
City of El Paso, Texas

Comprehensive Annual Financial Report (CAFR) and
Single Audit Reports
For Fiscal Year Ended August 31, 2015
Finance and Audit Oversight Committee Presentation

Presented by: David M. Coleman, Partner



City of El Paso, Texas

Achievements and Responsibilities

- For the 17th consecutive year awarded the Government Finance Officers Association's Certificate of Achievement (GFOA) for Excellence in Financial Reporting and expected to receive in current year
- Received an unmodified "clean" opinion on CAFR for the year ended August 31, 2015

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Reporting Entity

- Audited by BKD
 - ❖ City of El Paso
 - ❖ City Employees' Pension Fund
- Audited by Other Auditors
 - ❖ El Paso Water Utilities
 - ❖ El Paso Housing Finance Corporation
 - ❖ El Paso Firemen and Policemen's Pension Fund

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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

- ❖ Property taxes receivable
- ❖ Allowance for uncollectible receivables
- ❖ Fair market value of investments
- ❖ Self-insured liabilities
- ❖ Compensated absences
- ❖ Net pension liability
- ❖ Other postemployment benefits obligation
- ❖ Landfill closure/post-closure obligation
- ❖ Depreciation
- ❖ Litigation loss contingencies

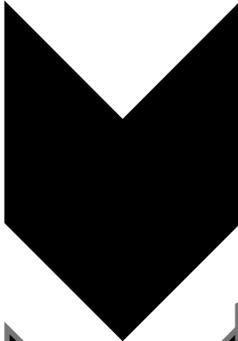
City of El Paso, Texas

Audit Adjustments

- Proposed Audit Adjustments Recorded
 - ❖ Cash and cash equivalents
 - ❖ Accounts receivable
 - ❖ Due from other government agencies
 - ❖ Inventory
 - ❖ Accounts payable
 - ❖ Accrued liabilities
 - ❖ Net position and fund balances
 - ❖ Various revenue and expense reclassifications
- Proposed Audit Adjustments Not Recorded
 - ❖ Prior year turnaround effect of accounts payable passed adjustments

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GASB Statement 68, Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27

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- Restatement of beginning unrestricted net position of approximately \$398.7M
 - 90% Governmental Activities
 - 10% Business-Type Activities
 - GASB 68 not yet implemented by the EPWU, a Component Unit of the City

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- Addition of Deferred Outflows of Resources for pension contributions , difference in projected and actual earnings on pension assets, and difference in expected and actual pension experience
 - Addition of Deferred Inflows of Resources for difference in projected and actual earnings on pension assets

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- See next slide for pension liability for both City Employees' Pension Fund and Firemen and Policemen's Pension Fund at August 31, 2015

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GASB Statement 68, Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27 (Cont.)

Net Pension Liability	CEPF	FPPF – Fireman	FPPF – Policeman	Total
Governmental Activities	\$67,049,762	\$105,773,728	\$185,014,726	\$357,838,216
Business-Type Activities	\$34,850,752	\$0	\$0	\$34,580,752
Total Primary Government	\$101,900,514	\$105,773,728	\$185,014,726	\$392,688,968

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Internal Control Over Financial Reporting - Finding

- We identified a deficiency in internal control described in the Schedule of Findings and Questioned Costs in the City's Single Audit Reports as item 2015-001 that we consider a significant deficiency.
 - ❖ The finding relates to the City's year-end closing procedures, which were not adequately performed.
 - ✓ Resulted in initial errors in year-end balances and required several audit adjustments and delayed audit issuance

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Internal Control Over Financial Reporting - Recommendation

- We suggest that the City develop an accounting policies and procedures manual that indicates all items to be completed during the year-end close and the individuals responsible for each item. In addition, monthly reconciliations play a key role in proving the accuracy of accounting data and information included in interim financial statements. In order to provide more accurate and timely accounting information, we recommend the City establish a more effective review and reconciliation policies. This would involve monthly reconciliations of general ledger accounts and providing interim reports to both management and the City Council throughout the year.

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Major Federal and State Programs for the Year Ended August 31, 2015

- The following provides an overview of the major programs tested this year, which has been determined based on final schedule of expenditures of federal and state awards and the results of that testing.

Major Program	CFDA # or State	Results
WIC	10.557	\$6.8M of expenditures; unmodified opinion
HOME	14.239	\$5.8M of expenditures; unmodified opinion, except for a qualification relating to Special Tests and Provisions – Housing Quality Inspections
Airport Improvement Program	20.106	\$7.8M of expenditures; unmodified opinion
HIDTA	95.001	\$2.4M of expenditures; unmodified opinion
ABTPA	State	\$1.2M of expenditures; unmodified opinion
LBSP	State	\$387K of expenditures; unmodified opinion

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Internal Control over Compliance for Major Federal Awards Findings

- The independent auditor's report on internal control over compliance for major federal awards programs disclosed a significant deficiency and material weakness.
- The opinions expressed in the independent auditor's report on compliance for major federal awards were unmodified, except for a qualification relating to HOME Special Tests and Provisions – Housing Quality Inspections.
- The audit disclosed findings required to be reported by OMB Circular A-133.
 - ❖ A summary of these findings will be discussed on the following slides.

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Internal Control over Compliance for Major Federal Awards Findings

- Reference Number: 2015-002
- Federal Program: Home Investment Partnerships Program
- CFDA No.: 14.239
- Agency: Department of Housing and Urban Development (HUD)
- Federal Compliance Requirement: Eligibility
- Finding Type: Significant deficiency in internal control over compliance for major program
- Summary: The City's internal controls and policies established surrounding HOME-assisted rental housing projects tenant eligibly require the City to monitor HOME-assisted properties to ensure that they comply with the HOME eligibly requirements that apply throughout the period of affordability. Of the 8 housing projects selected for testing, the City did not verify eligibility information for 3 housing projects within the past fiscal year. In addition, the City did not maintain and was unable to provide the tenant application files for one housing project, and therefore we were unable to verify the tenants' eligibly and rent being charged to the tenant. Management should review its current internal control policies and procedures to ensure that HOME-assisted rental housing projects requirements are monitored in accordance with the HOME eligibly requirements that apply throughout the period of affordability.

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Internal Control over Compliance for Major Federal Awards Findings

- Reference Number: 2015-003
- Federal Program: Home Investment Partnerships Program
- CFDA No.: 14.239
- Agency: Department of Housing and Urban Development (HUD)
- Federal Compliance Requirement: Special Test - Housing Quality Standards
- Finding Type: Noncompliance having a direct and material effect on a major program and material weakness in internal control over compliance for major program
- Summary: Of the nine housing projects selected for testing, the City did not perform inspections of units as required on four housing projects during fiscal year 2015. In addition, the City did not have adequate internal controls or procedures in place to ensure compliance relating to housing quality standards. Audit procedures performed to ensure the propriety of the City's Housing Quality Standards inspection tracking document revealed multiple instances in which the tracking spreadsheet did not project the correct "Next Inspection Due" date. Management should review its current internal control procedures to ensure the housing quality standards inspection document is properly prepared and that housing quality standards inspections are conducted in compliance with federal regulations for the HOME Investment Partnerships Program.

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Accounting Updates - GASB Statement 72, *Fair Value Measurement and Application*

Summary

- GASB 72 addresses accounting and financial reporting issues related to fair value measurements.
- The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. G
- GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes that aligns with the Financial Accounting Standards Board's Topic 820.
- GASB 72 also provides that all assets meeting the definition of an investment in the Statement should be measured at fair value, unless the Statement provided otherwise.

Potential Impact

- Certain disclosures related to all fair value measurements will be required
- GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.
- GASB 72 is effective for financial statements for fiscal years beginning after June 15, 2015, and any prior periods presented should be restated, including disclosures, if practical.

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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, in accordance with the following:
 - ❖ Employers that are responsible only for OPEB liabilities for their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability (the difference between the total OPEB liability and the assets accumulated in trust to make the benefit payments)
 - ❖ Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer's proportionate share for the collective OPEB liability for all employers participating in the plan
 - ❖ Employers that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability for their own employees

Potential Impact

- GASB 75 requires more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. GASB 75 is effective for fiscal years beginning after June 15, 2017 and requires restatement of any prior years presented, if practical.
- While not effective in the short term, we recommend the City begin assessing the potential impact on the financial statements of both of these statements and begin the process of communicating this impact with those charged with governance and other stakeholders. Similar to the adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, the adoption of 75 will require advance coordination with plans and actuaries so that the required information is available.

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- Questions?
- Thank You