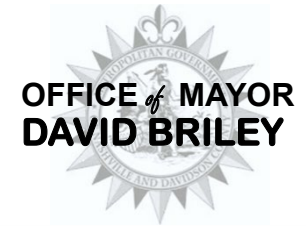


The Metropolitan Government of Nashville and Davidson County



# **Audit Results for FY2018 Financial Statements**

**Presentation to the  
Audit Committee**

**December 11, 2018**



## Agenda

- Engagement Team Members
- Responsibilities
- Independence
- Fraud Risk
- Deliverables
- Audit Methodology and Approach
- Single Audit
- Significant Activity and Unusual Items
- Accounting Pronouncements Adopted
- Additional Required Communications
- Unrecorded Audit Differences
- Upcoming Accounting Developments
- Contacts



## Engagement Team Members

**David Hunt**  
Principal In Charge  
Nashville General Hospital

**John Crosslin**  
Overall Principal In Charge

**Dell Crosslin**  
Customer Service Principal  
Concurring Reviewer for  
various engagements

**Dell Crosslin**  
Concurring Reviewer

**Lindsey Ellis**  
Overall Manager

**Caroline Walsh**  
(Technical Advisor)

**Rhonda Sides**  
Healthcare (Billing) Principal

**CAFR**  
John Crosslin, Principal  
Lindsey Ellis, Manager  
David Hunt, Concurring Reviewer

**Sarah Hardee**  
Principal

**Central Government**  
John Crosslin, Principal In Charge  
David Hunt  
Lindsey Ellis  
Kim Thomason  
Sarah Hardee  
Dell Crosslin

**Uniform Guidance and State Compliance**  
**Jennifer Manternach**, Principal In Charge  
Damien Wynn, Manager  
John Crosslin, Concurring Reviewer

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

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

**MNPS Internal School Funds**  
Sarah Hardee, Principal In Charge  
David Hunt, Concurring Reviewer

**3<sup>rd</sup> Party Reimbursement**  
Rhonda Sides

**Information Risk Management**  
Crosslin Technologies

**Exempt Organization Tax**  
Rodney Brower, Principal



## Responsibilities

### Crosslin, PLLC

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 Title 2 U.S. *Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

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, PLLC 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, PLLC has established quality control policies and procedures to ensure compliance with professional standards, including those related to independence.
- Crosslin, PLLC 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

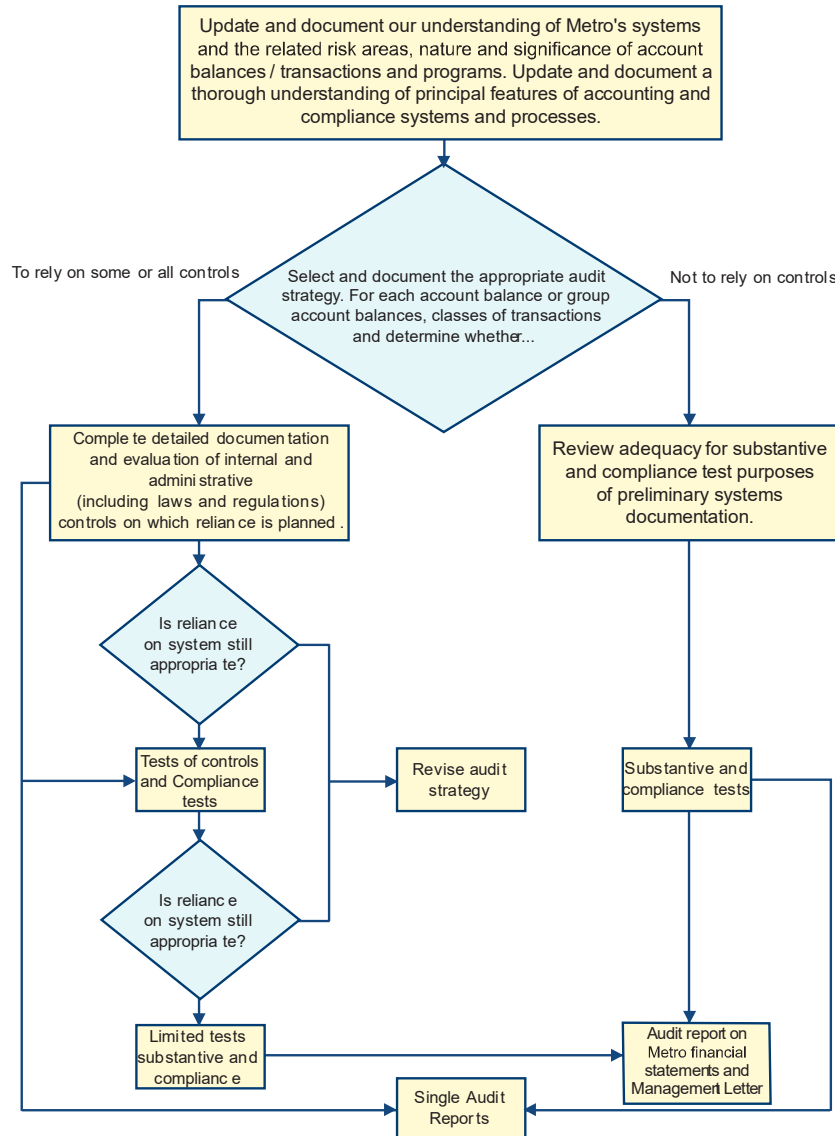


## Deliverables

Audit Reports	Notes
Comprehensive Annual Financial Report	Unmodified Opinion
General Hospital financial statements and management letters	Unmodified Opinion
MNPS Internal School Funds financial statements	Unmodified Opinion (in process)
Single Audit and related reports	In process
<b>Other Deliverables</b>	
Required communication with the Audit Committee regarding audit results	Report Issued
Management letter	In process
Data Collection Form	In process



## Audit Methodology and Approach



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





# Audit Methodology and Approach - continued

## Audit Planning and Risk Assessment

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

Our preliminary risk assessment indicated the following primary areas in which we evaluated and performed tests of controls and substantive tests to address risk of material misstatement and noncompliance due to error or fraud.

### Controls Tests

- 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 Tests

- 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 did not qualify as a low-risk auditee for fiscal 2018. As such, we tested federal major program expenditures to achieve a minimum of 40% coverage of total federal expenditures of \$175 million.

### Major Programs

- Department of Education – IDEA Cluster
- Department of Agriculture – Child Nutrition Cluster
- Department of Education – Preschool Expansion Grant (2016 and 2018)



## Significant Activity and Unusual Items

### Description

Grants

New Debt

Hospital Authority

Capital Projects

OPEB

### Impact

Testing expenditures/expenses, reimbursement and compliance testing

Verify propriety of sources and uses of funds

Removal of going concern emphasis of a matter paragraph

Testing and support of capital project expenditures

Implementation of GASB Statement No. 75



## Accounting Pronouncements Adopted

Statement	Description
<p>GASB Statement No. 75</p>	<p><i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>, required for fiscal periods beginning after June 15, 2017, in fiscal 2018. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).</p>
<p>GASB Statement No. 81</p>	<p><i>Irrevocable Split-Interest Agreements</i>, required for fiscal periods beginning after December 15, 2016, in fiscal 2018. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.</p>



## Accounting Pronouncements Adopted - continued

Statement	Description
GASB Statement No. 82	<p><i>Pension Issues</i>, required for fiscal periods beginning after June 15, 2016, except for certain provisions effective for fiscal periods beginning after June 15, 2017, in fiscal 2017 and 2018. This Statement improves financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues.</p>
GASB Statement No. 85	<p><i>Omnibus 2017</i>, required for fiscal periods beginning after June 15, 2017, in fiscal 2018. This Statement enhances consistency in the application of accounting and financial reporting requirements.</p>
GASB Statement No. 86	<p><i>Certain Debt Extinguishment Issues</i>, required for fiscal periods beginning after June 15, 2017, in fiscal 2018. This Statement enhances consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, enhances consistency in financial reporting of prepaid insurance related to extinguished debt, and enhances the usefulness of information in notes to financial statements regarded defeased debt.</p>



## Additional Required Communications

### Accounting Estimates

- The Government's financial statements include several estimates that are significant
- We evaluated the key factors and assumptions used to develop the estimates and believe that the estimates are reasonable in relation to the financial statements for each affected reporting unit

### Unaudited Information in CAFR

- We read all such information and noted nothing materially inconsistent with that included in the Government's basic financial statements

### Other

- No transactions for which there is a lack of authoritative guidance or consensus
- All significant transactions have been recognized in the proper period
- No alternative accounting policies and practices related to material items
- No difficulties encountered in dealing with management in performing and completing our audit
- No disagreements with management regarding financial accounting, reporting, or auditing
- Management provided appropriate representations at the conclusion of our audit
- We are not aware of any communications by management with other independent accountants



## Unrecorded Audit Differences

### **Governmental Activities**

- None in the current or prior year.

### **Business-type Activities & Department of Water and Sewerage Services**

- None in the current or prior year.



## Upcoming Accounting Developments

### Statements

GASB Statement No. 83 (2019)

GASB Statement No. 84 (2020)

GASB Statement No. 87 (2021)

GASB Statement No. 88 (2019)

GASB Statement No. 89 (2021)

GASB Statement No. 90 (2020)

### Description

*Certain Asset Retirement Obligations*

*Fiduciary Activities*

*Leases*

*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

*Accounting for Interest Cost Incurred before the End of a Construction Period*

*Majority Equity Interests*





## Contacts

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