City of Fort Worth, Texas

Report to Management
Year Ended September 30, 2015

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March 25, 2016

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, 2015 (on which we have issued our report dated March 25, 2016, which includes an emphasis of a matter paragraph on 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 significant deficiencies under standards established by the American Institute of Certified Public Accountants.

We have previously communicated certain matters noted during our audit of the financial statements of the City for the year ended September 30, 2014, which we considered to be significant deficiencies, in our report to management and those charged with governance dated March 20, 2015. As of the date of this report, we believe the City has not remediated two of these significant deficiencies. We have outlined in the attached Appendix I the previously reported matters which we believe have not yet been remediated.

We have also identified, and included in the attached Appendix I, other matters involving the City's internal control over financial reporting as of September 30, 2015 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

Member of
Deloitte Touche Tohmatsu

SECTION I — SIGNIFICANT DEFICIENCIES IDENTIFIED IN A PREVIOUS AUDIT THAT HAVE NOT YET BEEN REMEDIATED

We consider the following deficiencies in the City's internal control over financial reporting to be significant deficiencies as of September 30, 2015:

Significant Deficiency: Financial Accounting and Reporting (updated from prior year)

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, prepared the financial statements by the external deadlines and completed the first steps in automating the financial reporting process, the process continues to be reliant on manual controls and subject to human error. Due to the lack of preparation of interim financial statements on accrual basis, and delays in preparation of year-end financial statements, certain areas were reviewed late leaving little to no time for the financial reporting team to react or correct issues which caused delays in the internal reporting time line.

Context – Management's preparation and review of financial statements and related supporting schedules in the areas of capital assets, component unit accounting, and prepaid expenses were not performed timely and consistently.

Cause – While the City made improvements in owning the financial reporting process and automating certain functions, the City was in a transition year due to the implementation of the new software for the financial system and CAFR preparation. In addition, the City has relied heavily on departments outside the control of the finance department for the accounting of component units and individuals responsible for these functions did not have the appropriate accounting and reporting knowledge.

Effect – A number of adjusting journal entries were identified as part of the audit to ensure their completeness and accuracy at year end. Audit adjustments and corrections were needed for construction in progress, capital assets, prepaid, and component units. Further the internal deadline for completion of the financial statements was not met.

- Recommendation – The City should continue with its implementation of the comprehensive plan of upgrading 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.
- 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.

- 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 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.
- Require that all financial accounting and reporting functions of components under the control of the City to be performed by the financial management services department so that these functions are performed by individuals with the right level of training and supervision.

Significant Deficiency: Accounting and management of capital projects (updated from fiscal years 2004-2014)

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 communication breakdown between the user department and finance that lead to errors in reporting the status of completion of a project.

Context – Capital assets represent the City's single largest asset. As of September 30, 2015, the City has over $6 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:

- Adopt and implement policies that define when a project is substantially complete, and enforce the closure of such project.
- Consistently perform quarterly reconciliations to the general ledger for all capital expenditures.
- Implement an interim review process for projects to identify projects with little to no activity to determine whether these projects are abandoned or completed and therefore adjustments are needed to be made.
- 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 II — 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:

Control Deficiency: CFDA 66.458 Clean Water State Revolving Funds - Reporting

Criteria – The grant agreement with the Texas Water Development Board ("TWDB") requires monthly Outlay Reports to be submitted to the TWDB throughout the life of the project from the time construction begins until the completion of the project.

Condition – Eight out of twenty-four reports were selected for testing. All eight reports selected were submitted in a timely manner however the transactions within the reports were not necessarily related to the month for which the report was submitted. Some of the reports filed covered invoices for expenditures incurred in previous months.

Cause – Before each report is submitted to the TWDB, the Water Department Management has to ensure that the underlying invoices are properly reviewed and the Davis-Bacon Certificate of Compliance is prepared and certified by the respective Project Managers. Sometimes the contractors are late in submitting the invoices for the month or the Davis-Bacon Certificate of Compliance is not submitted to the Water Department Management by the Project Managers. As a result, the invoices cannot be submitted to the TWDB as they will not be accepted without all of the underlying required documentation and proof of review.

Asserted Effect – Failure to comply with the terms of granting agency could lead to a reduction or elimination of funding from the grantor.

Recommendation –The City should ensure all documentation needed for the submission outlay reports is submitted at time of payment to ensure timely request for reimbursement.

Control Deficiency: CFDA 20.205/20.219 Homeland Security - Reporting

Criteria – Reports filed with federal and state agencies should be supported by qualifying expenditures recorded in the City General Ledger.

Condition and Context – Expenditure reimbursements filed with granting agency did not always agree to the general ledger for the corresponding grant. The reports were properly prepared by grant however the underlying expenditures recorded in the general ledger did not agree to the reports due to misclassifications between individual grants related to the same program. As a result, amounts reported on the Schedule of expenditures of federal awards by grant required adjustments in subsequent year to transfer expenditures between grants related to the same federal program.

Cause – The City receives these grants on a continuing basis; however, expenditures tracked in the general ledger by grant year were not appropriately segregated until reconciliations are prepared months after reports are submitted. Because the grants are always fully spent each year, there is no correction to the reports that is necessary, but multiple corrections in the general ledger are necessary to achieve the appropriate segregation of grant years and reflect the underlying records in a way that agrees to the submitted reports.

Asserted Effect – Inadequate record keeping during the year increases the risk that erroneous reports are being prepared and submitted.

Recommendation – Strengthen controls and communication around the recording of all grant-funded expenditures. In addition, Grant Management should closely monitor the opening and close-out of each grant year in this program.

Control Deficiency: CFDA 10.559 Summer Food Service Program – Reporting

Criteria – The 2015 Summer Food Service Program Administrative Guidance for Sponsors (the "Guide") issued by the U.S. Department of Agriculture states that: "The total number of second meals claimed cannot exceed two percent of the number of first meals, for each type of meal served during the claiming period." In addition, the Guide states "non reimbursable meals includes the following: meals in excess of the site approved level of meals service; and meals that were not served."

Condition and context – During the month of June 2015 Claims for Reimbursement included the following exceptions errors related to meal counts:

- The second meals requested for one of the sites exceeded the 2% threshold. As a result, the City requested reimbursement for 3 non-reimbursable meals;
- Meals requested for two other locations for the month of June 2015 were in excess by sixty meals from what the site was authorized to serve. As a result, the City requested for fifty non-reimbursable meals;
- At another location the meal count for August 7, 2015 was overstated by 25 meals on the Daily Meal Service Report for meals served which were reimbursed by TDA.

Cause – The claims for reimbursement above were not adequately reviewed to ensure compliance with the 2% threshold for the second meals offered as well as to identify the request included only meals served at the approved level of service and for meals actually served.

Asserted Effect – The City requested reimbursement for $138.60 that was not supported. Without adequate monitoring controls over reporting, the City is at risk of noncompliance with grant requirements and at risk of loss of future grant funding.

Recommendation – Ensure that controls are implemented and operating effectively to verify claims for reimbursement are accurate and in accordance with Summer Food Service Program guidelines prior to submitting requests. This should include procedures to ensure compliance with the 2% threshold limitation requirement on second meals served

Deficiency: CFDA 66.458 Clean Water State Revolving Funds and CFDA 20.205/20.219 Highway Planning and Construction Cluster - Suspension and Debarment

Criteria – Office of Management and the OMB compliance supplement A-133 requires grantees to check all vendors used for grant programs to insure they are not on the list of suspended or debarred vendors. Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

Condition and Context – The City failed to document its verification that the prime contractor was not on the list of suspended and debarred companies. In four out of four vendors tested for the Highway Planning and Construction cluster and in three out of three vendors tested for the Clean Water State Revolving Fund, documentation could not be provided to support that suspension and debarment was verified timely by the City.

Cause – The Prime Contractors are not on the list of suspended and debarred companies, but the City did not retain support that they verified this prior to entering the contract. Related to the Clean Water grant, the Water Department has implemented the suspension and debarment after the contracts were entered into. The staff within the Transportation and Public Works department were not aware that the retention of suspension and debarment check documentation was one of their required responsibilities.

Asserted Effect – An absence of documentation of suspension and debarment increases the risk that the City enters with contractors that are not on the approved vendor risk.

Recommendation – The City should strengthen controls and communication between grant's department, the grant recipient departments, and the purchasing department around the process to ensure the suspension and debarment check is completed and properly documented prior to entering into contracts. It is also recommended to retroactively obtain support that contracts still on-going from previous years have documentation in the contract file that the vendor check for suspension or debarment was performed.

NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued a number of new accounting pronouncements that are effective for the City in future fiscal years.

GASB Statement No. 72, *Fair Value Measurement and Application,* was issued in February 2015 and addresses accounting and financial reporting and disclosure issues related to fair value measurements by requiring a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This pronouncement will add and revise disclosure requirements for the City around its assets and liabilities that are valued at fair value and is effective for fiscal year 2016.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* was issued in June 2015 and extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. It is effective in fiscal 2017.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* was issued in June 2015 and establishes new accounting and financial reporting requirements for governments whose employees are provided with other post-employment benefits (OPEB), as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. It is effective in fiscal 2017.

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued in June 2015 and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. It is effective in fiscal 2018.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* was issued in June 2015 and identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The guidance (1) raises the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizes the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requires the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. This is effective for the City in fiscal year 2016.

GASB Statement No. 77, Tax Abatement Disclosures, was issued in August 2015 and requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. It is effective in fiscal 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* *was issued in December 2015 and* amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. It is effective in fiscal 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address:

(1) how the external investment pool transacts with participants;
(2) requirements for portfolio maturity, quality, diversification, and liquidity; and
(3) calculation and requirements of a shadow price.

Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes.

The requirements of this Statement are effective for the City in fiscal year 2016, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective in fiscal year 2017 for the City.

GASB Statement No. 80, ***Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14,*** was issued in January 2016 and amends the blending requirements for the financial statement presentation of component units of all state and local governments, adding a criterion that requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. It is effective in fiscal 2017.

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

SECTION III — DEFINITIONS

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.

APPENDIX II

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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