Deloitte.

Deloitte & Touche LLP
Suite 1501
201 Main Street
Fort Worth, TX 76102-3134
USA

Tel: +1 817 347 3300
Fax: +1 817 336 2013
www.deloitte.com

March 20, 2015

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, 2014 (on which we have issued our report dated March 20, 2015, which includes an emphasis of a matter paragraph on changes in accounting and reporting and implementation of a new accounting standard), in accordance with auditing standards generally accepted in the United States of America, we considered the City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 I, certain matters involving the City's internal control over financial reporting that we consider to be material weaknesses or 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, 2013, which we considered to be a significant deficiency, in our report to management and those charged with governance dated March 18, 2014. As of the date of this report, we believe the City has not remediated this significant deficiency. We have outlined in the attached Appendix I the previously reported matter which we believe has not yet been remediated.

We have also identified, and included in the attached Appendix I, other deficiencies involving the City's internal control over financial reporting as of September 30, 2014 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 I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

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

Yours truly,

Deloitte & Touche LLP

SECTION I — MATERIAL WEAKNESS

We consider the following deficiencies in the City's internal control over financial reporting to be material weakness as of September 30, 2014:

Material Weakness: Grant Management

Criteria – OMB Circular A-133 requires the City to annually prepare a Schedule of Expenditures of Federal and State Awards ("SEFA") that lists all expenditures related to federal and state award programs for that year.

Condition – A number of control deficiencies over grant compliance and a number of noncompliance findings were reported during our audit of grants related to Homeland Security, Summer Food program, Northwest Community Park, Federal Asset Forfeiture, Guinn School renovation, and Litsey Road grants. In addition, the SEFA prepared by management at year end excluded certain federal awards without confirmation from the state that this was the proper way to show these awards.

Context – The City manages several federal and state grant programs in a single year.

Cause – The City has a decentralized grant monitoring process where a large number of federal and state grants are managed by project managers at the department level that do not have experience and or training in federal grant compliance. Further, the Financial Management Services Department, which is responsible for the preparation of the SEFA, did not proactively confirm the classification of federal awards to pre-determine whether these funds should be included in the SEFA. Specifically, the City participates cooperatively with the Texas Department of Transportation on several projects that involve federal and state funding and research is required to determine how these should be reflected in the City's SEFA.

Effect – Noncompliance with federal and state grant requirements and lack of proper of control of grants exposes the City to risk of loss of future funding and penalties from federal and state granting agencies.

Recommendation – Consider centralizing grant management, reporting, and oversight to one grant department/section that can oversee grant compliance. Implement more rigorous training programs for individuals responsible for both monitoring grant compliance and accounting for grant-related transactions regarding the various applicable Office of Management and Budget circulars, specifically around allowable costs, importance of filing timely accurate reports to the granting agencies, and importance of performance of internal controls and what it entails to review a report or perform a control. Implement more rigorous procedures around the review of the SEFA to ensure it is accurate and complete.

SECTION II — SIGNIFICANT DEFICIENCIES

We consider the following deficiencies in the City's internal control over financial reporting to be significant deficiencies as of September 30, 2014:

Significant Deficiency: Financial Accounting and Reporting

Criteria – Timely and accurate internal and external financial reporting is an important cornerstone of an organization's control environment. Financial reporting provides the foundation for financial analysis, a critical component needed to be able to respond timely to financial related issues.

Condition – While the City has made substantial strides in owning the financial reporting process and has prepared the financial statements by the internal and external deadlines, the City's process for preparing the financial statements is a highly manual process, which is subject to human error, inconsistencies, and is very time consuming. Based upon available staffing and resources, this process leaves little time for complex analysis to occur and therefore the ability to report on what is occurring and respond or improve the financial reporting function of the entity is difficult, at best.

Context – Management's preparation and review of financial statements and related supporting schedules in the areas of investments, debt, capital assets, pension, and other post-employment benefits were not performed timely and consistently. In addition, certain financial reporting information obtained from third parties such as work performed by independent actuaries for post-employment benefits or information obtained from investment managers to be included in the notes to the financial statements were not reviewed for consistency, accuracy and completeness.

Cause – For a number of years the City has relied heavily on an outside consultant to manage the financial close and preparation of the financial statements and supporting schedules. Further, the City has relied heavily on independent third parties, such as actuaries and investment consultants/managers to perform analysis for and review the work they are performing without an internal review. This was the first year that the City has managed the financial reporting and close process internally. The 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 and the lack of resources to perform these activities on a proactive basis throughout the fiscal year.

Effect – A number of adjusting journal entries were identified as part of the audit and a number of changes were needed to the footnotes to ensure their completeness and accuracy at year end. Audit adjustments and corrections were needed for cash and investment footnotes, property taxes, construction in progress, accounts payable, and other post-employment disclosures. Additionally, although management set deadlines for closing and preparation of financial reports and related schedules, deadlines often were not met by report preparers, and many reports were prepared by the Managers within Financial Services without subsequent review prior to submittal to the appropriate parties. As a result, management often did not have timely and reliable information to review reports for accuracy before they were submitted to the appropriate parties, and management was not able to prepare financial statements and related footnotes for all funds according to the established deadlines.

Recommendation – The City should consider implementing a comprehensive plan to upgrade the processes, procedures, systems, and capabilities of the financial accounting and reporting department, including the allocation of resources needed to manage the financial activities of the organization. This plan should at least encompass the following:

- Develop and implement a plan and schedule of interim financial reports and schedules that are prepared and reviewed so that actions can be taken and informed decisions can be made in a timely manner.
- Automate the Comprehensive Annual Financial Report preparation process to reduce the risk of error and increase the efficiency and timeliness of the production of the report.
- Implement a series of milestones in the reporting process to ensure that deadlines are met and information is reviewed by an individual at a management level independent from the preparer for accuracy and completeness prior to closing.
- Review financial statements and disclosures for completeness, validity, and presentation. Responsibilities of both preparers and reviewers of these financial statements should be clearly defined.
- Proactively manage the relationships with third parties such as actuaries and investment managers and challenge the information received to ensure that management is in agreement with methodologies and assumptions made and that the information received is accurate and complete, and complies with relevant accounting standards.
- Implement a process that requires designated finance and accounting professionals to read minutes of council meetings to identify resolutions that have an impact on the financial reporting and compliance and prepare an action plan accordingly.
- Implement a process during the year and at year end that requires designated finance and accounting professionals to perform financial analysis of fund financial statements by comparing current year balances to prior balances, identify variances or relationships that are not consistent with operations and obtain explanations from respective departments, this will help management identify issues prior to finalization of close process.
- Implement a comprehensive training program for financial accounting and reporting staff. Ensure the training encompasses not only financial accounting, but also focuses on staff development in the areas of critical thinking and analysis of information and maintain an adequate level of skepticism when they review information received.

Significant Deficiency: Year End Accrual of Accounts Payable

Criteria – Generally Accepted Accounting Principles require proper cut off of accounts payable at year end. As a result, goods or services incurred prior to September 30 and not paid as of the end of the year should be recorded as liabilities.

Condition – At the end of the fiscal year, the City designed and implemented procedures to communicate to departments and request information regarding invoices received and paid subsequent to year-end to determine whether or not they should be recorded as accounts payable as of September 30, 2014. However, during our audit process, we identified a number of significant invoices related to both operating and construction costs that had not been appropriately accrued in the normal process. City management undertook an additional review and discovered and recorded additional items required to be accrued as of year-end.

Context – Adjusting entries were recorded to increase accounts payable as of year-end.

Cause – Although procedures and controls may be in place, they are manual in nature and not sufficient to effectively detect material misstatements of payables and expenditures. In addition, current procedures allow invoices to come to various departments throughout the City for processing.

Effect – Failure to implement proper cut off policies and procedures exposes the City to risk of erroneous financial reporting as well as violations of the state prompt payment act law.

Recommendation – Review the procedures and process in place at year-end to determine what changes to the process are required to ensure that year-end payables are accurately identified and recorded. Consider automating the management of invoices through the deployment of technology. Provide additional training and supervision to all personnel performing the identification process of year-end accounts payable. Institute additional quality control procedures to ensure the process is appropriately performed. We would further strongly recommend centralizing the function of receiving the invoices and instituting a requirement for 3 way match within the Finance Department.

SECTION III — 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, 2013. As of the date of this report, we believe this deficiency has not yet been remediated by the City:

Significant Deficiency: Accounting and management of capital projects (updated from fiscal years 2004-2013)

Criteria – Proper accounting for capital projects requires the maintenance of an accurate, detailed listing of all projects that meet the City's criteria for capitalization.

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. However, we continue to note issues in accounting for capital projects in progress. In a number of instances we noted that several projects are open for multiple years, projects were continued to be carried as construction in progress when they have been completed, and a number of projects were carried in the construction in progress account when the project has been abandoned and there is no plan to complete the construction.

Context – Capital assets represent the City's single largest asset. As of September 30, 2014, 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 construction 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. Departments are not held accountable as to the number of projects in progress and therefore in some instances, departments had hundreds of projects in progress instead of completing and closing out projects prior to commencing new ones.

Effect – Failure to properly manage construction in progress exposes the City to risk of erroneous reporting of capital asset activity.

Recommendation – Consider implementing the following:

- Limit the number of projects that a department can have in progress during a specific period of time.

- Require departments to specifically budget for each project, identify the source of funding for each project prior to obtaining the approval from City council.

- Adopt and implement policies that define when a project is substantially complete, and enforce the closure of such project.

- 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 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:

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

GASB Statement No. 68: *Accounting and Financial Reporting for Pensions* was 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 non-employer 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. 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 non-employer 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.

GASB Statement No. 72: *Fair Value Measurement and Application* was issued in February 2015 to enhance transparency and comparability of fair value measurements and disclosures in financial statements of state and local governments. The Standard establishes principles related to the measurement of fair value and the accounting for and financial reporting of assets and liabilities measured at fair value. This Standard is effective for periods beginning after June 15, 2015.

Recommendation – Review all GASB Statements listed above and their implications to determine the potential impact on the City'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.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

The City's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

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 and corrected 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.

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