



City of Atlanta



**Results of the 2018 external audits:
Presentation to the Finance/Executive Committee**

February 13, 2019

Introduction

To the Finance/Executive Committee of the City Council, City of Atlanta

We are pleased to have the opportunity to meet with you on February 13, 2019 to discuss the results of our audits of the financial statements of the City of Atlanta as of and for the year ended June 30, 2018. Our audits were conducted in accordance with the terms established in the related previously-executed audit engagement letter dated April 9, 2018.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. We will be pleased to elaborate on the matters covered in this report when we meet.

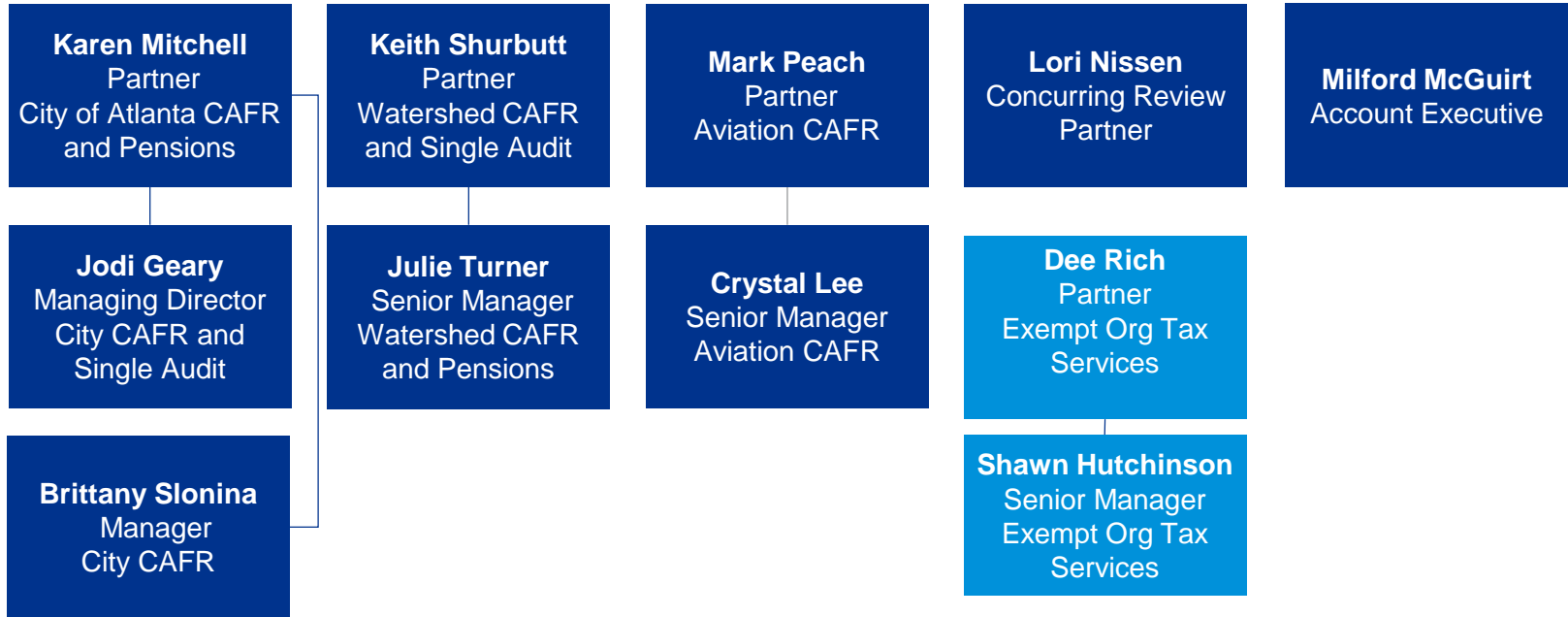
In addition to the core Content noted on this page, we draw your attention to the Responsibilities communications included in the Appendix to this document.

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KPMG client service team

Core KPMG Engagement Team



Subcontractors

PJC Group
Long & Associates
Tabb & Tabb
Carmichael, Brasher,
Tuvell & Co.

Other KPMG Specialists

Ian Correa
IT Advisory
Specialists

Todd Peterson
Actuarial Specialist
George Levine
Risk Management

Nick Katsanos
Valuation Specialists

Earl Fagan
Forensics Specialist

Summary of professional services provided

- Audits of Comprehensive Annual Financial Reports (CAFR) for City of Atlanta, Department of Aviation and Department of Watershed Management as of and for the year ended June 30, 2018
- Audits of the General Employees', Police, and Firefighters Pension Plans as of and for the year ended June 30, 2018
- Reports required under Uniform Guidance (Single Audit)
- Hotel/Motel Tax report
- Motor Vehicle Excise Tax report
- MOST report
- TSPLOST report
- Landfill agreed-upon procedures and compliance reports
- Passenger Facilities Charges report (Aviation)
- Letter of Recommendations to Management
- Required communications to the audit committee concerning the conduct of the audits

Audit approach to fraud risks - How KPMG addresses fraud risks in the audit

Identification of fraud risks

- Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
- Discuss among the engagement team the susceptibility of the financial statements to fraud
- Inquire of management, internal audit, audit committee, and others regarding fraud risks
- Evaluate broad programs/controls that prevent, deter, and detect fraud

Response to identified fraud risks

- Evaluate design and implementation of mitigating controls
- Test operating effectiveness of internal controls
- Assess potential for fraud risks to cause material misstatement
- Assess significant accounting estimates and risk of management override of controls
- Perform specific substantive audit procedures (incorporate elements of unpredictability)
- Evaluate audit evidence
- Communicate to management and audit committee

Overview of fiscal year 2018 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 <i>Government Auditing Standards</i> — Objective is reasonable – not absolute – assurance that the financial statements are free from material misstatement — The financial statements are the responsibility of management
Reports on fiscal year 2018 financial statements	<ul style="list-style-type: none"> — KPMG has issued unmodified opinions on the 2018 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 the 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 include actuarial assumptions related to net pension and net OPEB liabilities and self-insurance reserves, allowances for receivables, landfill post closure costs, fair value of financial instruments, 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 2018 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. The 2018 audit was conducted under year 2 of a multi-year contract executed following a competitive procurement process.</p>
Subsequent events	<p>— Significant events subsequent to June 30, 2018 include:</p> <ul style="list-style-type: none"> ▪ City Council approval of the Gulch development (Nov 2018) ▪ Issuance and refunding of various Dept. of Watershed debt instruments (Jul, Aug, Oct 2018) ▪ Termination of Dept. of Watershed interest rate swap (Oct 2018) ▪ Renewal of Dept. of Aviation bond anticipation notes (Jul 2018)
Auditor independence	<p>— In accordance with American Institute of Certified Public Accountants professional standards and <i>Government Auditing Standards</i>, 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, management representation letters, letters to management on internal control observations, 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>.</p>

Overview of the FY 2018 audit results (continued)

Non-GAAP accounting policies	<ul style="list-style-type: none">- We noted the following non-GAAP policies:<ul style="list-style-type: none">• The City does not allocate IBNR for medical to respective funds but records all in Governmental activities• Presentation of internal service fees should be broken out on the statement of cash flows to reflect portions that are internal among funds and ones that are outside funds• Passenger facilities charges are billed on a one to two month lag• Accounts payable are not accrued for items below a threshold and for items outside of a 45 day cut-off period
Issues discussed with management prior to retention	<ul style="list-style-type: none">— We generally discuss a variety of matters including the application of accounting principles and auditing standards each year prior to our retention as external auditors. These discussions occurred during the normal course of our professional relationship and our responses were not a condition of our retention.
Other accountants	<ul style="list-style-type: none">— Not aware of any consultations with other accountants.
Other matters	<ul style="list-style-type: none">— We are aware of the on-going DOJ investigation and related and other investigations conducted by internal audit and outside counsel. Our 2018 audit approach was responsive to these matters, including the involvement of KPMG's Forensics practice and consultations with KPMG's Department of Professional Practice and General Counsel.

Current year internal control observations

Material Weaknesses

- 2018-001 Information Technology Monitoring Access (*Central*)
- 2018-002 Capital Assets (*Watershed*)
- 2018-003 Pension Plan Census Data (*Pension*)
- 2018-004 Pension Plan Benefit Payments (*Pension*)

Significant Deficiencies

- 2018-005 General Ledger Account Review (*Central*)
- 2018-006 Review of Non-routine Financial Reporting Matters (*Watershed*)

Accounting pronouncements implemented in FY 2018

- **GASB 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.

- Impact to the City was a new OPEB liability presentation in financial statements and footnote disclosures similar to the pension disclosures required by GASB 68:
 - Description of benefit terms
 - The fact that there are no assets accumulated in a trust
 - Amount paid for OPEB as the benefits came due
 - Significant assumptions used to measure the total OPEB liability
 - Disclosures related to total OPEB liability

New upcoming accounting pronouncements for FY 2019 and beyond

- **GASB 84- *Fiduciary Activities***. This statement established criteria for identifying fiduciary activities of all state and local governments with focus on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists.
 - Effective for periods beginning after December 15, 2018

- **GASB 87- *Leases***. This statement requires recognition of certain lease assets and liabilities for leases that were previously operating leases and recognized as deferred inflows or outflows of resources based on payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources.
 - Effective for periods beginning after December 15, 2019

- **GASB 88- *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements***. This statement requires additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; significant termination events with finance-related consequences and significant subjective acceleration clauses.
 - Effective for periods beginning after June 15, 2018



Discussion



Appendix

Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter 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
Management responsibilities – Internal control over financial reporting (ICFR)	<ul style="list-style-type: none"> — 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
Management responsibilities – Other	<ul style="list-style-type: none"> — To provide the auditor with: <ul style="list-style-type: none"> – 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 the auditor may request from management for the purpose of the audit; and – Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence — Identifying and ensuring that the entity complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations — Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's: <ul style="list-style-type: none"> – Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's financial reporting – Acknowledgement of their responsibility for the design and implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and ICFR — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that the entity's 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 entity's financial statements.

The audit does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

KPMG – Audit objectives	<ul style="list-style-type: none"> — Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	<ul style="list-style-type: none"> — Performing the audit in accordance with U.S. Generally Accepted Auditing Standards (GAAS) and <i>Government Auditing Standards</i> (GAS) and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement — Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy — Performing an audit of financial statements includes consideration of ICFR 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 ICFR
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> — The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information — The auditor's responsibility is to make appropriate arrangements with management or the Audit Committee to obtain information prior to the report relevant date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts — 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 KPMG modifying or withholding the auditors' report or withdrawing from the engagement

Responsibilities (continued)

KPMG responsibilities – Communications

- Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Audit Committee in overseeing the financial process. GAAS and GAS does not require us to design procedures for the purpose of identifying matters to communicate to the Audit Committee
- Communicating, unless prohibited by law or regulation, if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential
- Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated 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 entity's internal control
- Communicating to the Audit Committee circumstances, if any, that affect the form and content of the auditors' report
- Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal
- Communicating to the Audit Committee if we conclude no reasonable justification for a change to the audit engagement exists and we are not permitted by management to continue the original audit engagement
- Communicating to governance in writing any conclusion(s) that the Audit Committee's oversight of external financial reporting and ICFR is ineffective
- When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement
- Communicating if we have identified or suspect fraud involving: (a) management, (b) employees who have a significant role in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in the auditors' professional judgment, relevant to the responsibilities of the Audit Committee
- Communicating significant matters arising during the audit in connection with the entity's related parties.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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