

CITY OF EL PASO, TEXAS
AGENDA ITEM DEPARTMENT HEAD'S SUMMARY FORM

DEPARTMENT: Office of the Comptroller

AGENDA DATE: April 30, 2019

CONTACT PERSON/PHONE: Pat Degman CGFM, Comptroller, 212-1170
Charles Lino CPA, Assistant Comptroller, 212-1152

DISTRICT (S) AFFECTED: All

SUBJECT:

Presentation and discussion on a report by BKD, LLP ("BKD") on the financial and grants audits of the City of El Paso ("City"). The report to the City Council will include the audit opinion regarding City financial statements and a brief overview of the financial results for the City for the fiscal year ended August 31, 2018.

BACKGROUND / DISCUSSION:

BKD is an independent accounting firm of Certified Public Accountants contracted by City Council to audit the financial statements and grants of the City. Included in the services provided by BKD is an opinion on the financial statements and supplementary information included in the Comprehensive Annual Financial Report (CAFR), and Single Audit on state and federal grants (SEFA), and five Agreed Upon Procedures Reports. The CAFR and SEFA reports are prepared by the Office of the Comptroller.

PRIOR COUNCIL ACTION:

Existing Contract 213-278R Professional Auditing Services awarded September 10, 2013.

AMOUNT AND SOURCE OF FUNDING:

N/A

BOARD / COMMISSION ACTION:

N/A

*****REQUIRED AUTHORIZATION*****

DEPARTMENT HEAD: _____
Name Signature Date



CITY OF EL PASO, TEXAS

FY2018 AUDIT PRESENTATION

PRESENTED BY:

DAVID COLEMAN, CPA, PARTNER

RACHEL ORMSBY, CPA, SENIOR MANAGER

BKD^{LLP}
CPAs & Advisors

OUR GOALS FOR TODAY

1 Audit Approach and Timeline

2 Comprehensive Annual Financial Report (CAFR) Overview

3 Basic Financial Statements

4 Audit Scope and Results

5 Pensions

6 Single Audit

7 Accounting Updates

AUDIT APPROACH AND TIMELINE

OUR FIVE-PHASE APPROACH TO FINANCIAL STATEMENT AUDITS

1 » Planning

2 » Risk Assessment

3 » Fieldwork, Testing &
Further Audit Procedures

4 » Report &
Communications Delivery

5 » Presentation

- ▶▶ July & August – behind the scenes
 - Delivery of PBC list and internal control forms
 - Pre-audit team planning meeting with management
- ▶▶ September & October – laying the foundation
 - Entrance conference with management
 - Planning / Internal Control Analysis and Walkthroughs
 - Interviews with key management, confirmation work & review of City Council meeting minutes
 - Single Audit testing and analysis based on receipt of preliminary Schedule of Expenditures of Federal and State Awards
- ▶▶ November & December – full team resources
 - Final trial balances delivered
 - Audit fieldwork, focused on your areas of risk
 - Assistance with document requests by City personnel
 - Exit conference with management
- ▶▶ January & February – wrap-up and report delivery
 - Draft CAFR delivered
 - Concurring reviewer independent final review
 - Delivery of all audit and agreed-upon procedure deliverables

DELIVERABLES

Audited by BKD

- ▶▶ City of El Paso – CAFR & Single Audit
- ▶▶ City Employees’ Pension Fund
- ▶▶ City of El Paso International Airport and PFC Audit
- ▶▶ Chapter 59 Asset Forfeiture Report – AUP
- ▶▶ Texas Commission on Environmental Quality - AUP
- ▶▶ National Transit Database Federal Funding Allocation Data – AUP
- ▶▶ National Transit Database Uniform System of Accounts - AUP

Audited by Other Auditors

- ▶▶ El Paso Water Utilities
- ▶▶ El Paso Firemen and Policemen’s Pension Fund

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) OVERVIEW



- ▶▶ Letter of Transmittal
- ▶▶ Certificate of Achievement for Excellence in Financial Reporting – **the City has received this prestigious award for 18 consecutive years**
- ▶▶ Independent Auditor’s Report
- ▶▶ Management’s Discussion and Analysis
- ▶▶ Basic Financial Statements
- ▶▶ Notes to Basic Financial Statements
- ▶▶ Required Supplementary Information
- ▶▶ Statistical Section

BASIC FINANCIAL STATEMENTS



- ▶▶ Government-Wide Financial Statements
- ▶▶ Fund Financial Statements
 - Governmental Fund Financial Statements
 - ▮ Major Funds: General Fund, CDBG, Debt Service, and Capital Projects
 - Proprietary Fund Financial Statements
 - ▮ Major Funds: Airport, Environmental Services, Mass Transit, International Bridges, Tax Office
 - Fiduciary Fund Financial Statements
 - ▮ Pension Trust Funds, Agency Funds
- ▶▶ Combining Fund Statements and Schedules
 - Nonmajor Governmental Funds
 - Internal Service Funds
 - Pension Trust Funds
 - Fiduciary Funds

AUDIT RESULTS – UNMODIFIED “CLEAN” OPINIONS



- ▶▶ Independent Auditor’s Report on Basic Financial Statements
- ▶▶ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* – Independent Auditor’s Report
- ▶▶ Report on Compliance for Each Major Federal and State Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal and State Awards Required by Uniform Guidance and State of Texas *UGMS* – Independent Auditor’s Report

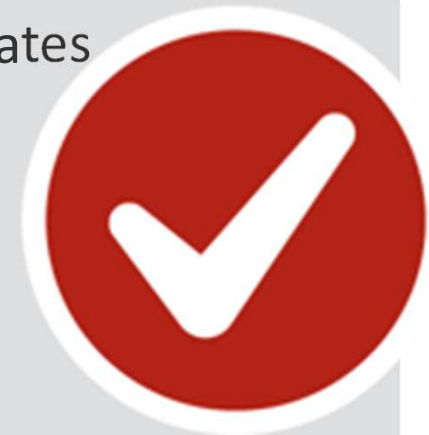
AUDIT SCOPE AND RESULTS

▶▶ Significant Accounting Policies

- The City's significant accounting policies are described in *Note 1* of the audited financial statements.

▶▶ Management Judgments and Accounting Estimates

- Receivables (property tax, ambulance, etc.)
- Allowance for uncollectible receivables
- Fair value of investments
- Self-insured liabilities
- Compensated absences
- Net pension liability
- Other post-employment benefits liability
- Landfill closure and post-closure care liabilities
- Depreciation of capital assets
- Loss contingencies



AUDIT SCOPE AND RESULTS



▶▶ Financial Statement Disclosures

- Net pension liability
- Determination of fair values
- Loss contingencies
- Restatement related to the adoption of GASB Statement No. 75 OPEB and related disclosures

▶▶ Proposed Audit Adjustments Recorded

- Net position and fund balances
- Various revenue and expense reclassification entries for reporting purposes

PENSION - CITY EMPLOYEES' PENSION FUND

	FY2018	FY2017
Net Pension Liability (NPL)	\$199.9M	\$222.7M
Plan fiduciary net position as a % of the total pension liability	79.52%	76.46%

Sensitivity of NPL – FY2018		
1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
\$322.6M	\$199.8M	\$104.5M

PENSION - FIREMEN'S AND POLICEMEN'S PENSION FUNDS

	FY2018	FY2017
Net Pension Liability (NPL) – Firemen Division	\$145.8M	\$172.0M
Plan fiduciary net position as a % of the total pension liability	80.50%	75.37%
Net Pension Liability (NPL) – Policemen Division	\$207.2M	\$228.1M
Plan fiduciary net position as a % of the total pension liability	80.80%	77.12%

Sensitivity of NPL – FY2018			
Division	1% Decrease (6.75%)	Current Assumption (7.75%)	1% Increase (8.75%)
Firemen	\$251.3M	\$145.8M	\$60.2M
Policemen	\$360.1M	\$207.2M	\$83.4M

MAJOR FEDERAL AND STATE PROGRAMS FOR THE YEAR ENDED AUGUST 31, 2018

Major Cluster/Program	Department	CFDA #	Audit Results
Special Supplemental Nutrition Program for Women, Infants, and Children	Public Health	10.557	\$5.6M of expenditures; unmodified opinion
Airport Improvement Program	Airport	20.106	\$14.5M of expenditures; unmodified opinion
Alternative Analysis	Sun Metro	20.522	\$5.5M of expenditures; unmodified opinion
Local Border Security Program (LBSP)	Police	State	\$356K of expenditures; unmodified opinion
Texas Anti-Gang (TAG) Program	Police	State	\$1.2M of expenditures; unmodified opinion

ACCOUNTING UPDATES - GASB STATEMENT 75, ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSION

Summary

- ▶▶ GASB 75 requires governments to report a liability on the face of the financial statements.
- ▶▶ GASB 75 requires more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. The City implemented GASB 75 during FY2018 and required a restatement of prior year.

Impact

- ▶▶ Restatement to beginning of year net position as follows:
 - Governmental Activities: (41,257,405)
 - Airport: (2,806,696)
 - Environmental Services: (3,723,248)
 - Mass Transit: (5,738,682)
 - International Bridges: (669,318)
- ▶▶ Refer to *Note 1* (page 30 of 2018 CAFR) for further discussion.

ACCOUNTING UPDATES - GASB STATEMENT 84, *FIDUCIARY ACTIVITIES*

Summary

- ▶▶ GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.
- ▶▶ Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.
- ▶▶ GASB 84 is effective for the City's 2020 fiscal year.

ACCOUNTING UPDATES - GASB STATEMENT 87, LEASES

Summary

- ▶▶ GASB 87 provides a new framework for accounting for leases under the principle that leases are financings.
- ▶▶ No longer will leases be classified between capital and operating.
- ▶▶ GASB 87 is effective for the City's 2021 fiscal year. Earlier application is encouraged.

Potential Impact

- ▶▶ Lessees will recognize an intangible asset and a corresponding liability.
- ▶▶ Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset.
- ▶▶ Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

QUESTIONS?

David Coleman, CPA // Partner
dcoleman@bkd.com // 972.702.8262

Rachel Ormsby, CPA // Senior Manager
rormsby@bkd.com // 972.702.8262

THANK YOU!

The logo for BKD LLP, featuring the letters "BKD" in a large, bold, sans-serif font. To the right of "BKD" is "LLP" in a smaller font. Below "BKD" is the text "CPAs & Advisors" in a smaller, sans-serif font. The logo is positioned in the bottom right corner of a dark gray rectangular area that occupies the bottom third of the slide.

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