



Audit Plan for FY2013 Financial Statements

Presentation to the Audit Committee

July 9, 2013



Agenda

- Engagement Team Members
- Responsibilities
- Independence
- Fraud Risk
- Audit Methodology and Approach
- Single Audit
- Significant Activity and Issues
- Prior Year Issues and Recommendations
- New Statements and Standards
- Timeline
- Deliverables

Engagement Team Members

Pace Porter
Principal In Charge
Nashville General Hospital
Bordeaux Long Term Care

Dell Crosslin
Concurring Reviewer

Rhonda Sides
Healthcare (Billing) Principal

Eric Fowler
Manager

David Hunt
Overall Principal In Charge

Ben Nichols
Overall Manager

CAFR
David Hunt, Principal
Ben Nichols, Manager
Dell Crosslin, Concurring Reviewer

Dell Crosslin
Customer Service Principal
Concurring Reviewer for
various engagements

Bill Broadus
(Technical Advisor)

Central Government
David Hunt, Principal In Charge
John Crosslin
Dan Miller
Ben Nichols
Kim Thomason
Lisa Patterson
Sarah Hardee
Dell Crosslin, Concurring Reviewer

A-133 and State Compliance
Dan Miller, Principal In Charge
Tim Nowak, Director
John Crosslin, Concurring Reviewer

Water and Sewerage
John Crosslin, Principal In Charge
Kim Thomason
David Hunt, Concurring Reviewer

Metro Nashville Public Schools
Sarah Hardee, Principal In Charge
David Hunt, Concurring Reviewer

MNPS Internal School Funds
Lisa Patterson, Principal In Charge
Tim Nowak, Concurring Reviewer

3rd Party Reimbursement
PYA

Information Risk Management
Shane Clancy, Director

Exempt Organization Tax
Rodney Brower, Principal
Richard Winstead, Principal



Responsibilities

Crosslin & Associates

Expressing opinions about whether the financial statements prepared by management under the oversight of the Audit Committee are fairly presented, in all material respects in conformity with U.S. generally accepted accounting principles

Performing our audits in accordance with professional standards, including *Government Auditing Standards* and the provisions of OMB Circular A-133

Maintaining independence and an attitude of professional skepticism throughout the audits

Reporting to the Audit Committee and management required information, including, but not limited to, significant deficiencies in internal control, instances of noncompliance, and fraud noted during our audits

Management

Fairly presenting financial statements in conformity with U.S. generally accepted accounting principles

Adopting proper accounting policies

Establishing and maintaining effective internal control over financial reporting and compliance

Preventing and detecting fraud

Disclosing to the Audit Committee and Crosslin & Associates significant deficiencies in internal control and fraud involving those with significant roles in internal control



Independence

- The AICPA's Code of Professional Conduct, Rule 101, sets forth guidance for assurance services provided by accountants under U.S. generally accepted auditing standards. *Government Auditing Standards*, Chapter 3, provides additional guidance for financial audits performed under generally accepted government auditing standards.
- Both sources direct that independence is required both in fact and appearance. Crosslin & Associates has established quality control policies and procedures to ensure compliance with professional standards, including those related to independence.
- Crosslin & Associates is independent with respect to Metro Nashville.

Fraud Risk

The AICPA issued SAS No. 99 to specifically address the risk of material misstatement in the financial statements caused by fraud. We use a four-pronged strategy to address this risk.

Gather information

- Engagement team brainstorming
- Inquiries with management, finance and accounting personnel, and other personnel
- Investigate unusual or unexpected relationships identified through analytical procedures

Test for management override

- Review current and prior year significant estimates for inappropriate bias
- Evaluate business rationale for significant unusual transactions
- Analyze propriety of manual adjusting journal entries

Respond to identified risks

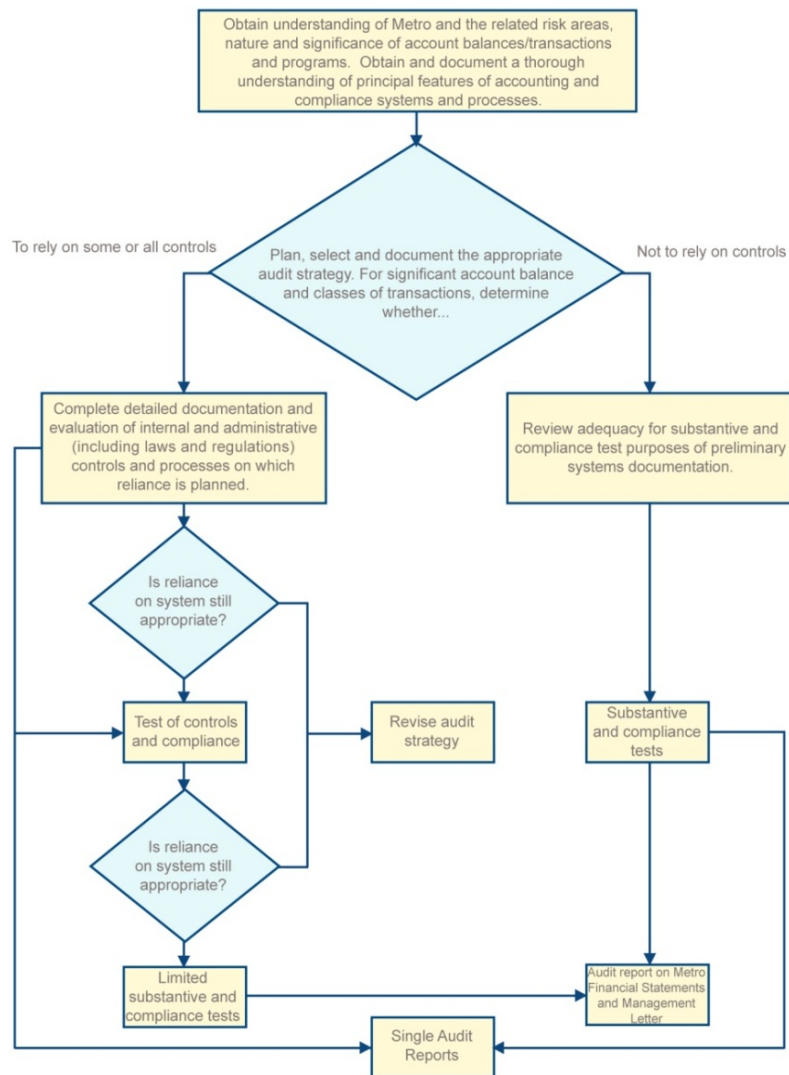
- Design of nature, timing, extent of procedures incorporating elements of unpredictability
- Leverage experienced personnel in areas of exposure
- Test items below established scopes

Evaluate audit evidence

- Disseminate results of audit procedures among audit team
- Remain cognizant of fraud risk factors throughout the audit
- Correlate information gathered and tested in all areas and consider discrepancies, conflicting or unusual evidence and responses, and problematic relationships
- Communicate to appropriate levels of management and Audit Committee



Audit Methodology and Approach



- Audit Planning and Risk Assessment
- Control Evaluation and Testing
- Substantive Testing
- Completion and Reporting

Audit Methodology and Approach

Audit Planning and Risk Assessment

Rather than following linear processes, risk assessment is performed cyclically as expectations are made and subsequently validated or refuted by audit evidence.

Our preliminary risk assessment indicates the following primary areas in which we plan to evaluate and perform tests of controls and substantive tests to address risk of material misstatement and noncompliance due to error or fraud.

Control Evaluation and Testing

- Cash receipts and revenues
- Property tax billings and receipts
- Purchasing and disbursements
- Employee compensation
- Bank reconciliations
- Journal entries
- IT controls over significant accounting systems
- Compliance

Substantive Testing

- Treasury / investments
- Long-lived assets
- Long term liabilities including pension/OPEB and Swaption
- Self-insurance accruals
- Property and state tax and other revenues
- Grant receipts, disbursements, and revenues
- Expenditures/expenses and budget process
- Compliance
- Patient accounts receivable and revenues (Hospital Authority)
- Estimated third-party settlements (Hospital Authority)

Single Audit

Metro Nashville is a high-risk auditee for fiscal 2013 unless a waiver is obtained. We will test federal major programs which represent at least 50% of total federal expenditures.

Expected Major Programs

- Department of Education – Special Education Cluster (IDEA)
- Department of Education – SFSF Race-To-The-Top Incentive Grants (ARRA)
- Department of Health and Human Services – Low-Income Home Energy Assistance
- Department of Health and Human Services – Head Start Cluster
- Department of Health and Human Services – Maternal and Child Health Services Block Grants to the States
- Department of Justice – Public Safety Partnership and Community Policing Grants (ARRA)
- Department of Homeland Security – Homeland Security Grant Program

Note: Programs above represent high risk type A programs. High risk type B programs will be identified after 2013 year-end amounts are finalized by Metro Nashville management.

Significant Activity and Issues

Description

Grants

New Debt and Refundings

Capital Projects

Impact

Testing expenditures/expenses, reimbursement and compliance testing

Verify propriety of sources and uses of funds

Testing and support of capital project expenditures

Prior Year Issues and Recommendations

Material Weaknesses

- Lack of segregation of duties with financial transactions (Clerk & Master, County Register, and Circuit Court)

Significant Deficiencies

- Bank reconciliations – cancelled checks (Circuit Court)

Other Control Deficiencies

- Timely preparation of bank reconciliations (Central Government and MWS)
- Old outstanding items on bank reconciliations (Central Government and MWS)
- Deficit balances in Internal Service funds (Central Government and MNPS)
- Infrastructure reported using the Modified Approach (Central Government)
- Other postemployment benefits plans funding (Central Government)
- Deposit timing for cash collections (Fire Department and County Register)
- Documenting approvals for cash disbursements (Central Government)

New Statements

Statement

GASB Statement No. 60 (2013)

GASB Statement No. 61 (2013)

GASB Statement No. 62 (2013)

GASB Statement No. 63 (2013)

GASB Statement No. 65 (2014)

GASB Statement No. 66 (2014)

Description

Accounting and Financial Reporting for Service Concession Arrangements

The Financial Reporting Entity: Omnibus

Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Items previously reported as assets and liabilities

Technical corrections – amendments to GASB No. 10 and GASB No. 62

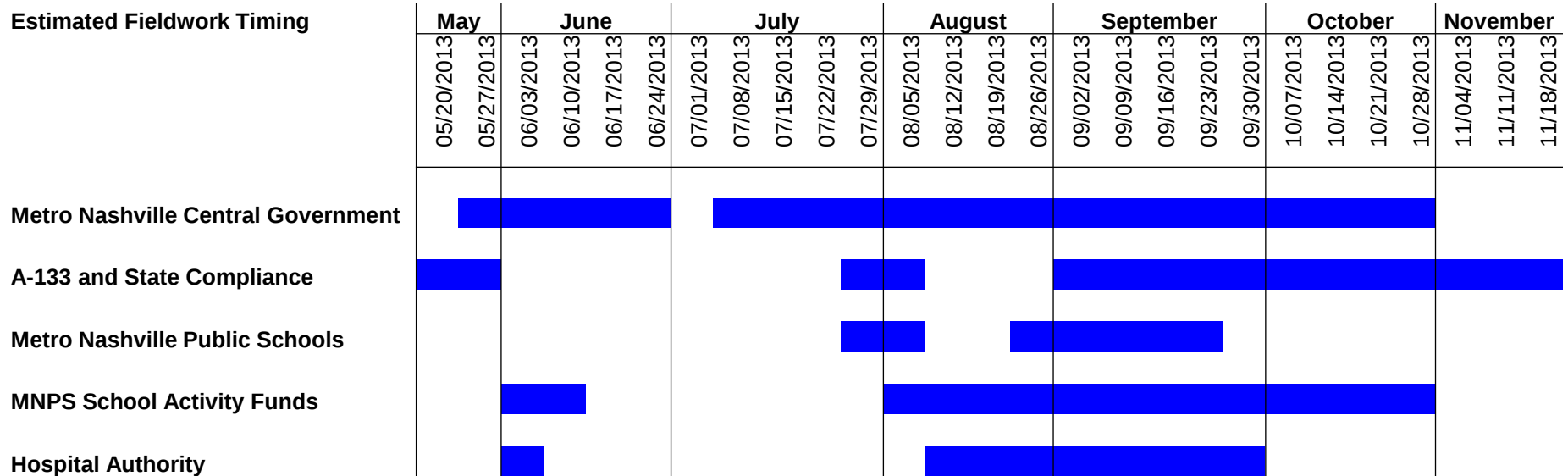
New Statements - Continued

Statement	Description
GASB Statement No. 67 (2014)	<i>Financial report for Pension Plans – amendment to GASB No. 25</i>
GASB Statement No. 68 (2015)	<i>Accounting and Financial Reporting for Pensions – amendment to GASB No. 27</i>
GASB Statement No. 69 (2014)	<i>Government Combinations and Disposals of Government Operations</i>
GASB Statement No. 70 (2014)	<i>Accounting and Financial Reporting for Non-exchange Financial Guarantees</i>

New Standards

Standard	Description
SAS No. 121	<i>Revised applicability of Statement on Auditing Standards No. 100, "Interim Financial Information"</i>
SAS No. 122	<i>Clarification and Recodification</i>
SAS No. 123	<i>Omnibus Statement on Auditing Standards - 2011</i>
SAS No. 125	<i>Alert that restricts the use of the Auditor's Written Communication</i>
SAS No. 126	<i>The Auditor's Consideration of an Entity's ability to continue as a Going Concern</i>
SAS No. 127	<i>Omnibus Statement on Auditing Standards - 2013</i>

Timeline



Deliverables

Report	Anticipated Completion
Nashville General Hospital financial statements and management letter	October 31, 2013
Bordeaux Long Term Care financial statements and management letter	October 31, 2013
Comprehensive Annual Financial Report	October 31, 2013
Water & Sewer financial statements	November 30, 2013
Management letter	November 30, 2013
Single Audit reports	November 30, 2013
MNPS Internal School Funds financial statements	November 30, 2013
Data Collection Form certified	December 10, 2013
Required communication with Audit Committee regarding audit results	December 10, 2013

Contacts

David Hunt

Shareholder, Overall Engagement Principal

david.hunt@crosslinpc.com

615.320.5500

Dell Crosslin

Shareholder, Engagement Customer Service Principal

dell.crosslin@crosslinpc.com

615.320.5500

Benjamin Nichols

Audit Manager, Overall Engagement Manager

ben.nichols@crosslinpc.com

615.320.5500

