



The City of Atlanta

**Results of the 2016 audits:
Report to the Finance and Executive Committee
Atlanta, Georgia**

March 15, 2017



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Audit scope and deliverables

- Audit of the City of Atlanta's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2016
- Audit of the Department of Watershed Management's CAFR for the year ended June 30, 2016
- Audit of the Department of Aviation's CAFR for the year ended June 30, 2016
- Audit of the General Employees', Police, and Fire Pension plans for the year ended June 30, 2016
- Audit in accordance with Uniform Guidance for the year ended June 30, 2016 (in process)
- Audit and Agreed Upon Procedures for the City of Atlanta's Landfill for the year ended June 30, 2016
- Audit of Passenger Facility Charges Collected and Expended for the year ended June 30, 2016
- Audit of Municipal Option Sales Tax for the year ended June 30, 2016
- Audit of Motor Vehicle Excise Tax for the year ended June 30, 2016
- Audit of Hotel/Motel Tax for the year ended June 30, 2016
- Communications regarding internal control recommendations
- Required communications with Audit Committee concerning FY 2016 audit results

Overview of fiscal year 2016 audit results

Responsibilities under auditing standards generally accepted in the United States of America (GAAS)	<ul style="list-style-type: none"> — Audit performed in accordance with U.S. – GAAS and Government Auditing Standards — Objective is reasonable – not absolute – assurance that the financial statements are free from material misstatement — The financial statements are the responsibility of management
Report on fiscal year 2016 financial statements	<ul style="list-style-type: none"> — Unmodified opinions on the 2016 financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) — Our responsibility does not extend beyond the financial information contained in the reports
Internal accounting controls	<ul style="list-style-type: none"> — Reviewed internal controls over financial reporting to the extent necessary to design audit procedures that are appropriate in circumstances
Management cooperation	<ul style="list-style-type: none"> — Received full cooperation from management and staff — Full access to books and records of the City — No disagreements with management on accounting issues or financial reporting matters
Management judgments and accounting estimates	<ul style="list-style-type: none"> — Management estimates included actuarial assumptions, allowances for receivables, fair value of financial instruments, self insurance reserves, certain accrued liabilities, and useful lives of property and equipment — Management’s estimates used in the preparation of the financial statements were deemed reasonable in relation to the financial statements as a whole

Overview of fiscal year 2016 audit results (continued)

Issues discussed with management prior to retention	<p>— Various issues discussed within the normal course of our professional relationship, none of which were contingent on our continued appointment as auditors.</p>
Subsequent events	<p>— Significant events noted subsequent to June 30, 2016 related to issuance of \$27 Million in Revenue Refunding Bonds and the approved legislation to dissolve the Building Enterprise Fund and appropriate fund balance to the General Fund.</p>
Auditor independence	<p>— In accordance with American Institute of Certified Public Accountants professional standards and Government Auditing Standards, KPMG is independent with regard to the City and its financial reporting process.</p>
Significant written communications with management	<p>— Significant written communications with management include the audit engagement letter (previously provided), management representation letters, letters to management on internal control observations (to be provided under separate cover), and our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> (provided under separate cover).</p>

Current year internal control observations

Central government

- *Significant Deficiency* – Combination of the following matters:
 - Capital Assets inventory not taken since 2008,
 - Items not specifically identified to link to asset listing
 - No timely review of construction in progress for movement into capital asset accounts
 - Untimely removal of disposed assets
 - Lack of review of items recorded as repairs and maintenance to identify items that should be capitalized
 - No formally approved comprehensive policy
- *Control Deficiencies*:
 - Proper Accounting for Intergovernmental Agreements and Litigation – liability related to intergovernmental agreement not accrued (\$10 million)
 - Review of revenue to ensure all revenue is properly recorded in the correct period
 - Lack of documentation related to one permit application and one building rental contract
 - IT User Access – retired users with access to Kronos and Windows Active directory
 - Lack of documentation to support IT data restoration testing

Pension

- *Significant Deficiency*: Accuracy of census data for active participants (General Employees and Police)
- *Control Deficiency*: Correcting entries from cash reconciliations at third party administrator not posted timely

Current year internal control observations

Watershed

- *Significant Deficiency*- Lack of documented monitoring procedures over depreciation expense and stagnant construction in process
- *Control Deficiency*- Lack of documented monitoring procedures related to third-party vendors with system-level access to Enquesta

Current year internal control observations

Aviation

Control Deficiencies:

- Lack of review of active users for Windows active directory
- Lack of documentation for Windows new user provisioning access
- Offsite backup rotation (halted in January 2016)
- No backup restorations performed since 2015
- Lack of internal control in place to capture non-routine transactions was ineffective in properly recording interest earned on the Guaranteed Investment Contract

Recently implemented accounting pronouncements

The City implemented the following pronouncements during 2016 as disclosed in note 1E to the Central Government CAFR

- **GASB Statement No. 72**, *Fair Value measurement and Application*
 - Investments are measured at fair value
 - Disclosures required concerning valuation techniques and classification in the fair value hierarchy.
- **GASB Statement No. 73**, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68.*
 - This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contributions pensions that are provided to employees not within the scope of GASB 68.

Accounting pronouncements for FY 2017

- **GASB Statement No. 77**, *Tax Abatement Disclosures*

- Disclosures around tax abatement agreements entered by the other governments and that reduce the City's tax revenues.
- Effective for FYE June 30, 2017

- **GASB Statement No. 80**, *Blending Requirements for Certain Component Units*

- Amends blending requirements to require blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.
- Effective for FYE June 30, 2017

Other industry developments FY 2017 and beyond

- **GASB Statement No. 75** -*Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Financial reporting changes for OPEB (retiree health care benefits) similar to defined benefit plan reporting with liabilities reflected on the face of financial statements.
 - Effective for FYE June 30, 2018
- **GASB Statement No. 81** – Irrevocable Split-Interest Agreements. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
 - Effective for June 30, 2018
- **GASB Statement No. 82** – Pension Issues – An amendment of GASB Statements No. 67, No. 68 and No. 73. This Statement addresses the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee contribution requirements.
 - Effective for June 30, 2018



Discussion



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