



# City of Franklin, Tennessee

*Audit Planning for the  
Year Ended June 30, 2017*



**CROSSLIN**  
CERTIFIED PUBLIC ACCOUNTANTS





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July 31, 2017

To the Budget and Finance Committee  
Board of Mayor and Aldermen of  
the City of Franklin, Tennessee

Dear Members:

Thank you very much for the opportunity to continue as your independent auditors. We are pleased to provide the details of our audit plan and procedures for the City of Franklin, Tennessee (the "City") for the fiscal year ended June 30, 2017. This report outlines the scope of our work and what we see as the key considerations affecting our 2017 audit. This communication is a method to validate our understanding of the significant issues that impact the City's financial statements, confirm your current year expectations, and align our efforts with your expectations.

The City of Franklin and Crosslin, PLLC share a commitment to quality. We strive to understand the City's operations and emerging issues in order to mitigate risk. Our commitment to quality means we bring technically qualified people to the engagement and reflect quality in every aspect of our work.

We appreciate the opportunity to be of service to the City. If you have any questions or comments, please call Jennifer Manternach, Audit Director, or me at (615) 320-5500. Thank you again for this opportunity. We look forward to working with you and everyone at the City of Franklin again this year.

Very truly yours,

A handwritten signature in black ink that reads "Daniel P. Miller". The signature is written in a cursive style.

Daniel P. Miller  
Audit Principal



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## ***Audit Approach and Plan***

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We are pleased to be of service to City of Franklin, Tennessee (the “City”). The following report describes our plan for the audit of the financial statements for the fiscal year ending June 30, 2017. This report is designed to provide you with a summary of our overall objectives for the audit and the nature and scope of the planned audit work.

Overall, our audit strategy involves extensive audit principal and director/supervisor involvement in all aspects of the planning and execution of the audit and is based on our understanding, of the City gained during our prior audits, current year planning procedures, and discussions with management. Our audit strategy includes the following:

- Focus resources on higher risk areas and other areas of concern as identified by management and those charged with governance.
- Consider inherent risk within the City - i.e., the susceptibility of financial statement misstatement due to material error or fraud, before recognizing the effectiveness of the control systems.
- Consider the control environment and the possibility that the control systems and procedures may fail to prevent or detect a material error or fraud.
- Assess internal controls in determining the degree of detail testing required.
- Consider information about systems and the computer environment in which financial records and related systems operate.
- Consider recent results of operations and significant current year events.
- Conduct the audit of the annual financial statements of the City as of and for the year ended June 30, 2017 in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.
- Consult regarding accounting and reporting matters as needed throughout the year.
- Ensure that those charged with governance are kept appropriately informed of the City’s financial reporting matters as required by professional standards.



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### ***Audit Approach and Plan (Continued)***

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The key element of effective audit planning is a thorough understanding of the City's operations. This includes the operating environment, accounting and internal accounting control structure, and financial position. Our history and experience with the City and other governmental entities, our planning procedures, and our planning discussions with the City's management help us capture the knowledge to develop a detailed understanding of these elements. Therefore, we can effectively identify the nature of significant account balances/transaction classes, assess risk, and design audit tests.

Our audit approach is tailored to meet the specific needs of each customer. We have the leverage of our experience base and build upon our understanding of the City's operations. As conditions change, we will continue to develop our understanding of critical audit areas through comprehensive audit planning and risk assessment.

Risk assessment is the essential element in the audit planning process. When reliable risk-assessment decisions are made in the initial planning process, the amount of testing can be correlated with each audit area's relative risk. The result: a more focused, efficient and effective audit.

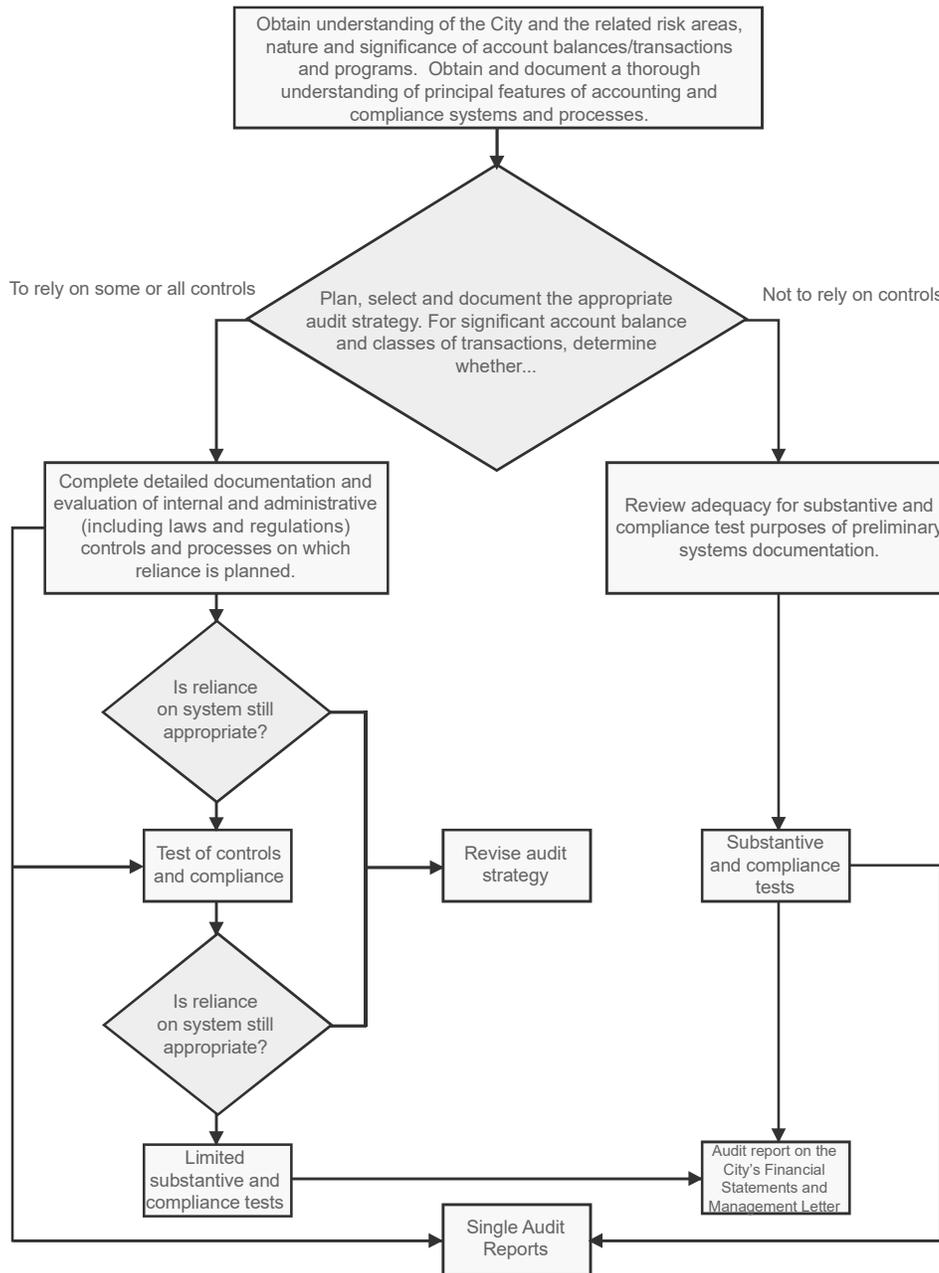
The following discussion of comprehensive audit planning and risk assessment is necessarily presented in a somewhat static manner. Auditing, however, is a dynamic process. Our audit plan may change during the course of the audit as new information and circumstances come to our attention. Information obtained during a current audit may also affect the planning for future audits. In fact, we generally begin planning the subsequent year's audit at the conclusion of the current year audit. As a result, audit planning is appropriately approached as a continuous process.



### Audit Approach and Plan (Continued)

Similar to the prior year, our audit will be performed in three phases, which are represented in the following chart and also described below.

#### Audit Methodology and Approach





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## ***Audit Approach and Plan (Continued)***

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### **Phase I - Planning**

Our Phase I audit procedures include the following:

- Hold an entrance conference with appropriate management personnel.
- Coordinate planning efforts and develop testing methods.
- Complete and submit preliminary customer participation schedule.
- Review correspondence files, budget and related material, organization charts, manuals and programs, governing minutes, financial and other management information, financial statements, and other internal documents.
- Apply preliminary analytical procedures.
- Identify through inquiry and observation the accounting control procedures that prevent or detect errors and fraud.
- Document the internal control structure and the flow of transactions in accordance with U.S. Generally Accepted Auditing Standards (GAAS) and *Government Auditing Standards*.
- Conduct fraud risk interviews (commonly referred to as SAS 99 interviews) with City employees and those charged with governance.
- Make preliminary assessments of control risk and begin planning our substantive procedures.
- Provide details of the audit plan to management and those charged with governance.

### **Phase II - Substantive Procedures**

During Phase II, we perform substantive audit procedures. The results of this work may require us to propose adjustments to account balances, recommend additional disclosures in the financial statements, and make certain comments regarding the City's operations. Our Phase II audit procedures include the following:

- Perform procedures to gather evidence to support management assertions in the financial statements.
- Confirm material account balances and/or transactions with third parties.



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## ***Audit Approach and Plan (Continued)***

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- Apply a mixture of analytical procedures and tests of details to achieve audit objectives related to a particular assertion. Some of our analytical procedures can be relied on to significantly reduce or eliminate test of details. At a minimum, our analytical tests will include comparing statement of net position account balances to the prior year and our expectations and comparing actual revenues and expenditures/expenses to prior year's revenues and expenditures/expenses and to budgeted amounts and our expectations.
- Hold progress meetings with the appropriate management personnel.
- Subject all audit tests, resulting conclusions, and working papers to a rigorous in-house quality control review.

### **Phase III - Reporting and Communication**

Communication is an essential part of an effective audit. We want to interact with you as much as possible, not only during the audit, but throughout the year as well. We welcome your questions and comments. During the course of the audit, we will continually meet with financial management personnel to provide a status of the engagement. These status reports will address the progress of our procedures, any problems encountered, open items, and any other issues we believe need to be brought to the attention of management.

Additionally, we will communicate with those charged with governance, as required by professional standards and as necessary to meet our requirements.

Summary of the reporting and communication steps is as follows:

- Discuss all adjusting journal entries proposed by us, if any, with appropriate management personnel.
- Hold an exit conference with management.
- Issue draft and final audit reports and management letter, if applicable.
- Present audit reports, results of the audit, and management letter to those charged with governance.



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## **Areas of Audit Significance**

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During our audit, we will focus significant resources on the following account balances, related transaction streams and operating matters:

### **Control Evaluation and Testing, as applicable**

- Cash receipts and revenues
- Property tax billings and receipts
- Purchasing and disbursements
- Employee compensation, including benefit plan
- IT controls over significant accounting systems
- Compliance

### **Substantive Testing**

- Treasury / investments / cash
- Long-lived assets
- Long-term liabilities including pension/OPEB
- GASB 68 considerations for pension recording and reporting
- Accruals
- Property tax, state shared and other revenues, including related receivables
- Grant receipts, disbursements, and revenue
- Utility revenues
- Expenses and budget process
- Debt and deferred outflows of resources
- Net position / fund balance categories including GASB Nos. 34 and 54
- Compliance
- State audit procedures, including the state audit manual
- Implementation of applicable new GASB pronouncements

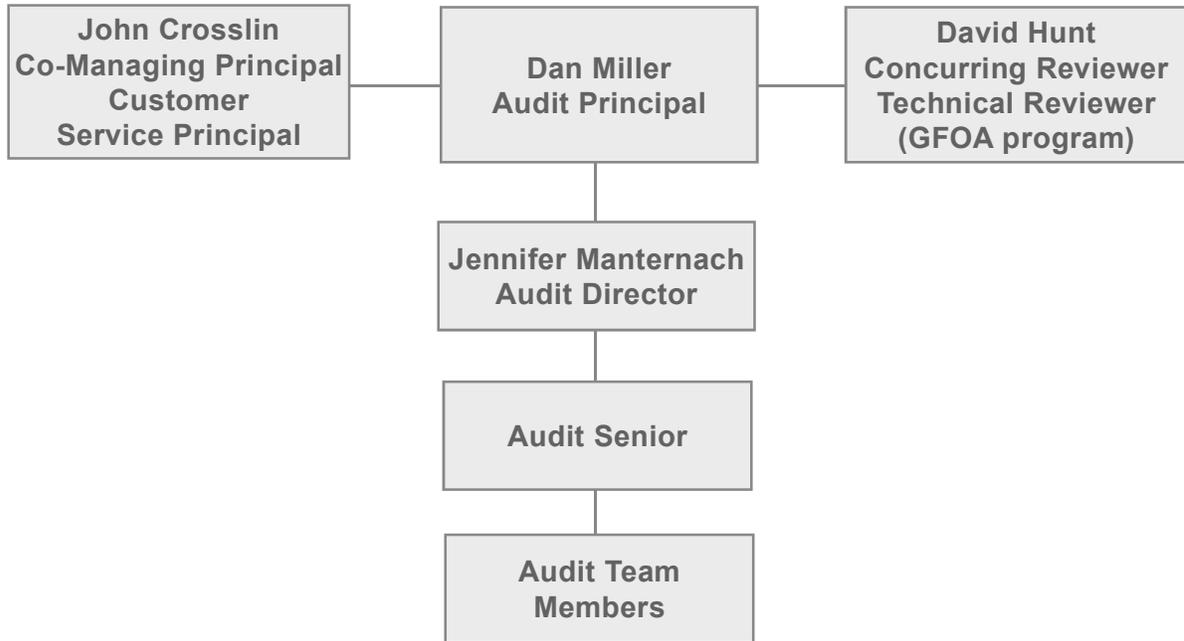


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## **Customer Service Team**

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The following is the customer service team, which remains substantively the same as the prior year:





## 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* also provides 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 the City of Franklin, Tennessee, within the requirements of both the AICPA and *Government Auditing Standards*.

## Audit Timeline

The following is our anticipated timing for the 2017 audit. The timing is consistent with the prior year.

<b>TASK</b>	<b>TIMING</b>
Understand the Operations	Ongoing
Assess Overall Controls	Ongoing
Planning Communication	Current
Phase I - Planning and Determine Nature and Extent of Testing	July 2017
Phase I - Commencement Meeting with Management	July 2017
Phase II - Substantive Testing	September - October 2017
Phase III Reporting and Communication	November 2017
Issue Financial Statements	December 2017



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## ***Changes in Auditing and Accounting Standards***

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The government and standard-setting bodies are issuing guidance at an unprecedented pace. Crosslin, PLLC is constantly receiving, reviewing, and searching for the latest authoritative literature, in part through its involvement with the AICPA's Government Audit Quality Center and the Government Finance Officers Association (GFOA), including GFOA's Special Review Committee. We routinely interface with our customers to ensure proper understanding and application of pronouncements, standards, interpretations, and addenda that arise. In addition, we expect to join the City personnel in relevant discussions to implement all new standards as they arise.

Recent accounting pronouncements including the following. We will analyze these Statements with City management to ensure appropriate implementation, as applicable.

- **Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans**  
Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.
- **Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**  
Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.
- **GASB Statement No. 77, Tax Abatement Disclosures**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- **GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- **GASB Statement No. 79, Certain External Investment Pools and Pool Participants**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.
- **GASB Statement No. 81, Irrevocable Split-Interest Agreements**  
Effective Date: The requirements of this Statement are effective for periods beginning after December 15, 2016. Earlier application is encouraged.



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## ***Changes in Auditing and Accounting Standards - Continued***

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- **GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.
  
- **GASB Statement No. 83, Certain Asset Retirement Obligations**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.
  
- **GASB Statement No. 84, Fiduciary Activities**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.
  
- **GASB Statement No. 85, Omnibus 2017**  
Effective Date: The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged.
  
- **GASB Statement No. 86, Certain Debt Extinguishment Issues**  
Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.
  
- **GASB Statement No. 87, Leases**  
Effective Date: For reporting periods beginning after December 15, 2019.



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## ***Fraud Discussion***

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SAS 99, *Consideration of Fraud in a Financial Statement Audit*, was issued by the AICPA to heighten the awareness of auditors to the potential for fraud when planning and executing audits. While SAS 99 emphasizes the need for increased professional skepticism throughout the audit engagement, it does not change our responsibilities as auditors. Under SAS 99, we are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements caused by error or by fraud. However, the extent of required procedures related to the detection of fraud has increased. We approach all audits with an understanding that fraud could occur in any organization at any time and could be perpetrated by anyone.

### **Gathering Information Needed to Identify Risks of Material Misstatement Due to Fraud**

- Engagement team brainstorming discussion.
- Inquiries of management, accounting personnel, and other personnel not directly involved in financial reporting.
- Investigation of unusual or unexpected relationships identified through various analytical procedures.

### **Responding to Identified Fraud Risks**

- Design of the nature, timing, and extent of audit procedures.
- Use of experienced personnel to audit areas of exposure.
- Testing of items below established scopes.

### **Procedures to Address the Risk of Management Override of Internal Controls**

- Review of accounting estimates for bias, including a retrospective review of significant prior year estimates.
- Evaluation of business rationale for significant unusual transactions.
- Inspect and analyze reasonableness of manual adjusting journal entries made during the year.

### **Evaluating Audit Evidence**

- Being cognizant of fraud risk factors throughout audit.
- Being mindful of discrepancies in the accounting records, conflicting or missing audit evidence, and/or problematic or unusual relationships between the auditor and management.