

The Metropolitan Government of Nashville and Davidson County
Nashville, Tennessee



Karl F. Dean, Mayor

Audit Plan for FY2015 Financial Statements

Presentation to the Audit Committee

July 28, 2015



**CROSSLIN
& ASSOCIATES**
BUSINESS SOLUTION PROVIDERS

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

Angie Hoke
Principal In Charge
Nashville General Hospital

Dell Crosslin
Concurring Reviewer

Rhonda Sides
Healthcare (Billing) Principal

Sarah Hardee
Principal

David Hunt
Overall Principal In Charge

Ben Nichols
Overall Senior Manager

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

Dell Crosslin
Customer Service Principal
Concurring Reviewer for
various engagements

Caroline Walsh
(Technical Advisor)

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

A-133 and State Compliance
Dan Miller, Principal In Charge
Ben Nichols, Senior Manager
John Crosslin, Concurring Reviewer

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

Metro Nashville Public Schools
Angie Hoke, Principal In Charge
David Hunt, Concurring Reviewer

MNPS Internal School Funds
Sarah Hardee, Principal In Charge
Angie Hoke, Concurring Reviewer

3rd Party Reimbursement
PYA

Information Risk Management
Shane Clancy, Director

Exempt Organization Tax
Rodney Brower, 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

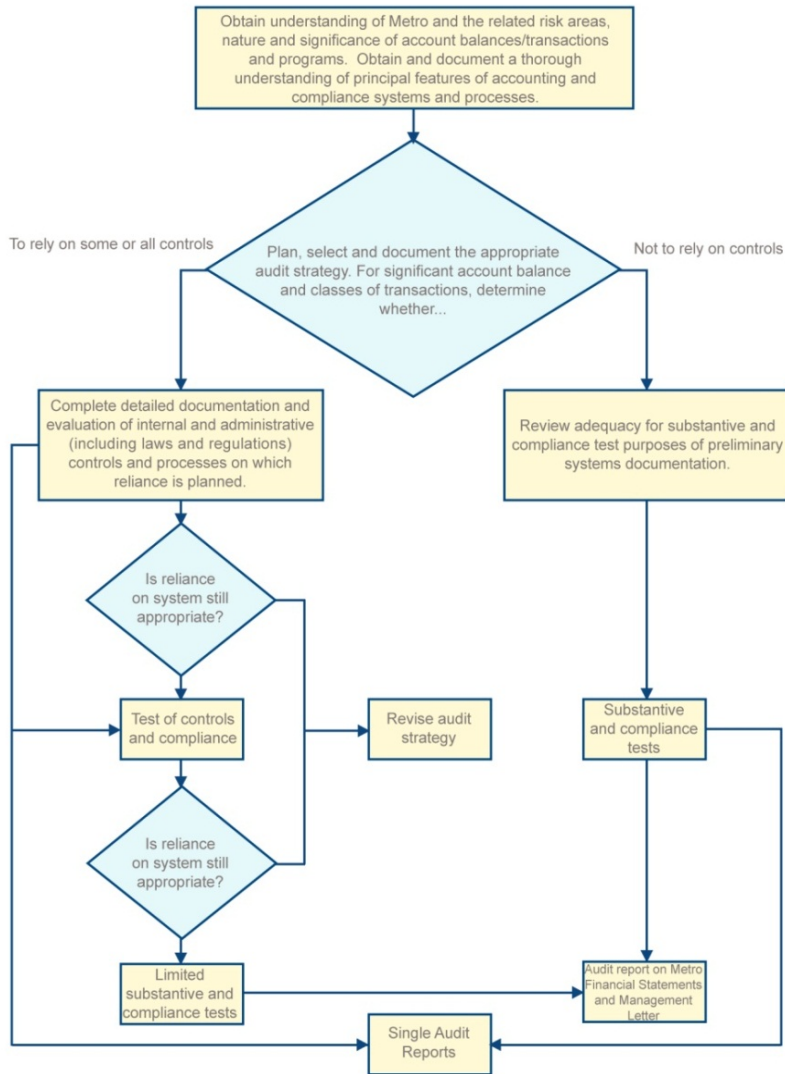
- Design of nature, timing, extent of procedures incorporating elements of unpredictability
- Leverage experienced personnel in areas of exposure
- Test items below established scopes

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 2015. We will test federal major programs which represent at least 50% of total federal expenditures.

Expected Major Programs

- Department of Education – Title 1, Part A
- Department of Education – SFSF Race-To-The-Top Incentive Grants (ARRA), IDEA Grants
- Department of Agriculture – National School Breakfast/Lunch Programs
- Department of Agriculture – Women, Infants, and Children (WIC)
- Department of Labor – Workforce Investment Act Cluster

Note: Programs above represent high risk type A programs. High risk type B programs will be identified after 2015 year-end amounts are finalized by Metro Nashville management.



Significant Activity and Issues

Description

Grants

Capital Projects

Pension Reporting Changes

Impact

Testing expenditures/expenses, reimbursement and compliance testing

Testing and support of capital project expenditures

Verify propriety of accounting and reporting in accordance with new standards.

Prior Year Issues and Recommendations

Material Weaknesses

- None noted

Other Control Deficiencies

- Timely preparation of bank reconciliations (Central Government, MWS, and Trustee's Imprest Account)
- Old outstanding items on bank reconciliations (Trustee's Imprest Account and MWS)
- Infrastructure reported using the Modified Approach (Central Government)
- Credit Card Policies (MNPS)

New Statements

Statement	Description
GASB Statement No. 68 (2015)	<i>Accounting and Financial Reporting for Pensions – amendment to GASB No. 27</i>
GASB Statement No. 69 (2015)	<i>Government Combinations and Disposals of Government Operations</i>
GASB Statement No. 71 (2015)	<i>Pension Transition for Contributions Made Subsequent to the Measurement Date</i>
GASB Statement No. 72 (2016)	<i>Fair Value Measurement and Application</i>
GASB Statement No. 73 (2016/2017)	<i>Accounting and Financial Reporting for Pensions and Related Assets not within scope of GASB 68</i>
GASB Statement No. 74 (2017)	<i>Financial Reporting for OPEB</i>
GASB Statement No. 75 (2018)	<i>Accounting and Financial Reporting for OPEB</i>
GASB Statement No. 76 (2016)	<i>The Hierarchy of GAAP for State and Local Government's</i>

New Standards

Standard	Description
SAS No. 129	<i>Amendment to Standards No. 122</i>

Timeline

Estimated Fieldwork Timing

	May					June					July			August				September				October			November					
	05/04/2015	05/11/2015	05/18/2015	05/25/2015	06/01/2015	06/08/2015	06/15/2015	06/22/2015	06/29/2015	07/06/2015	07/13/2015	07/20/2015	07/27/2015	08/03/2015	08/10/2015	08/17/2015	08/24/2015	08/31/2015	09/07/2015	09/14/2015	09/21/2015	09/28/2015	10/05/2015	10/12/2015	10/19/2015	10/26/2015	11/02/2015	11/09/2015	11/16/2015	11/23/2015
Metro Nashville Central Government	[Solid blue bar spanning from 05/04/2015 to 11/02/2015]																													
A-133 and State Compliance	[Solid blue bar spanning from 08/03/2015 to 11/23/2015]																													
Metro Nashville Public Schools	[Solid blue bar spanning from 08/03/2015 to 09/28/2015]																													
MNPS School Activity Funds	[Solid blue bar spanning from 07/20/2015 to 10/05/2015]																													
Hospital Authority	[Solid blue bar spanning from 06/01/2015 to 10/05/2015]																													

Deliverables

Report	Anticipated Completion
Nashville General Hospital financial statements and management letter	October 31, 2015
Comprehensive Annual Financial Report	October 31, 2015
Water & Sewer financial statements	November 30, 2015
Management letter	November 30, 2015
Single Audit reports	November 30, 2015
MNPS Internal School Funds financial statements	November 30, 2015
Data Collection Form certified	December 8, 2015
Required communication with Audit Committee regarding audit results	December 8, 2015



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