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March 18, 2014

Honorable Mayor and Members of the City Council
City of Fort Worth, Texas

The Management of
City of Fort Worth, Texas

Dear Honorable Mayor and Members of the City Council and Management:

In planning and performing our audit of the financial statements of the City of Fort Worth (the "City") as of and for the year ended September 30, 2013 (on which we have issued our report dated March 18, 2014), in accordance with auditing standards generally accepted in the United States of America, we considered the Company's 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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audit, we have identified, and included in the attached Appendix, certain matters involving the Company's internal control over financial reporting that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have previously communicated a certain matter noted during our audit of the financial statements of the City for the year ended September 30, 2012, which we considered to be a significant deficiency, in our report to management and those charged with governance dated March 19, 2013. As of the date of this report, we believe the City has not remediated this significant deficiency. We have outlined in the attached Appendix the previously reported matter which we believe has not yet been remediated.

We have also identified, and included in the attached Appendix, other deficiencies involving the Company's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention.

The definitions of a deficiency, a material weakness, and a significant deficiency are also set forth in the attached Appendix.

This report is intended solely for the information and use of management, City Council, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Yours truly,

Deloitte & Touche LLP

APPENDIX

SECTION I — SIGNIFICANT DEFICIENCY

We consider the following deficiency in the City's internal control over financial reporting to be a significant deficiency as of September 30, 2013:

Significant Deficiency: IT Access and Operations Security Controls

Criteria – Strong Information Technology ("IT") systems allow an organization to automate many tasks and enable timely, accurate financial reporting. Access to these systems in both on overall system and specific operational environment must be appropriately controlled to help prevent intentional contravention of the controls designed by management.

Condition and Cause – During our testing of the design and implementation of the City's control systems, we noted the following deficiencies:

- AS400: We noted that there were two user accounts with access to the shared folder that contains the passwords for the AS400/Sungard privileged accounts QSECOFR and QHTE. As this folder resides on a shared drive on Windows and the two accounts have access to the shared drive, this access is considered inappropriate as it grants the users with knowledge of passwords to AS400 privileged accounts QSECOFR and QHTE.

- PeopleSoft job scheduler: We noted that two users have privileged access granted to the PeopleSoft job scheduler, inappropriate to their functions.

Context - Access and operations security controls are specific controls to the City's financial systems in order to prevent users from inappropriately creating, deleting, or modifying financial transactions or data.

Effect – These deficiencies in control could potentially result in invalid, incomplete, or incorrect computer-generated information. Because of the importance of these controls without other mitigating controls, we consider this to be a significant deficiency in controls.

Recommendation – The following points should be considered:

- Privileged or administrative access should be restricted to authorized administrators. Inappropriate users should have elevated access removed.

- User access privileges of user accounts at the application, database, operating system, and network layer should be reviewed with a frequency commensurate with the size of the organization, the frequency of employee turnover, and other relevant factors.

- Terminated users should have their system access revoked in a timely manner.

- Passwords to user accounts should not be shared. Passwords to generic accounts should remain restricted to authorized individuals.

SECTION II — SIGNIFICANT DEFICIENCY IDENTIFIED IN A PREVIOUS AUDIT THAT HAS NOT YET BEEN REMEDIATED

We identified and previously communicated the following deficiency that was considered to be a significant deficiency in the City's internal control over financial reporting during our audit of the financial statements of the City for the year ended September 30, 2012. As of the date of this report, we believe this deficiency has not yet been remediated by the City:

Significant Deficiency: Accounting for Capital Assets (updated from fiscal years 2004-2012)

Criteria – Proper accounting for capital assets requires the maintenance of an accurate, detailed listing of all expenditures that meet the City's criteria for capitalization – those that are long-lived and meet the City's capitalization threshold.

Condition – A significant amount of effort has been made by the City over the past several years to improve the practices used to account for and report the City's investment in capital assets. For fiscal years 2008 through 2013, we did not note the level of errors that were noted in previous years related to capital assets. Audit adjustments for fiscal years 2008 through 2013 related to capital assets were generally isolated to specific areas of the accounting process. However, there are certain matters that remain unresolved. These matters include:

- The need for the City to upgrade its current Excel-based approach to accounting for capital assets to a more controlled database environment, such as a module to the planned ERP system

- A lack of consistently performed quarterly reconciliations between the Excel database and the capital expenditures recorded in the general ledger for all projects

- A lack of supervisory reviews of the quarterly reconciliations

- A lack of proper communication between the Financial Management Services Department and other City departments regarding Construction-in-Progress ("CIP"), resulting in improper classification of certain completed projects within CIP and improper timing of reclassification of CIP to capital assets in use, specifically in general governmental, water and sewer fund and storm-water fund capital assets for fiscal 2013

Context – Capital assets represent the City's single largest asset. As of September 30, 2013, the City has over $4 billion in net book value of capital assets and has over 2,000 projects set up to track and manage CIP costs.

Cause – The City has multiple departments and contractors managing construction projects and capital assets without consistent, complete application of the proper procedures to account for transactions or purchases. Formal procedures are not in place to establish timely communication regarding capital asset transactions between the various departments and the Financial Management Services Department.

Effect – We believe that the City's current system of accounting for capital assets (both electronic and manual) is not sufficiently designed or implemented to prevent or detect potential errors in capital assets without a significant effort made at year-end to review transactions for the existence of such errors.

Recommendation – The following recommendations should be considered by City management.

- Implement a more sophisticated system of accounting for capital assets. Such a system should contain automated controls to ensure proper accounting and reconciliation of capital assets. Consider the importance of fully integrating an electronic capital asset system with the City's general ledger system and plan appropriate timing for the implementation of any new capital asset system relative to the City's overall ERP implementation time-table.

- Consistently perform the quarterly reconciliations to the general ledger for all capital expenditures.

- Require supervisory reviews of the quarterly reconciliations.

- On an overall basis, improve communication between the operating departments and the Financial Management Services Department related to capital assets.

SECTION III — OTHER DEFICIENCIES

We identified the following other deficiencies involving the City's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

Deficiency: Underlying Data for Use in Actuarial Studies

Criteria – Actuarial analyses are used for a several estimated liabilities recorded in the City's financial statements, such as the net pension liability, net other post-employment benefits ("OPEB") liability, and the workers compensation liability.

Condition and Context – During our testing of these liabilities, we noted certain errors in the underlying detailed personnel data that was provided to the third party actuaries for their use in their analyses.

Cause – We believe that the errors occurred because of input errors of detailed data or reports that were prepared as of a date not appropriate for the study.

Effect – Third party actuaries use certain accepted actuarial methods to project estimated liabilities based on actual detailed personnel information from the City's records. If inaccurate data is provided to the third party actuaries, they have no way to know the data is inaccurate and could then produce inappropriate actuarial estimates from the information provided to them.

Recommendation – Insure that City personnel who provide detailed underlying data to third party actuaries have adequate knowledge of the information that is required and adequate knowledge of the

City's systems in order to be able to produce accurate data for use in the actuarial studies. Supervisory personnel should review all data prior to its submission to the actuaries.

Deficiency: Accounting for Property Taxes

Criteria – Property taxes are the primary source of the City's general governmental revenues. Accounting for them requires consideration of various matters including property tax values, tax rates, fund allocations and collection rates.

Condition and Context – During our testing of these revenues, we noted certain errors in various areas, including a misallocation of tax revenues between the General Fund and the Debt Service Fund, a misapplication of the City's policy regarding allowance for doubtful accounts, and a lack of recording the revenue related to penalties and interest on overdue taxes. All of these issues required adjustment to the current year financial statements.

Cause – We believe that these errors occurred because of a lack of diligence in specific distinct areas.

Effect – Without receiving the proper attention and supervision, these issues could individually or combined together result in a misstatement of property tax revenue.

Recommendation – Insure that City personnel who perform accounting functions related to property taxes perform their functions with an appropriate level of detailed attention to accuracy.

SECTION IV — OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

Financial Management Services Department Staffing

Criteria – The current complexity of governmental accounting and reporting, combined with the size and activity of the City of Fort Worth, require a Financial Management Services Department that is staffed and trained to a high level of expertise and competency.

Condition and Context – Because of certain material errors and issues in the City's financial records, the City's annual financial reporting was delayed for the 2004 through 2008 fiscal years. Beginning with the 2007 fiscal year, the City contracted an outside firm to augment the City accounting staff to enable the City to address the accounting and reporting issues and to put the City's annual reporting back onto a normal timetable. The restoration of a timely reporting process was accomplished in fiscal 2009. However, this outsourcing of the annual closing and reporting process has resulted in a lack of development of City staff in the skills necessary to perform these functions without outside assistance. City staff should have strong analytical skills to appropriately record and review financial activity throughout the year and not only at year-end in preparation for the preparation of the financial statements and the annual audit.

Cause – City personnel in the Financial Management Services Department have suffered a certain amount of turnover and change to their department such that the current staff have not been responsible for the closing and reporting process for several years.

Effect – Although the accounting and reporting function can certainly be outsourced on a permanent basis, we understand that it is the City's desire to bring this function back into the Financial Management Services Department. However, the skills necessary to do so have not been developed among the current City staff. Therefore we do not believe the current Financial Management Services Department personnel have the background, training, experience and analytical skills necessary to accomplish the financial reporting responsibilities without assistance from an outside consultant.

Recommendation – We commend the City for the significant improvements that have been made in recent years in financial accounting and reporting, and we further commend the City for its efforts to upgrade and modernize the City's IT systems through the ERP system implementation. Additional support should be provided to the Financial Management Services Department personnel to ensure that, as the outside contractor begins withdrawing from full responsibility for the closing and reporting process, the City staff will be capable and prepared to take on the role. This is critically important to ensure a smooth transition back to full Financial Management Services Department responsibility for these processes, without reverting back to prior practices that at one time caused financial reporting errors and delays in financial reporting.

Recently Issued Statements of the Governmental Accounting Standards Board ("GASB")

GASB Statement No. 65: *Items Previously Reported as Assets and Liabilities* was issued in March 2012 and establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources of inflows of resources, certain items that were previously reported as assets and liabilities. This standard becomes effective for the City in fiscal year 2014.

GASB Statement No. 66: *Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62* was issued in March 2012 and amends Statement No. 10, Accounting and Financial Report for Risk Financing and Related Insurance Issues, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. GASB 66 also modifies the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. This standard becomes effective for the City in fiscal year 2014.

GASB Statement 67: *Financial Reporting for Pension Plans* was issued in June 2012. This Statement replaces the requirements of Statements No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. Most significantly, this statement requires the net pension liability to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. This standard becomes effective for the City in fiscal year 2014.

GASB Statement No. 68: *Accounting and Financial Reporting for Pensions* was also issued in June 2012 and establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans, as well as for nonemployer governments that have a legal obligation to contribute to those plans. This statement requires the recognition of the entire net pension liability and a more comprehensive measure of pension expense, along with additional required footnote disclosures. This standard becomes effective for the City in fiscal year 2015.

GASB Statement No. 69: *Government Combinations and Disposals of Government Operations* was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This standard becomes effective for the City in fiscal 2015.

GASB Statement No. 70: *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
GASB 70 was issued in April 2013 and requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This statement also requires the government assuming the obligation or paying the obligor to continue recognizing a liability until legally released by the obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. Additional disclosures are also required related to nonexchange financial guarantees and nonfinancial guarantees. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. GASB 70 is effective for the City beginning in fiscal 2014.

GASB Statement No. 71: *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68* was issued in November 2013 and addresses an issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This standard becomes effective for the City in fiscal year 2015.

<u>Recommendation</u> – Review all GASB Statements listed above and their implications to determine the potential impact on the District's financial statements.

SECTION V — DEFINITIONS

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The definitions of a deficiency, a material weakness, and a significant deficiency are as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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