



City of Atlanta

Audit results for the year ending June 30, 2020

February 10, 2020





Executive Summary



COVID-19

A blue circular icon containing a white line-art representation of two COVID-19 virus particles. Below the icon, the text "COVID-19" is written in yellow.

AUDIT DEBRIEF

A purple circular icon containing a white line-art network diagram with a central node and five peripheral nodes connected by lines. Below the icon, the text "AUDIT DEBRIEF" is written in yellow.

**CLIENT EXPERIENCE
DEBRIEF**

A blue circular icon containing a white line-art icon of a person's head and shoulders, with a network of lines connecting various points around the head. Below the icon, the text "CLIENT EXPERIENCE DEBRIEF" is written in yellow.

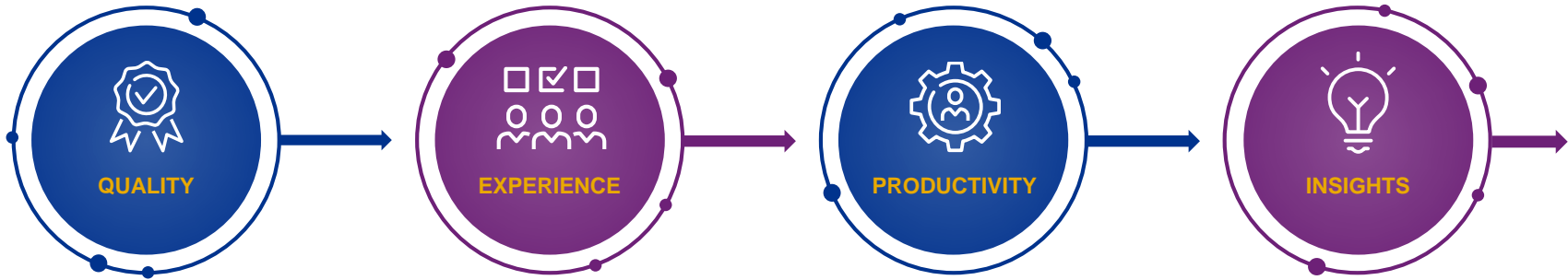
**REQUIRED
COMMUNICATIONS**

A purple circular icon containing a white line-art icon of a computer monitor displaying a line graph with an upward trend, and a magnifying glass icon positioned over the graph. Below the icon, the text "REQUIRED COMMUNICATIONS" is written in yellow.



Our commitment to you

We aim to deliver an exceptional client experience by focusing on



Quality in all that we do and how we deliver

We are committed to delivering a thoughtful, transparent and coordinated approach

Risk based auditing by enabling our people through the design, execution, and automation of our processes

Having best-in-class industry and topical insights, which help our auditors make better decisions and share those relevant insights



Coordinating audits during COVID-19

Business Continuity Update

- Daily PBC and pending items update
- Maximizing the use of virtual software tool to facilitate the communication
- Constant coordination and regular status update became more important than ever in this environment

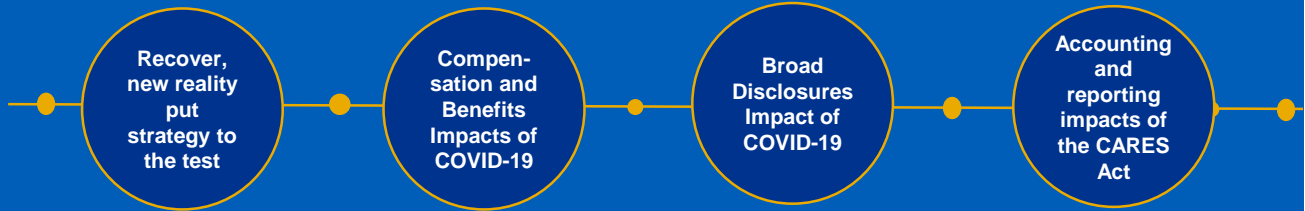


Thinking Ahead To A New Normal

- Discuss plans for return-to-office
- What remote work lessons are we considering keeping
- What remote work lessons may evolve in FY21



COVID-19 Audit-Related Insights





Audit accomplishments: Delivering on the client experience

Client Experience Efforts	Quality	Experience	Productivity	Insight
Audit Execution				
Audits of Comprehensive Annual Financial Report (CAFR) of the City and standalone reports for the Department of Aviation and Department of Watershed Management as of and for the year ended June 30, 2020	●	●	●	●
Audits of the General Employees', Police Officers, and Firefighters Pension Plans as of and for the year ended June 30, 2020	●	●	●	●
Reports required under Uniform Guidance (Single Audit)				
Hotel/Motel Tax report	●	●	●	●
Motor Vehicle Excise Tax Report	●	●	●	●
MOST report		●	●	●
TSPLOST report	●	●	●	●
Landfill AUP and compliance report	●	●	●	●
Passenger Facilities Charges report (Aviation)	●	●	●	●
Data & Analysis				
Utilization of KPMG iJET team to extract the data for journal entries				
Deployed automation routines in auditing journal entry testing for high risk journal entries	●	●	●	●
Coordinating The Audit				
Coordination and planning meeting with component teams				
Emerging issues update for accounting group	●	●	●	●
Status updates on implementation of critical audit matters	●	●	●	●
Continuous improvement principles around PBC management	●	●	●	●
	●	●	●	●



What's on the agenda for next year's audit

- Expanding the use of technology in execution of the audit.

- Expanding risk assessment process to optimize the audit scoping

- Sharing any implementation of updated GASB standards

- Continuous effort to the timely communication and enhanced audit management in every phase of audit based on our experience



Required Audit Committee Communications



Summary: Audit results required communications and other matters

	Response
Outstanding matters	None
Significant unusual transactions	No significant unusual transactions identified during the audit.
Uncorrected audit misstatements	Uncorrected misstatements by opinion unit are included in Appendix A.
Corrected audit misstatements	Corrected misstatements by opinion unit are included in Appendix B.
Financial presentation and disclosure omissions	No matters to communicate.
Non-GAAP policies and practices	If significant, they are included as part of summary of uncorrected misstatements
Material weaknesses and significant deficiencies in internal control	See slide 9 to 10.
Auditors' report	We expect to issue unmodified opinions on the City's CAFR as well as on the standalone reports.
Changes to our planned risk assessment and audit strategy	No matters to report.
Significant accounting policies and practices	The City's significant accounting policies are listed in footnote I. in the CAFR.
Significant accounting estimates	See slides 11 to 14
Significant financial statement disclosures	See slide 15
Group audit engagement considerations	No matters to report.
Related parties	No significant findings or issues arose during the audit in connection with the City's related parties.
Going concern	No matters to report.
Other information	Our responsibility with respect to information in a document does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in a document. However, we do have a responsibility to read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the CAFR. As a result of our consideration of the other information, no material inconsistencies or material misstatements of facts were identified related to other information.



Summary: Audit results required communications and other matters

	Response
Subsequent events	Events have been disclosed in footnotes to the financial statements.
Illegal acts or fraud	No actual or suspected fraud involving current management, employees with significant roles in City internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit. As communicated in prior years, we continue to consult with our Forensics team and National office on the ongoing regulatory and legal matters.
Noncompliance with laws and regulations	No matters to report
Significant difficulties encountered during the audit	No matters to report.
Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Management's consultation with other accountants	No matters to report.
Difficult or contentious matters for which the auditor consulted	No matters to report.
Disagreements with management	No matters to report.
Other significant matters	See slide 16
Written communications	Engagement letter, management representation letters, including summary of uncorrected misstatement, internal control deficiency letter to be distributed under separate covers.
Independence	See slide 17
Inquiries	See slide 19



Material weaknesses and significant deficiencies in internal control

Material weaknesses

Description	Potential effects	Status
Information Technology	Delay in the City identifying inappropriate access into the Oracle cloud system.	Material weakness communicated in previous audit that has not yet been remediated.
Description	Potential effects	Status
Pension Plan Benefit Payments	Potential overpayments and/or underpayments made to retirees and/or beneficiaries	Material weakness communicated in previous audit that has not yet been remediated.
Description	Potential effects	Status
Pension Plan Census Data	Inaccurate computation related to contributions, net pension liability and payments to individual retirees/beneficiaries.	Material weakness communicated in previous audit that has not yet been remediated.



Material weaknesses and significant deficiencies in internal control

Material weaknesses

Description	Potential effects	Status
OPEB Census Data	Inaccurate allocation of OPEB liability and related accounts to general government and enterprise funds.	Material weakness in 2020.
Description	Potential effects	Status
Inaccurate Financial Reporting (Department of Watershed)	Undetected errors reported in the financial statements which resulted in audit adjustments.	Material weakness in 2020.

All other deficiencies in ICFR noted during the audit that are of a lesser magnitude than a material weakness or significant deficiency have been communicated to management in writing.



Significant accounting estimates

Description of significant accounting estimates

- Net Pension liability and related deferred inflows/outflows of resources.

Audit findings

Management's process used to develop the estimates

- Management utilized the services of an independent actuary in order to estimate the amounts in accordance with GASB No.67 and 68.

Significant assumptions used that have a high degree of subjectivity

- The estimate is based upon key inputs including census data, discount rate, long-term rate of return and mortality tables.

Indicators of possible management bias

- There was no indicators of management bias.

Qualitative aspects

- There has not been a change from the prior period in the methods for making the accounting estimates
- The amounts in net pension liability and related deferred inflows/outflows of resources are material to the financial statements as a whole.
- The measurement date is June 30, 2019.

Conclusions

- KPMG utilized a reviewing actuary and tested the various inputs used to estimate the amounts under GASB No. 68 and determined management's judgements were reasonable.



Significant accounting estimates

Description of significant accounting estimates

- Total OPEB liability and related deferred inflows/outflows of resources.

Audit findings

Management's process used to develop the estimates

- Management utilized the services of an independent actuary in order to estimate the amounts in accordance with GASB No.75.

Significant assumptions used that have a high degree of subjectivity

- The estimate is based upon key inputs including census data, discount rate, mortality tables and participation rates.

Indicators of possible management bias

- There was no indicators of management bias.

Qualitative aspects

- There has not been a change from the prior period in the methods for making the accounting estimates
- The amounts in total OPEB liability and related deferred inflows/outflows of resources are material to the financial statements as a whole.
- There would be material impact for changes of significant assumptions used in accounting estimates and the degree of subjectivity involved in the development of the assumptions is high.

Conclusions

- KPMG utilized a reviewing actuary and tested the various inputs used to estimate the amounts under GASB No. 75 and determined management's judgements were reasonable.



Significant accounting estimates

Description of significant accounting estimates

- General Claims Payable

Audit findings

Management's process used to develop the estimates

- Management establishes a reserve based upon an estimate of the expected costs for cases with a probable and reasonably estimated exposure of \$50,000 or greater.

Significant assumptions used that have a high degree of subjectivity

- Management's reserve is dependent upon the completeness and accuracy of the claims listing.

Indicators of possible management bias

- There was no indicators of management bias.

Qualitative aspects

- There has not been a change from the prior period in the methods for making the accounting estimates.

Conclusions

- KPMG tested completeness and accuracy of reserve based upon City Council minutes and attorney inquiry responses. KPMG determined management's judgement was reasonable.



Significant accounting estimates

Description of significant accounting estimates

- Self-insurance reserve – worker’s compensation and employee health and dental

Audit findings

Management’s process used to develop the estimates

- Management utilized the services of independent actuaries to estimate the applicable reserve amount.

Significant assumptions used that have a high degree of subjectivity

- The estimates are based on inputs including claims logs and discount rate.

Indicators of possible management bias

- There was no indicators of management bias.

Qualitative aspects

- There has not been a change from the prior period in the methods for making the accounting estimates.

Conclusions

- KPMG tested completeness of claims logs and utilized a reviewing actuary for the worker’s compensation reserve and determined that the reserves were reasonable.



Significant financial statement disclosures

Description of significant financial statement disclosures

- Investments (GASB 72)
- Capital Assets
- Long-term obligations
- Pension
- OPEB

Audit findings

Qualitative aspects

- KPMG utilized disclosure checklists applicable to State and Local governments and determined that management's disclosures were reasonable.



Other Significant Matters

Significant risk	Our audit response and findings
Management override of controls	Performed substantive test of details with an elevated risk of material misstatement and internal control risk as high. In addition, the auditor included elements of unpredictability in test work. No findings noted.

Other significant audit matter	Our audit response and findings
Information technology matters	No reliance on general IT controls due to a material weakness identified. The engagement team assessed internal control risk as high.



Independence communications

The following are circumstances or relationships that, in our professional judgment, may reasonably be thought to bear on independence, and to which we gave significant consideration, in reaching the conclusion that independence has not been impaired.

Relationship	Description of relationship and relevant safeguards, if applicable	Fees (for services)
None		

In connection with our audit of the City, KPMG and relevant KPMG professionals have complied with relevant ethical requirements regarding independence, as that term is defined by the professional standards.



Audit and professional services fees

We have summarized the fees paid or payable to our firm relating to the audit of the City financial statements and the fees for all other professional services for FY2020 audit.

Service	FY2020 Audit Fees
Audit	\$1,651,314

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.



Inquiries

The following inquiries are in accordance with AU-C 260

Is the audit committee aware of:

- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?
- Any significant communications with regulators?
- Any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
 - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
 - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented?

Does the audit committee have knowledge of:

- Fraud, alleged fraud, or suspected fraud affecting the City?

Additional inquiries:

- What are the audit committee's views about fraud risks in the City?
- Who is the appropriate person (audit committee chair or full committee) for communication of audit matters during the audit?
- How are responsibilities allocated between management and the audit committee?
- What are the City's objectives and strategies and related business risks that may result in material misstatements?
- Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?
- What are the audit committee's attitudes, awareness, and actions concerning (a) the City's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?
- Have there been any actions taken based on previous communications with the auditor?
- Has the City entered into any significant unusual transactions?
- Whether the City is in compliance with other laws and regulations that have a material effect on the financial statements?
- What are the other document(s) that comprise the annual report, and what is the planned manner and timing of issuance of such documents?
- Have any subsequent events occurred that might affect the financial statements?

Questions?

For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI

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