required by Government Auditing Standards
- An audit is not designed to provide assurance on internal control or to identify significant deficiencies in internal control <sup>report</sup>
- However, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.



## Engagement Timeline

- Interim Fieldwork
  - Final Audit Fieldwork
  - Review and Quality Control Activities
  - Preparation of Reports & Required Auditor Communications
  - Presentation to Audit Committee
  - Presentation to City Council
- Week of Oct. 2nd <sup>-updates</sup>
  - Starting January 8th
  - February
  - February
  - February
  - February
  - February or March





# Standards Required to be Implemented

## Effective Dates—June 30

- 2017
  - Statement 73—Pensions not within the scope of 67/68
  - Statement 74—OPEB (plans)
  - **Statement 77—Tax Abatement Disclosures**
  - Statement 78—Certain Multiple-employer Pension Plans
  - Statement 79—Certain Investment Pools and Participants
  - Statement 80—Blending Requirements
  - Statement 82—Pension Issues
  - Implementation Guide 2016-1
- 2018
  - **Statement 75—OPEB (employers)**
  - Statement 81—Irrevocable Split-interest Agreements
  - Statement 85 – Omnibus 2017
  - Statement 86 – Certain Debt Extinguishment Issues
  - Implementation Guide 2017-1
- 2019
  - Statement 83—Certain Asset Retirement Obligations
  - Statement 85 – Omnibus 2017
- 2020—Statement 84—Fiduciary Activities
- 2021 – Statement 87 - Leases



## GASB Statement 77 – Tax Abatement Disclosures

- A tax abatement is a **reduction in taxes** that results from an agreement between one or more governmental entities and an individual or entity in which:
  - One or more governmental entities promise to forgo tax revenues in which they are otherwise entitled **and**
  - The individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments



# GASB Statement 77 – Tax Abatement Disclosures

## General Disclosure Principles

- Disclosures should be in 2 categories:
  - Agreements entered into by the reporting government (the City)
  - Agreements entered into by other governments that reduce the City's tax revenues
- Abatement disclosures could be done individually or aggregated based upon a quantitative threshold set by the City
  - Organized by major tax abatement program (economic development, etc.)
  - Abatements entered into by other governments are organized by specific tax being abated
- Disclosure starts when agreement is entered into and ends when abatement expires





## GASB Statement 77 – Tax Abatement Disclosures

### Primary Disclosures

- Name and purpose of tax abatements program
- Authority under which abatements are entered
- Criteria for eligibility of abatement/recipient
- Mechanisms of how taxes are abated
  - How amount is determined
  - Basis of how taxes are reduced (e.g. reduction of assessed value)
- Provisions for recapturing abated taxes
- Dollar amount the reporting government's tax revenues were reduced during reporting period



## GASB Statement 77 – Tax Abatement Disclosures

- If the City also made commitments other than reducing taxes for the abatement, include a description of:
  - Type of commitments
  - Most significant individual commitments made
  - Continue disclosure until commitments have been fulfilled



## Questions for Management/Audit Committee

- Will either a federal or state single audit be required this year?
- Has there been any known or suspected fraud or illegal acts?
- Have there been any unusual transactions or significant changes in accounting policies during the year?
- Change in personnel that would have audit significance?
- Any litigation we should be aware of before the audit begins?
- Were there any major changes in operations this year?
- Are there any areas that require special attention due to high risks?
- Were there any significant changes in accounting estimates?
- Were there any significant systems implemented or modified that could impact processing of transactions?
- Any other areas of concern?

