



perspective  
**GAINED**

**Auditor Communications to  
the Audit and Compliance  
Committee**

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## Agenda

- Summary of Required Auditor Communications
- Surprise Procedure
- Key Financial Information
- Discussion of Audit Scope
- Advisory Comments and Emerging Issues



## Financial Statement Audit

- To determine if the financial statements as a whole are materially correct
- Performed on a test basis
- Significant areas
  - Cash
  - Accounts receivable and related revenue
  - Accounts payable, other liabilities, and related expenses
  - Payroll; including pension and OPEB
- Unmodified opinion

# Required Communications

## Our Responsibility

### OUR RESPONSIBILITY

- To express an opinion on the financial statements based on our audit performed in accordance with under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*.

### MANAGEMENT'S RESPONSIBILITY

- The preparation and fair presentation of the financial statements is management's responsibility.

### PLANNING AND PERFORMING THE AUDIT

- We consider internal control, but do not express an opinion on it.
- We perform tests in key audit areas; those tests may change from year to year.

# Required Communications

## Qualitative Aspects of Accounting Policies

### ACCOUNTING POLICIES

- Significant accounting policies are set forth in Note 1 to the financial statements.
- WAHBE adopted GASB Statement No. 75 during the year.
- The audit was as of and for the year ended June 30, 2018.

### MANAGEMENT'S SIGNIFICANT ESTIMATES

- Depreciation expense
- OPEB liability
- Net pension liability

### ACCOUNTING DISCLOSURES

- Sensitive disclosures: Notes 6, 7 and 8
- Disclosures were neutral, consistent and clear.

# Required Communications

## Corrected and Uncorrected Misstatements

ADJUSTMENTS	<ul style="list-style-type: none"><li>• None</li></ul>
PASSED ADJUSTMENTS	<ul style="list-style-type: none"><li>• None</li></ul>
TOTAL IMPACT OF ADJUSTMENTS	<ul style="list-style-type: none"><li>• None</li></ul>

# Required Communications

## Other Required Disclosures

### DISAGREEMENTS DIFFICULTIES

- No disagreements with management.
- No difficulties in performing the audit.

### MANAGEMENT'S REPRESENTATIONS

- As part of the audit, we will obtain a signed letter from management attesting to certain representations made during the audit.

### CONSULTATIONS AND OTHER MATTERS

- We are not aware of management having consultations with other accountants. If it were to be the case, standards require those auditors check with us to ensure they have all the relevant facts.
- We communicate with management throughout the year on a variety of matters prior to retention as the Exchange's auditor. Those discussions were in the ordinary course of business and not a condition of our retention.

# Required Communications

## Internal Control Matters

### MATERIAL WEAKNESS

- A deficiency in internal control such that a material misstatement of the financial statements may not be prevented, or detected and corrected, by the Exchange's internal control

### SIGNIFICANT DEFICIENCY

- A deficiency in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### AUDIT RESULTS

- We did not identify any deficiencies in internal control that we deem to be material weaknesses. However, material weaknesses may exist that have not been identified.

# Surprise Procedure

## RISK

- Inaccurate or fraudulent reporting to those charged with governance due to perceived performance demands/pressures.

## PROCEDURE

- Obtained a copy of the financial statements presented to the Board at the mid-year meeting and agreed them to general ledger system reports.

## RESULTS

- No issues noted.

# Surprise Procedure

## RISK

- Potential for fraudulent expenditures.

## PROCEDURE

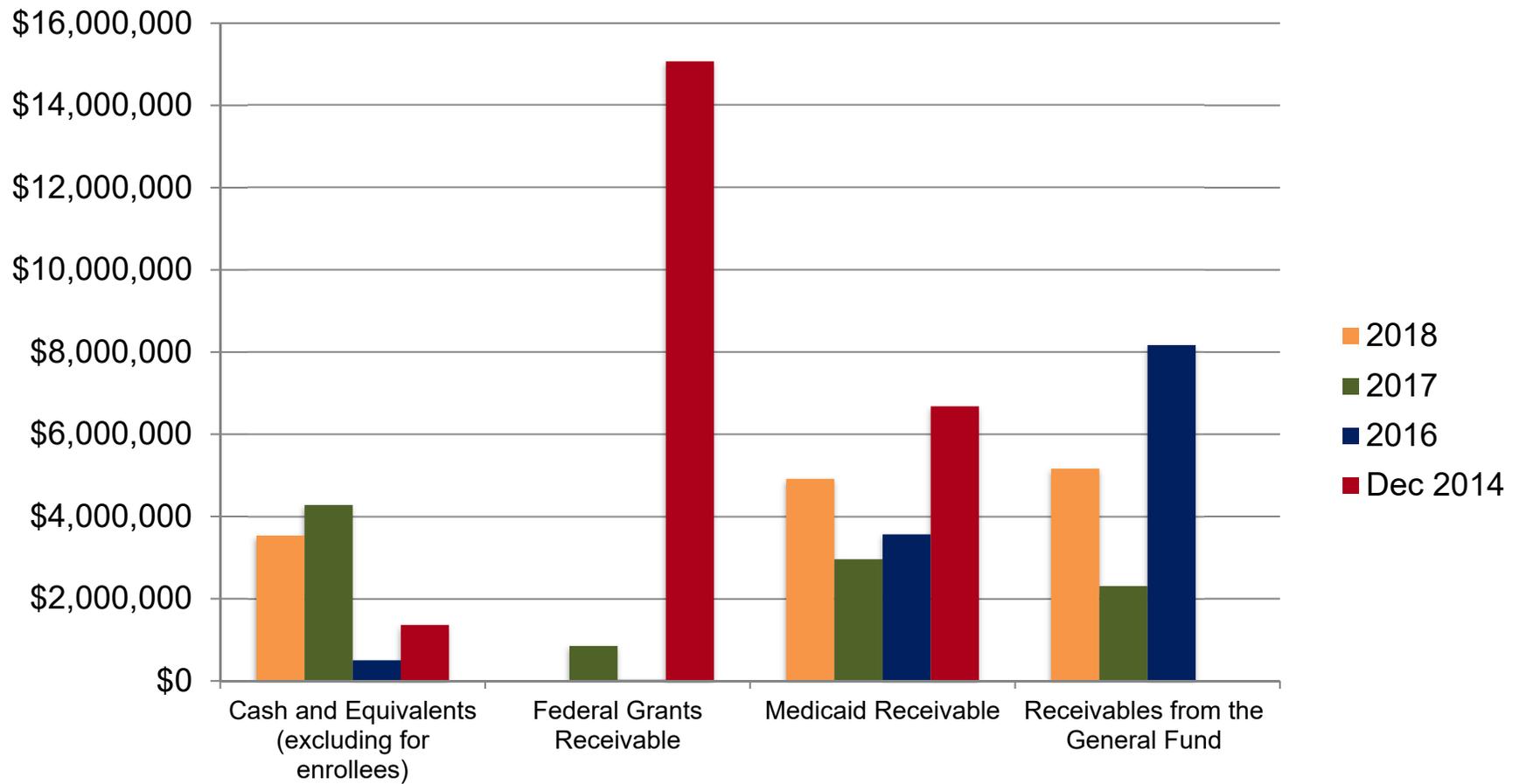
- Obtained disbursement detail for both 2017 and 2018 and sorted by vendor. Investigated changes that exceeded scope.

## RESULTS

- No issues noted.

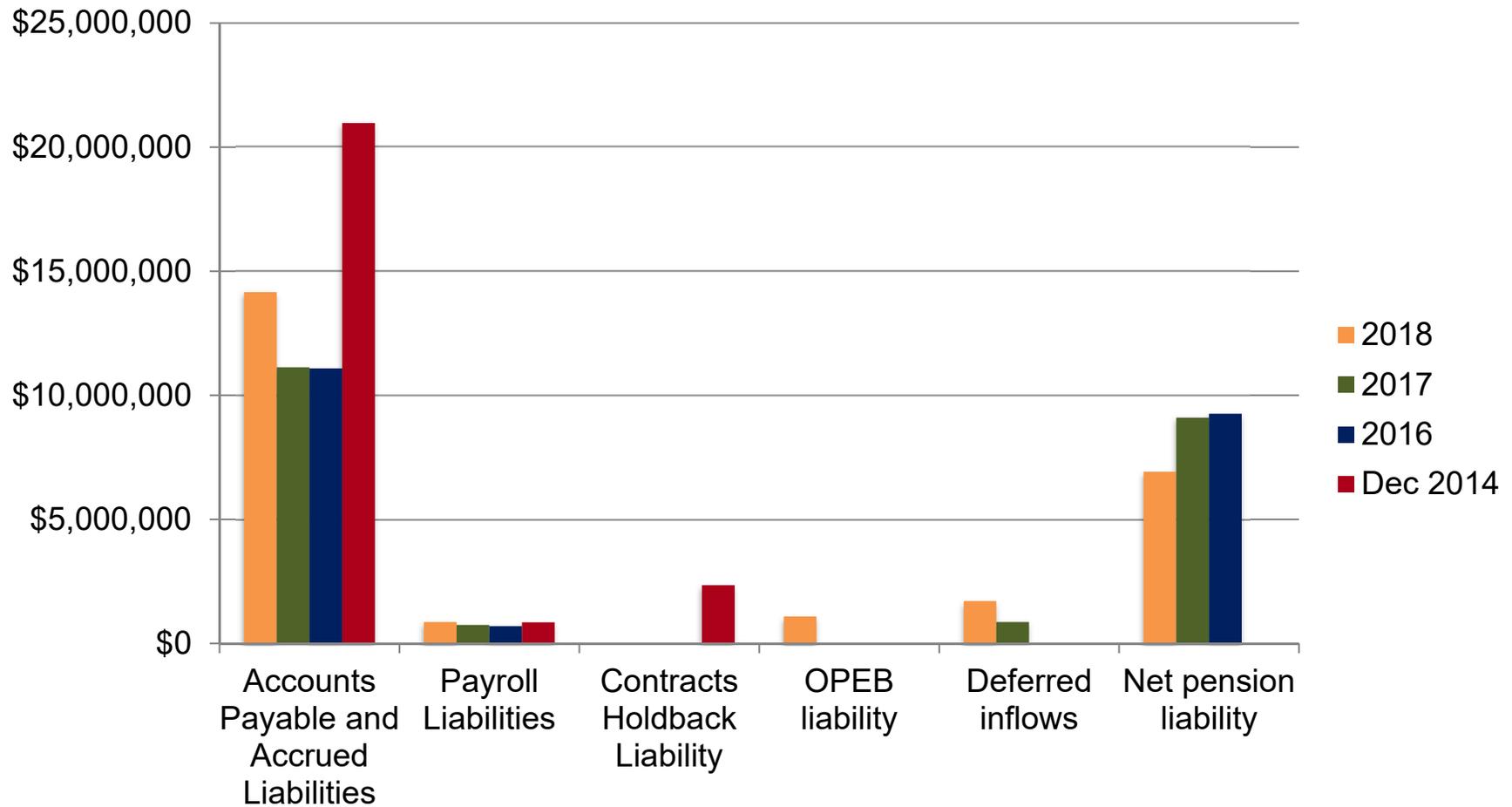
# Balance Sheets

## ASSETS



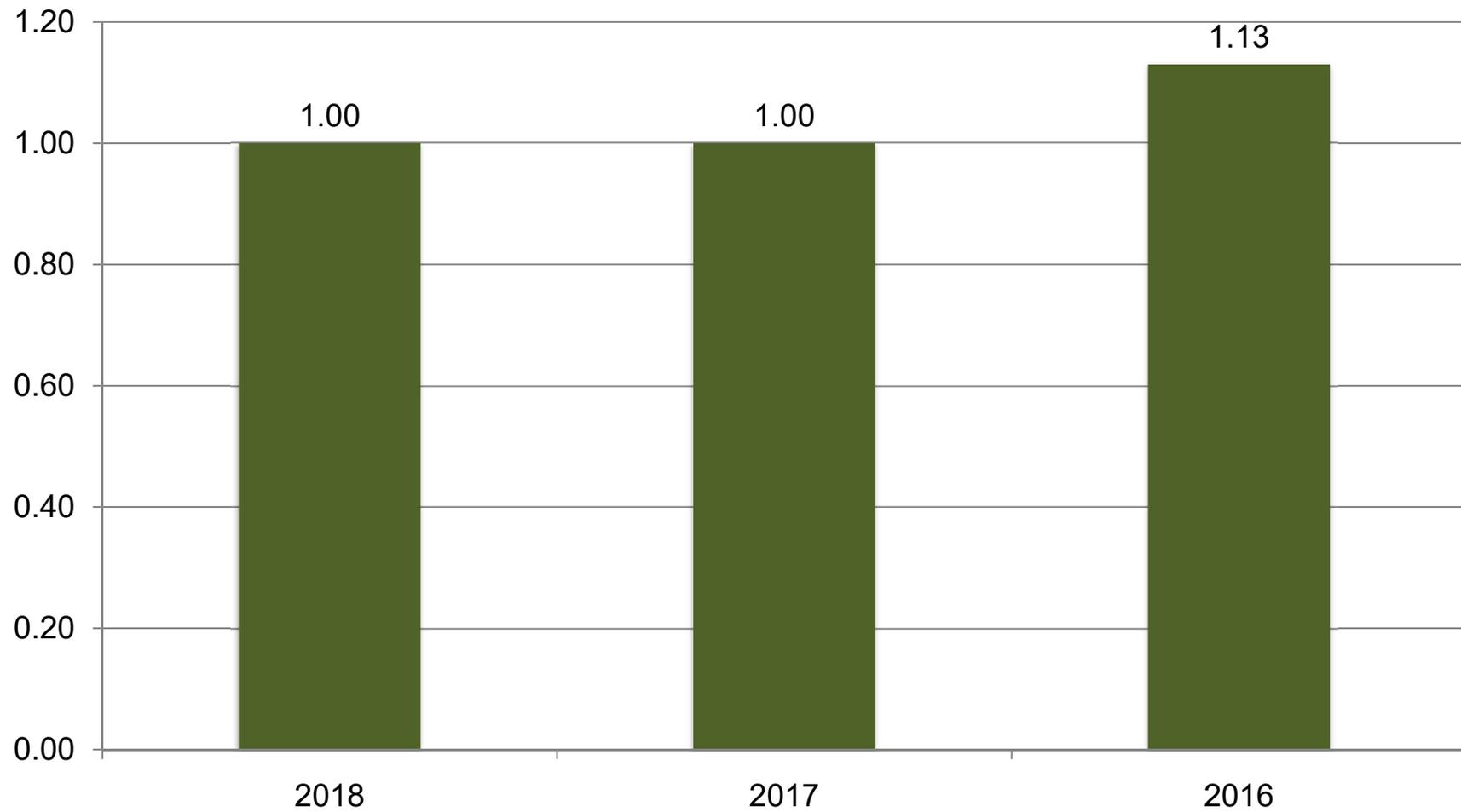
# Balance Sheets

## LIABILITIES



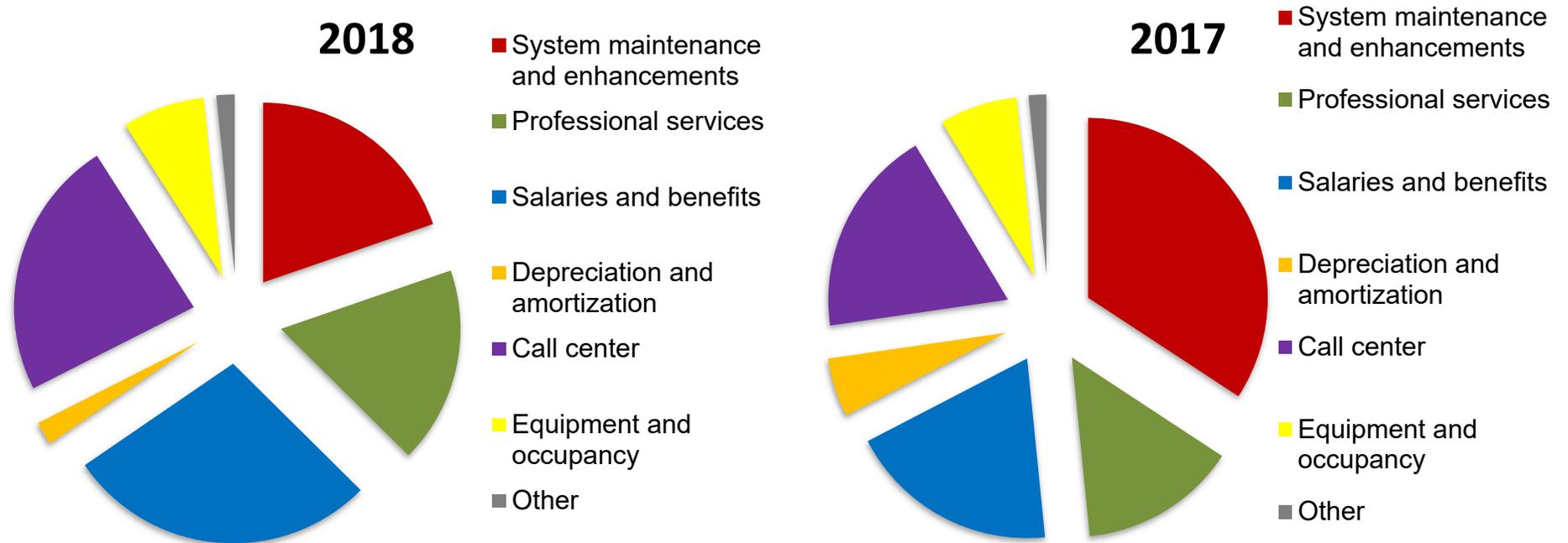
# Key Financial Information

## CURRENT RATIO



# Key Financial Information, Continued

## FUNCTIONAL EXPENSES



**Operating expenses** for the twelve months ended 6/30/2018 were \$12.7M less than the operating expenses for the twelve months ended 6/30/2017 (or 21%). As shown above, the focus has shifted from system development, maintenance and enhancements to operations – this is reflected in relative weight of call center operations, professional services, and salaries and benefits. Other categories remain fairly consistent.



## Cash Flow Statement Highlights

- Overall, cash decreased by \$878K
- Cash flows from operations – (\$20.1M) and (\$30.2M) in 2018 and 2017, respectively. Improved from the prior year; it's negative due to Medicaid revenue being considered noncapital financing activities for GASB reporting purposes.
- Federal grant and Medicaid cash flows are considered noncapital financial activities. Those cash flows decreased from \$37.1M to \$28.2M due to expiration of federal grants in FY17.
- Cash used for capital and related financing – (\$9.0M) and (\$3.2M) in 2018 and 2017, respectively. Change due to change in capitalization policy.



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