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# City and County of San Francisco Audit Plan June 30, 2015

September 17, 2015

# Agenda

## 1.0 KPMG audit entities team

## 2.0 Objective of an audit

## 3.0 Responsibilities

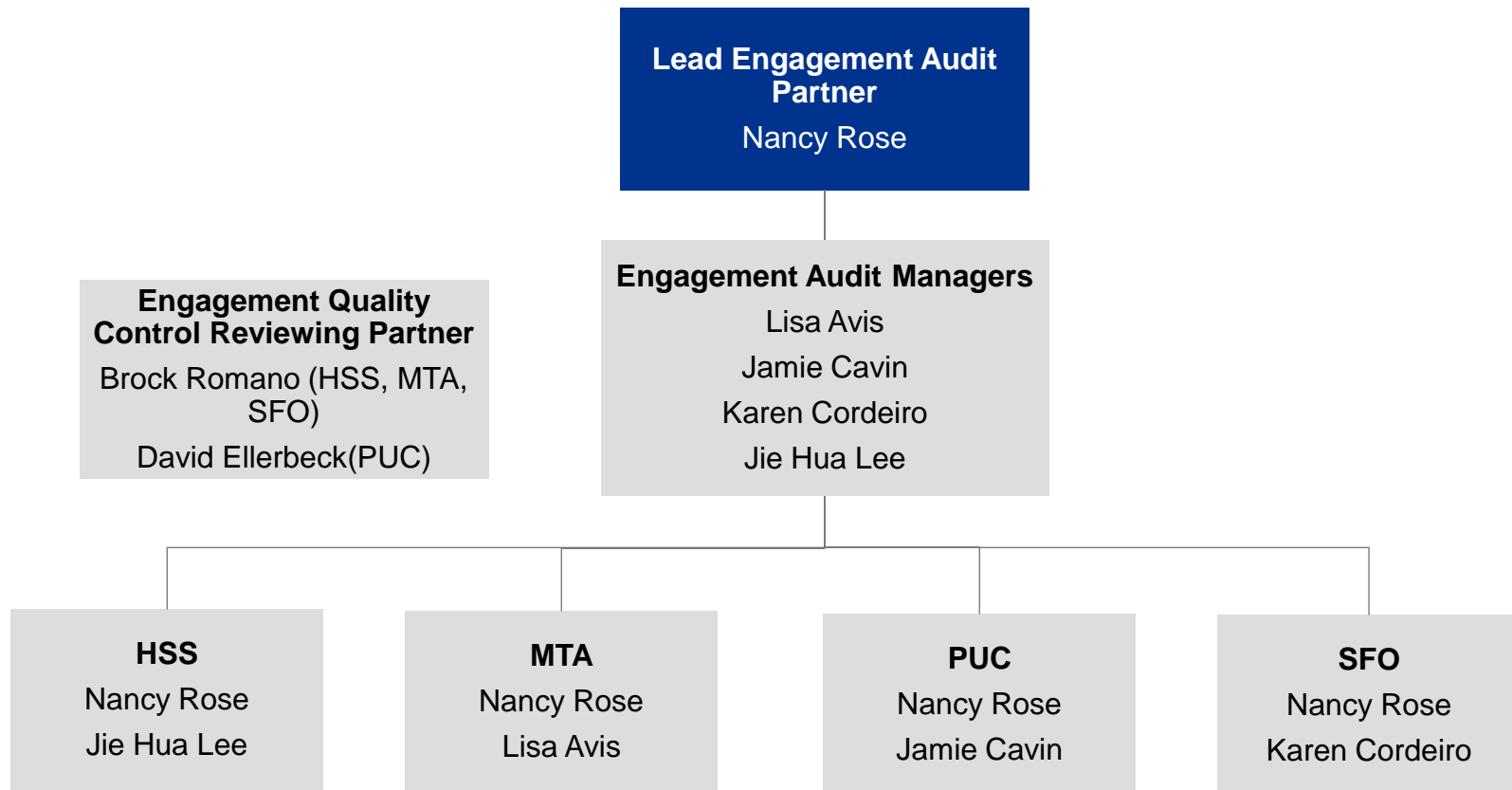
## 4.0 Audit plan

- Scope
- 2014 Audit results
- Public offerings
- Audit timeline and key dates

## 5.0 Independence

# **1.0**

## **KPMG Audit Entities and Team**



## **2.0**

# **Objective of an audit**

# Objective of an audit

- The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in conformity with generally accepted accounting principles and the standards applicable to financial audits contained in Government Auditing Standards.
- We plan and perform the audit to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement, whether from error or fraud.
- We design tests of controls to obtain sufficient evidence to support the auditors' control risk assessments for purposes of the audit of the financial statements.

# **3.0**

## **Responsibilities**

# Responsibilities

## Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements in conformity with generally accepted accounting principles
- Establishing and maintaining effective internal control over financial reporting (ICFR)
- Establishing and maintaining internal controls to prevent, deter, and detect fraud
- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards
- Identifying and confirming that the City complies with laws and regulations applicable to its activities
- Making all financial records and related information available to the auditor
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of ICFR that could adversely affect the City's ability to initiate, authorize, record, process, or report financial data
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud

## The Audit Committee is responsible for:

- Oversight of the financial reporting process and oversight of ICFR

**The audit of the financial statements does not relieve the Audit Committee and management of its responsibilities.**



# Responsibilities (continued)

## KPMG is responsible for:

- Forming and expressing an opinion about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- Planning and performing the audit to obtain reasonable—not absolute—assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Evaluating whether the controls sufficiently address:
  - a) Identified risks of material misstatement due to fraud
  - b) The risk of management override of other controls
- Communicating to management in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management deficiencies that, in our professional judgment, are of sufficient importance to merit management's attention
- Conducting our audit in accordance with professional standards and complying with applicable rules, regulations and ethical standards including the standards applicable to the financial audits contained in Government Auditing Standards
- Planning and performing our audit with an attitude of professional skepticism
- Communicating all required information, including significant matters, to management and the Audit Committee

# Responsibilities (continued)

## Other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements
- We are required to read the other information to identify material inconsistencies or misstatement of facts, if any, with the audited financial statements and make appropriate arrangements with management to obtain the other information prior to the date of the auditors' report.
- Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in the auditor modifying or withholding the auditors' report or withdrawing from the engagement.

# **4.0**

## **Audit plan**

# Audit plan – Scope

## Scope of work

*Audits of basic financial statements as of and for the year ending June 30, 2015 for the following entities:*

- *San Francisco Health Service System (HSS)*
- *Municipal Transportation Agency (MTA)*
- *Public Utilities Commission (PUC)*
- *San Francisco International Airport (SFO)*

*MTA Single Audit*

*MTA Agreed-Upon Procedures for National Transit Database (NTD), Revenue Bond Series, Transportation Development Act (TDA) Compliance Letter*

*MTA Public Transportation Modernization, Improvement, and Service Enhancement Account Program*

*PUC Statement of Changes in the Balancing Account of the Water Enterprise Audit*

*SFO Single Audit*

## Applicable financial reporting framework

- *U.S. Generally Accepted Accounting Principles*
- *U.S. Generally Accepted Auditing Standards*
- *Government Auditing Standards*

# Audit plan – 2014 Audit results

## 2014 audit results

- All departments were issued an unmodified (clean) audit opinion

## 2014 deficiencies

- *SFO - Finding 2014-1 (Material Weakness Deficiency)* Lack of controls over identifying and recording capital assets as well as appropriately recording depreciation expense in accordance with established policies
- Management recorded adjustments totaling \$41.4 million to capital assets for 1) items that did not meet the definition of a capital asset; 2) assets that no longer exist; and 3) assets for which depreciation was calculated based on incorrect useful lives.
- Cause - The errors are due to lack of timely review and monitoring of capital asset records.
- Recommendation - Management should continue to perform an annual review of fixed assets and continue to analyze capital improvement projects to ensure that assets are appropriately identified, capitalized and depreciated. This may involve assessing the sufficiency of the resources available to perform this function. Any errors discovered should be corrected on a timely basis. Moreover, Management should focus on the appropriate accounting and reporting of fixed asset transactions as the Airport's fixed assets are growing significantly. Furthermore, Management should implement capital asset guidelines and/or procedures to help ensure consistency in what is being capitalized.

## Audit plan – Public Offerings

- Should the City wish to include or incorporate the financial statements and our audit reports into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our consent to the inclusion of our reports and terms thereof at that time.
- We will be required to perform procedures as required by the applicable standards, including, but not limited to, reading other information, incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or manner of its presentation, is materially consistent with information, or manner of its presentation, appearing in the financial statements.
- We will not perform procedures to corroborate such other information (including forward-looking statements).
- The specific terms of our future services with respect to future offering documents will be determined at the time services are to be performed.

# Audit Timeline and Key Dates

- Planning and Interim Fieldwork:
  - May through August of 2015
  
- Final Fieldwork
  - September 2015 through January 2016
  
- Deliverables
  - Target financial statements issuance date: October 23, 2015 (MTA, SFO, HSS); October 16, 2015 (PUC)
  - Issuance of significant deficiency reports, if applicable: October 23, 2015
  - Issuance of Single Audit and other special reports: before January 31, 2016

# **5.0**

## **Independence**



# Independence

In our professional judgment, we are independent with respect to the City, as that term is defined by the professional standards.



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