



City and County of San Francisco

Audit plan

June 30, 2017

May 17 2017

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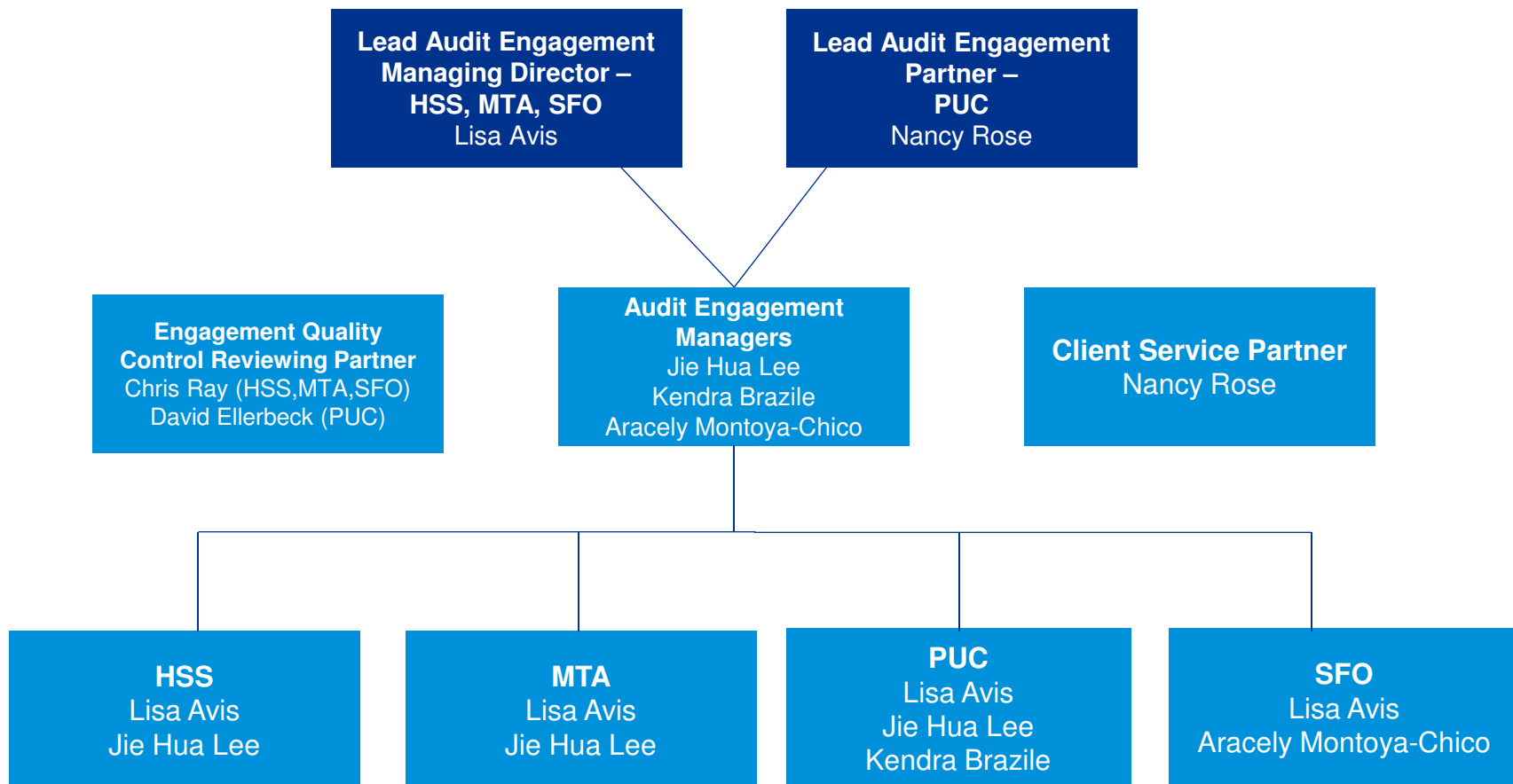




1.0

KPMG Audit Entities and Team

KPMG Audit Team





2.0

Objectives of an audit

Objectives 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 with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Although not absolute assurance, reasonable assurance is a high level of assurance.
- Our audit includes:
 - Performing tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion.
 - Assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.



3.0 Responsibilities

Responsibilities

Management is responsible for:

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Ensuring that the City operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the City's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent , deter, and detect fraud.

Responsibilities (continued)

Those Charged with Governance is responsible for:

- Oversight of the financial reporting process and oversight of ICOFR
- Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud.

Management and those Charged with Governance are responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.

The audit of the financial statements does not relieve management or those Charged with Governance of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Conducting the audit in accordance with professional standards and complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the ethical standards of relevant CPA societies, and relevant state boards of accountancy
- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with GAAP
- An audit of the financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.
- Communicating to those charged with governance all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Communicating to management and those charged with governance in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the City's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.
- Communicating to those charged with governance circumstances that affect the form and content of the auditors' report, if any.

Responsibilities for 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, excluding required supplementary information.
- The auditors' responsibility is to make appropriate arrangements with management or those charged with governance to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.



Responsibilities – Independence Matters

In order for us to fulfill our professional responsibility to maintain and monitor independence in relation to the City, timely information is required from City’s management regarding the following:

- The City’s affiliates – This includes entities that are part of the CAFR and other entities that meet the definition of an affiliate under AICPA independence rules (e.g. sister companies under control of a common parent company where both the audit client and sister company are material to the controlling company, entities included in an investment company complex, etc.)

Payment of Fees – Audit and All Other Professional Services

Professional standards require that fees for any previously rendered professional service provided more than one year prior to the date of the current year audit report have been paid.





4.0 Audit plan

Audit plan - Scope

Scope of work	<p><i>Audits of basic financial statements as of and for the year ended June 30, 2017 for the following entities:</i></p> <ul style="list-style-type: none"> • <i>Health Service System (HSS)</i> • <i>Municipal Transportation Agency (MTA)</i> • <i>Public Utilities Commission (PUC)</i> • <i>San Francisco International Airport (SFO)</i> <p><i>MTA Single Audit</i></p> <p><i>MTA Agreed-Upon Procedures for National Transit Database (NTD), Revenue Bond Series, Transportation Development Act (TDA) Compliance Letter</i></p> <p><i>MTA Public Transportation Modernization, Improvement, and Service Enhancement Account Program</i></p> <p><i>PUC Statement of Changes in the Balancing Account of the Water Enterprise Audit</i></p> <p><i>SFO Single Audit</i></p> <p><i>SFO Revenue Bond Series</i></p>
Applicable financial reporting framework	<i>U.S. Generally Accepted Accounting Principles</i>
Applicable auditing standards	<ul style="list-style-type: none"> • <i>U.S. Generally Accepted Auditing Standards</i> • <i>Government Auditing Standards</i>
Other terms of engagement	<i>Communications of Audit Results for each department will occur in November/December</i>

Audit plan - Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Risk assessment

Based on our risk assessment procedures, the following are significant risks/financial statement level risks that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such significant risks:

Significant Risks/financial statement level risks:

Due to Error

- *Significant risk varies depending on each entity. Identified risks are based on actuarial estimates and involve a high degree of judgment; therefore, inherent risk is assessed as significant.*
 - *Workers Compensation and General Liability (MTA)*
 - *Reserves for claims (HSS)*
 - *None identified for PUC*
 - *None identified for SFO*

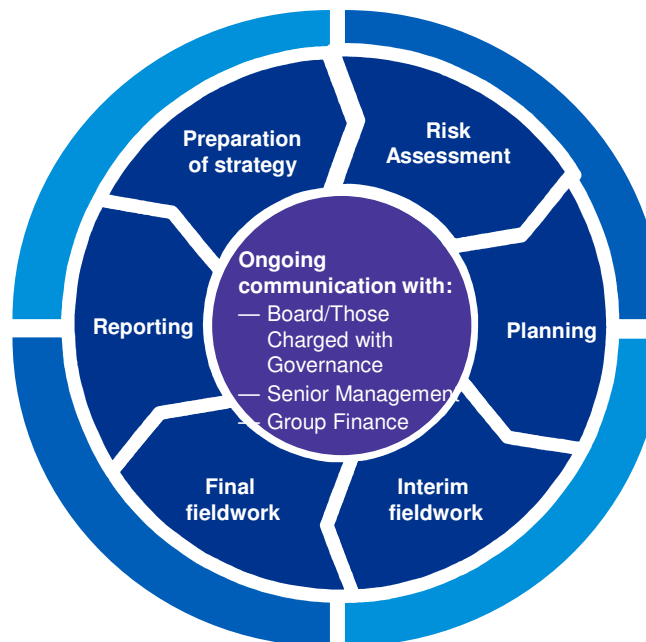
Due to Fraud

- *Risk of management override of controls – Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.*

Audit plan - Deliverables and time line

- Debrief on audit process
- Plan audit approach for upcoming year-end audit
- Identify key members of the engagement team, including specialists

- Perform analytical or other procedures to roll forward account balances to year-end
- Perform remaining audit procedures
- Discuss key issues and deficiencies identified with management
- Attend Board committee meeting and perform required communications
- Review of financial statement disclosures
- Obtain written representation from management
- Issue audit opinion on financial statements



- Perform risk assessment procedures and identify risks
- Determine audit approach
- Evaluate entity-level controls
- Determine planned audit approach
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls including general IT controls, where applicable.
- Coordination with Internal Audit/ component auditors
- Present audit plan to those charged with governance

- Meetings with management to discuss key issues
- Perform interim substantive audit procedures
- Perform site visits

Audit plan - Deliverables and time line (continued)

Planning and Interim Fieldwork	May 2017 – August 2017
Final Fieldwork	September 2017 – January 2018
Audit reports and other reports	<ul style="list-style-type: none"> — Auditors' report on each entity's financial statements of: <ul style="list-style-type: none"> - MTA - SFO - HSS - Water - PUC CAFR - Wastewater - Hetch Hetchy Water and Power — Uniform Guidance Auditors' report for SFO and MTA — Agreed Upon Procedures Report for NTD, TDA, MTA's Revenue Bond Series, and SFO's Revenue Bond Series — Auditors' report over PUC Statement of Changes in the Balancing Account of Water Enterprise Audit — Auditor's report on <i>MTA Public Transportation Modernization, Improvement, and Service Enhancement Account Program</i>
Other deliverables	<ul style="list-style-type: none"> — Target financial statements issuance date: October 20, 2017 — Issuance of significant deficiency reports, if applicable: October 20, 2017 — Issuance of Single Audit and other special reports: before January 31, 2018 — Required communications between KPMG and those Charged with Governance: November/December 2017

Audit Plan – SFMTA Uniform Guidance

Planning and Interim Fieldwork	September 2017 – October 2017
Final Fieldwork	November 2017 – December 2017
Findings	<p><u>Related to Fiscal Year 2015-16</u></p> <ul style="list-style-type: none"> — We tested general IT controls over Time Control. We found that SFMTA did not properly design or implement certain IT controls over information technology, including access and change management. — Total questioned costs reported: \$35,854 — SFMTA agrees with finding and have implemented controls for FY2017to address this finding
FY 2017 Plan	<ul style="list-style-type: none"> — KPMG will involve KPMG IT team to test the remediation of the finding in May 2017/June 2017.

Audit plan - Auditing and accounting matters

Other matters for discussion with the those Charged with Governance include their views about:

- The appropriate person (those Charged with Governance Chair or full committee) for communication of audit matters during the audit
- Allocation of responsibilities between management and the those Charged with Governance
- Entity's objectives and strategies and related business risks that may result in material misstatements
- Areas that warrant particular attention during the audit and additional procedures to be undertaken
- The nature and extent of communications expected with the those Charged with Governance about misappropriations perpetrated by lower-level employees
- Significant communications with regulators, if applicable
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- Developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations
- Significant issues discussed with management in connection with the appointment or retention of the auditor, including significant discussions regarding the application of accounting principles and auditing standards.
- Previous communications with the auditor



5.0 Independence

Independence

Nonaudit services or other relationships that may reasonably be thought to bear on independence include:

- Word processing assistance

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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