



Presentation of 2021 Auditor's Discussion and Analysis

March 24, 2022



Auditor's Discussion and Analysis

- Engagement Team
- Results of the 2021 Audit
- Comments, Recommendations, and Other Issues
- Questions



*Presentation of Annual
Auditor's Discussion and Analysis
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Mauldin & Jenkins

INSIDE
PUBLIC ACCOUNTING
TOP 100 FIRMS
2021

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CONSISTENTLY RANKED AS A TOP ACCOUNTING FIRM IN THE U.S.

100+ year
HISTORY
OF QUALITY SERVICE

Serve 565+
GOVERNMENT CLIENTS

GOVERNMENTAL PARTNERS & DIRECTORS **21**

125+ TEAM MEMBERS DEDICATED TO SERVING THE GOVERNMENTAL INDUSTRY

220+ SINGLE AUDITS PERFORMED LAST YEAR COVERING OVER \$4 BILLION OF FEDERAL GRANTS

120,000+ HOURS ANNUALLY PROVIDED TO GOVERNMENTAL CLIENTS

140+ CURRENT CLIENTS AWARDED THE GFOA CERTIFICATE OF EXCELLENCE

5 STATES | **12** OFFICES

NATIONALLY RECOGNIZED

• **Engagement Team Leaders for the City of Jackson, Tennessee Include:**

- James Bence – Engagement Partner – 18 years experience, 100% governmental
- Meredith Lipson – Quality Assurance Review Partner – 29 years experience, 100% governmental



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Results of June 30, 2021 Audit

- Our Responsibility Under Auditing Standards Generally Accepted in the United States of America (GAAS)
 - Our audit was performed in accordance with GAAS.
 - We considered the internal control structure for the purpose of expressing our opinion on the City's basic financial statements and not for the purpose of providing assurance on the internal control structure.
 - Our objective is to provide reasonable—not absolute—assurance that the basic financial statements are free from material misstatement.
 - We did not audit the Jackson Energy Authority, the Jackson Community Redevelopment Agency, or the Jackson Transit Authority. We have relied on the reports of their independent auditors.
 - The basic financial statements are the responsibility of the City's management.
- Report on 2021 Basic Financial Statements
 - Unmodified ("clean") opinion on basic financial statements. Audit report date of **March XX, 2022**.
 - Presented fairly in accordance with accounting principles generally accepted in the United States of America (GAAP).
 - Our responsibility does not extend beyond financial information contained in our report.



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Results of June 30, 2021 Audit (Continued)

- Report in accordance with *Government Auditing Standards* for 2021
 - Audit report date of **March xx, 2022**.
 - Five material weaknesses reported, related to revenue recognition/receivables, expenditure/expenses and related liabilities, capital asset accounting, general ledger maintenance, and the investigative report regarding the baseball team (noncompliance matter as well).
 - One significant deficiency reported, related to segregations of duties.
- Report in accordance with Uniform Guidance for 2021
 - Audit report date of **March xx, 2022**.
 - No material weaknesses reported.
 - No instances of noncompliance or other matters.
 - Report included following major programs:
 - Community Development Block Grants/Entitlement Grants (AL 14.218)
 - Coronavirus Relief Fund (AL 21.019)



Required Communications

- **Significant Accounting Policies**

- The significant accounting policies used by the City are described in Note 1 to the basic financial statements.
- In considering the policies used by the City, we noted they are in accordance with generally accepted accounting principles and similar government organizations with no significant new policies or qualitative aspects of its policies. The City is not involved in any controversial or emerging issues for which guidance is not available.

- **Management Judgment/Accounting Estimates**

- The City uses various estimates as part of its financial reporting process – including valuation of accounts receivable (recording of allowance for uncollectible accounts).
- Management’s estimates used in preparation of financial statements were deemed reasonable in relation to the financial statements taken as a whole. We considered this information and the qualitative aspects of management’s calculations in evaluating the City’s significant accounting estimates.

- **Financial Statement Disclosures**

- The footnote disclosures to the financial statements are also an integral part of the financial statements and the process used by management to accumulate the information included in the disclosures was the same process used in accumulating the statements. The overall neutrality, consistency, and clarity of the disclosures was considered as part of our audit.



Required Communications (Continued)

- **Relationship with Management**

- We received full cooperation from the City's management, staff, and others.
- There were no disagreements with management on accounting issues or financial reporting matters.

- **Audit Adjustments**

- Adjustments were proposed to the records of the City and have been recorded in the City's financial statements. A copy of these adjustments has been provided to management and can be provided to governance as requested.

- **Passed Adjustments**

- We had one passed adjustments for the year ended June 30, 2021, which was to pass on the restatement for the prior year amounts owed to the Education Foundation, which totaled \$321,229.

- **Representation from Management**

- We requested written representations from management relating to the accuracy of information included in the financial statements and the completeness and accuracy of various information requested by us, during the audit. Management provided those written representations without a problem.



Required Communications (Continued)

- **Consultation with Other Accountants**

- To the best of our knowledge, management has not consulted with, or obtained opinions from, other independent accountants during the year, nor did we face any issues requiring outside consultation.

- **Significant Issues Discussed with Management**

- There were no significant issues discussed with management related to business conditions, plans, or strategies that may have affected the risk of material misstatement of the financial statements.

- **Information in Documents Containing Audited Financial Statements**

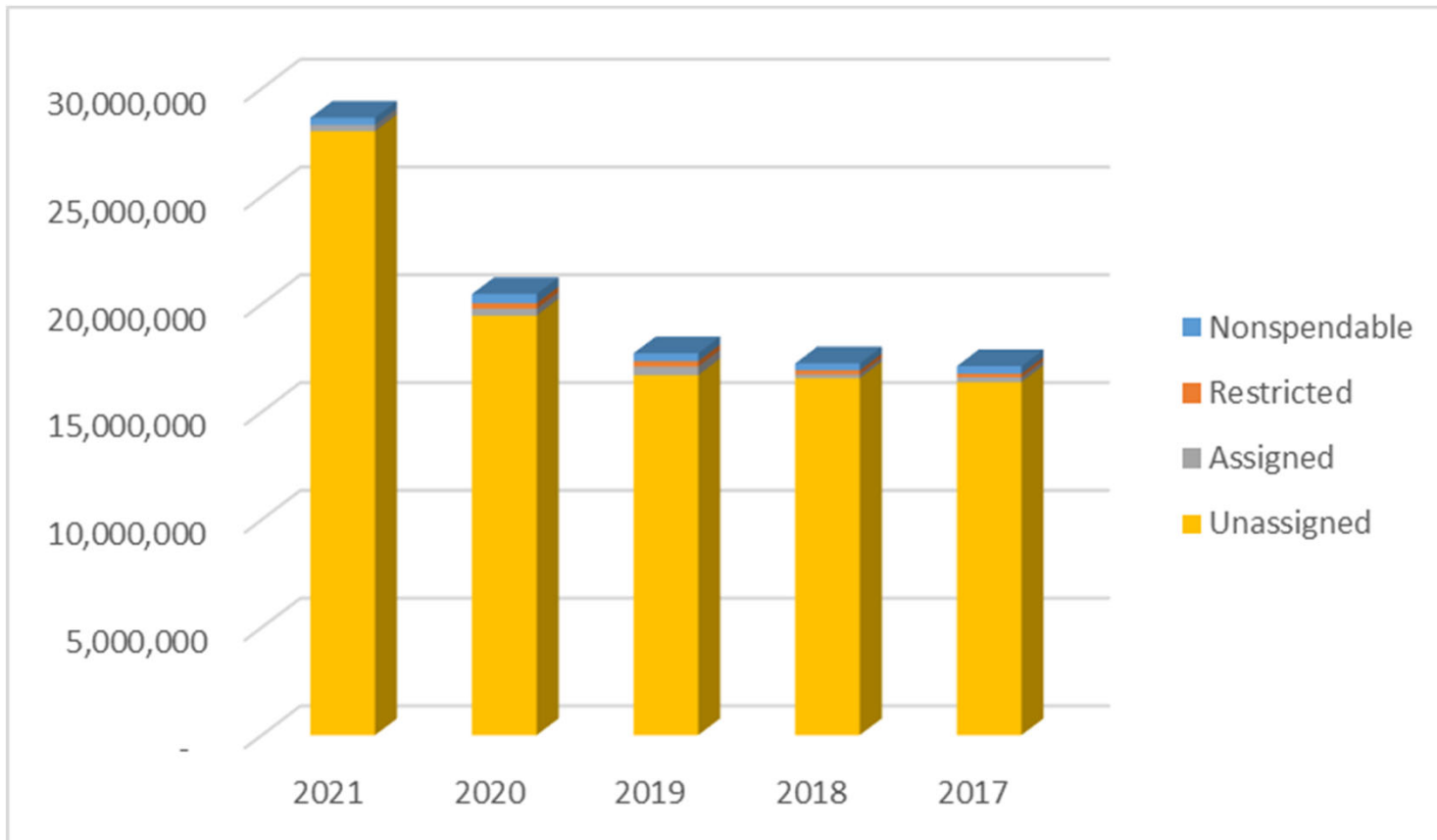
- Our responsibility for other information in documents containing the City's basic financial statements and our report thereon does not extend beyond the information identified in our report. If the City intends to publish or otherwise reproduce the financial statements and make reference to our firm, we must be provided with printers' proof for our review and approval before printing. The City must also provide us with a copy of the final reproduced material for our approval before it is distributed.

- **Auditor Independence**

- In accordance with AICPA professional standards, M&J is independent with regard to the City and its financial reporting process.
- There were no fees paid to M&J for management advisory services during fiscal year 2021 that might effect our independence as auditors.



Financial Trends – General Fund



Highlights

- Unassigned to Exp:
 - 38.76%('21)
 - 27.57%
 - 22.86%
 - 24.04%
 - 24.65%
- Fund balance up \$10M in last 2 years.
- \$1M of CARES funding included in 2021 numbers.



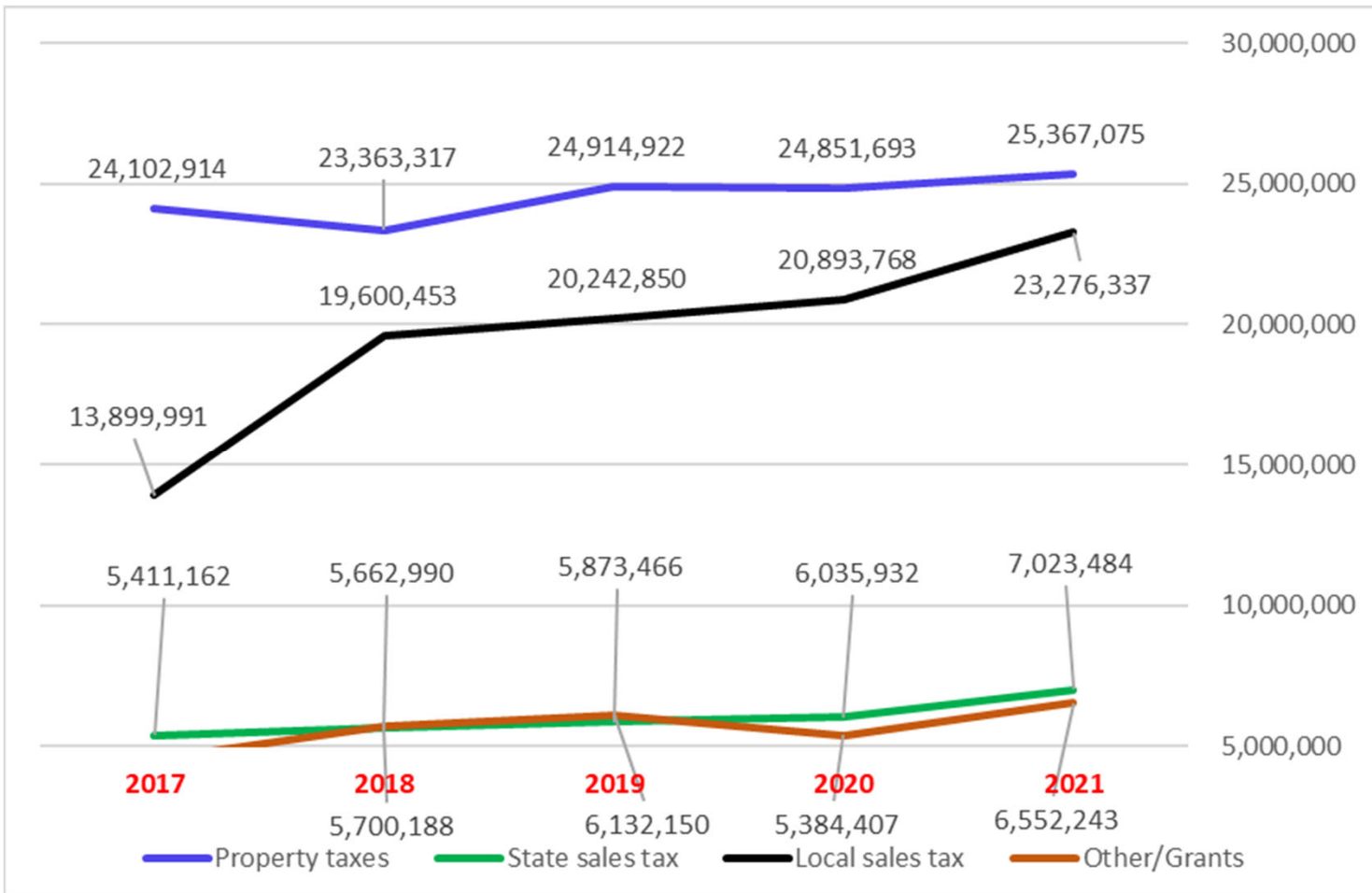
Financial Trends – General Fund Budget

	Original Budget	Amendments	Final Budget	Actual	
Revenues	\$ 71,300,854	\$ 1,012,803	\$ 72,313,657	\$ 80,461,957	111.27%
Expenditures	(74,961,492)	(2,345,375)	(77,306,867)	(72,290,038)	93.51%
Transfers out	-	-	-	(113,000)	
Increase(decrease)	\$ (3,660,638)	\$ (1,332,572)	\$ (4,993,210)	\$ 8,058,919	

- Licenses and permits came in \$1M over budget
- Significant Intergovernmental Revenues:
 - CARES revenues \$1M
 - States Sales tax up \$1.5M
 - Local Sales tax up \$6M
- Expenditure budget increases:
 - General Government admin - \$870K
 - Public Safety - \$1M increase across depts
- Public Welfare & Community Service – \$1.5M under
- Public Works - \$900K under
- Public Safety - \$1.7M under
- General Government Admin - \$870K under
- Mainly salaries and maintenance costs being under budget



Financial Trends – General Fund Revenues



Primary revenues for General Fund

Property taxes (31.5%)

- Increased 5.2% over 5 yrs

Intergovernmental (ST – 37.7% & Grants/Other – 8.1%)

- Increased 54%
- St ST up 30%
- Local ST up 67.5%
- Other up 43%
- '17 to '18 jump for ED portion ~ \$5M



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Financial Trends – Cash Flows (Enterprise)

	Solid Waste	Jackson Transit Authority	Community Development	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from consumers	\$ -	\$ 347,171	\$ 5,389	\$ 352,560
Cash received from other operations	-	9,620	-	9,620
Cash paid to suppliers of goods and services	(36,683)	(956,743)	(12,545)	(1,005,971)
Cash paid to employees for services	-	(2,679,867)	-	(2,679,867)
Cash (paid to) received from other funds	-	-	21,543	21,543
Net cash provided (used) by operating activities	<u>(36,683)</u>	<u>(3,279,819)</u>	<u>14,387</u>	<u>(3,302,115)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Disbursements of community development loans	-	-	(31,290)	(31,290)
Principal collections of community development loans	-	-	37,484	37,484
Appropriations from City	-	65,763	-	65,763
Other non-operating income	-	9,853	-	9,853
Cash received from grants	-	2,822,319	-	2,822,319
Net cash provided (used) by non-capital financing activities	<u>-</u>	<u>2,897,935</u>	<u>6,194</u>	<u>2,904,129</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	<u>-</u>	<u>34,068</u>	<u>-</u>	<u>34,068</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>139</u>	<u>384</u>	<u>-</u>	<u>523</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(36,544)	(347,432)	20,581	(363,395)
Cash and Cash Equivalents - Beginning	<u>109,185</u>	<u>677,309</u>	<u>160,816</u>	<u>947,310</u>
Cash and Cash Equivalents - Ending	<u>\$ 72,641</u>	<u>\$ 329,877</u>	<u>\$ 181,397</u>	<u>\$ 583,915</u>



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Comments, Recommendations, & Other Matters

Material Weakness Revenue Recognition and Related Receivables

- The following adjustments were required to correct the reporting of revenues as follows:
 - Certain receivables were accrued in the General Fund, however, in accordance with GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, revenues associated with non-exchange revenues must also be available to be recognized as revenues. Adjustments totaling approximately \$155,000 were needed to reduce the revenues reported in the current year and report the related deferred inflow of resources.
 - Adjustments were required in the Debt Service Fund to reconcile the balances in the allowance on property tax receivables to agree with the subsidiary ledger balances. This entry decreased the current year revenues by approximately \$31,000.
 - Adjustments were required in the Community Development Fund to properly reconcile the general ledger balances to agreement with the sub-ledger balances. The management of the loan program is administered outside of the finance department and annual reconciliation of the subledger balances with the general ledger balances was not occurring. As a result, an adjustment to increase the general ledger receivables of approximately \$616,000 with approximately \$593,000 increasing opening fund balance for loans improperly expensed in the prior year.



Comments, Recommendations, & Other Matters

Material Weakness Expenditure/Expense and Related Liabilities

- The following adjustments were required to correct the reporting of revenues as follows:
- The Solid Waste Fund required an adjustment to the post-closure monitoring costs by approximately \$26,000, with approximately \$24,500 decreasing the net position. The landfill estimate was initially recorded in 2012 and has not included the estimate for inflation in rates each year in the liability. As a result the adjustments applied the element of rate inflation to the liability as required.
- An adjustment was provided by management to accrue liabilities in the General Fund for liabilities associated with a sales tax contract from 2017 which had not been previously reported by the City. The total liability accrual amounted to approximately \$821,000 with \$500,000 being incurred in the current year.

Material Weakness Capital Asset Accounting and Reporting

- The following adjustments were required to correct the reporting of revenues as follows:
- The City has historically maintained the capital asset sub-ledgers in a manual Microsoft Excel file rather than in a system sub-ledger system. In review of the sub-ledger, it was noted the City was not maintaining information such as an “installation date” of when the asset was capitalized, documented depreciable life of each asset, or department or function of assets.
- During testing of the construction in progress balances it was noted that approximately \$8.3 million of projects were completed and in service but had not been moved from “in progress” to depreciable categories. An adjustment was made to reclassify the assets.
- While bringing capital assets into a subsidiary ledger systems adjustments of approximately \$2.4 million were made to reconcile the system calculated depreciation to the historical depreciation.



Comments, Recommendations, & Other Matters

Material Weakness General Ledger Maintenance

- The following adjustments were required to correct the reporting of revenues as follows:
 - The current year tax levies were not adjusted from the prior year balances. An adjustment of approximately \$1.2 million was required in the General Fund to decrease the receivable balance and the respective deferred inflows for the 2021 digest balance.
 - The current year tax levies were not adjusted from the prior year balances. An adjustment of approximately \$835,000 was required in the Debt Service Fund to increase the receivable balance and the respective deferred inflows for the 2021 digest balance.
 - The City was not actively reconciling the general ledger receivable and allowance for Court Fines with the subsidiary ledger balance maintained in the Courts. Adjustments were required to increase the receivable balances in the General Fund, the Police Drug Fund and the Metro Drug Fund by approximately \$493,000, \$52,000, and \$34,000, respectively.



Comments, Recommendations, & Other Matters

Material Weakness Investigative Report

- The following are the findings released by the Comptroller's Office Investigative Report:
 - The City Council approved the 2011 amended lease agreement without any discussion of a material change in the lease terms noted in Article IV(C).
 - Investigators questioned the authority of the former Mayor to sign a letter assuming \$500,000 per annum of Club expenses by the City without appropriate and adequate disclosure to the Council.
 - Investigators noted a lack of transparency and questionable oversight over transactions between the City and the Club.
 - The former City Recorder approved questionable payments of at least \$526,642 for goods and services the Club received from vendors through trade (bartered type) transactions.
 - Investigators noted operational discrepancies, material omissions, ambiguities and other issues in the 2016 contract for solid waste collections.
 - Investigators noted multiple issues and weaknesses during preparation of bid documents, evaluations of bidders, voting process, and finalization of the contract.



Comments, Recommendations, & Other Matters

Significant Deficiency Segregation of Duties

- Although the small size of the City's staff limits the segregation of duties, it is important that incompatible duties be assigned to different individuals and/or compensating controls implemented. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction.



Comments, Recommendations, & Other Matters

Management Letter Comments and Recommendations

Compensated Absences Accruals

During testing of the compensated absence accruals we noted the City was incorrectly including the estimated TCRS pension contributions in the accrual as a percentage of the actual accrued wages. In accordance with the GASB Implementation Guide 2015-1 question 5.255.1 states that these pension estimates are already included in the net pension liability considered under GASB Statement No. 68 and thus would be duplicated if recorded in compensated absences. The City was reporting approximately \$336,000 of additional expenses accrued into the compensated absence accruals as of June 30, 2020. We recommend the City remove the additional accrual in future years in accordance with applicable accounting guidance.

Receivables – Solid Waste Fund

During testing of the compensated absence accruals we noted the City was incorrectly including the estimated TCRS pension contributions in the accrual as a percentage of the actual accrued wages. In accordance with the GASB Implementation Guide 2015-1 question 5.255.1 states that these pension estimates are already included in the net pension liability considered under GASB Statement No. 68 and thus would be duplicated if recorded in compensated absences. The City was reporting approximately \$336,000 of additional expenses accrued into the compensated absence accruals as of June 30, 2020. We recommend the City remove the additional accrual in future years in accordance with applicable accounting guidance.



Comments, Recommendations, & Other Matters

Management Letter Comments and Recommendations

Month End Process

During the course of the audit, we noted the City's current general ledger system does not have the ability to go back to specific date to run a majority of the sub-ledger reports. Many sub-ledger reports, such as accrued leave, various billing receivable ledgers, and aging reports should be run monthly and at least at year-end and maintained in records to support balances as of June 30th each year.

Fuel Reports and Monitoring

During discussions with management and review of the fuel reports, it was noted when an employee uses the fuel station, they manually enter in their mileage, which is used for record keeping and analysis of fuel usage. We recommend the City put processes in place to better monitor fuel usage.

Timely Cash Deposits with Police Seizures

During discussions with management and review of the receipt logs for the Police Department, it was noted cash seizures from the metro narcotics and police departments are not consistently deposited within the 5-business day policy. Within the Police Department approximately 85% of cash seizures and 50% of the metro narcotics department seizures tested were deposited outside of the 5-business day policy. We recommend the City put a formal policy and process in place for depositing cash seizures and implementing them.



Comments, Recommendations, & Other Matters

New GASB Pronouncements

- **Statement No. 87, Leases** was issued in June 2017 and is effective for the first reporting period beginning after December 15, 2019. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Applicable for June 30, 2022.
- **Statement 89, Accounting for Interest Cost Incurred Before the End of a Construction Period**, this standard eliminates the requirement/ability to capitalize construction period interest costs as part of the cost of a capital asset in enterprise funds. This standard should be applied prospectively with no restatement. This standard can be early implemented as part of fiscal year 2019, but is applicable for June 30, 2022.
- **Statement No. 91, Conduit Debt Obligations** was issued in May 2019 and is effective for the first reporting period beginning after December 15, 2021, meaning for those with year ends of June 30, 2022. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.



Comments, Recommendations, & Other Matters

New GASB Pronouncements (Continued)

- **Statement No. 93, *Replacement of Interbank Offered Rates*** was issued in March 2020 and contains two (2) different effective dates. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. As a result of global reference rate reform, the London Interbank Offered Rate (“LIBOR”) is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate.
- **Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*** was issued in March 2020 and is effective for fiscal years beginning after June 15, 2022, which means year ends of June 30, 2023 and following. Statement No. 94 requires that Public-Private Partnerships and Public-Public Partnerships (“PPPs”) that meet the definition of a lease apply the guidance in Statement No. 87, Leases if (a) existing assets of the transferor are the only underlying PPP assets, (b) improvements are not required to be made by the operator to those existing assets as part of the PPP arrangement, and (c) the PPP does not meet the definition of an SCA. All other PPPs that will not apply the guidance in Statement No. 87 will generally use the accounting guidance contained in Statement No. 60 which was superseded by this new Standard.
- **Statement No. 96, *Subscription-Based Information Technology Arrangements*** was issued in May 2020 and is effective for fiscal years beginning after June 15, 2022, which means year ends of June 30, 2023 and following. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.



Comments, Recommendations, & Other Matters

New GASB Pronouncements (Continued)

- **Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*** was issued in June 2020 and is effective for fiscal years beginning after June 15, 2021, (year ends of June 30, 2022 and following). The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.



Comments, Recommendations, & Other Matters

Other Pending or Current GASB Projects

As noted by the numerous pronouncements issued by GASB over the past decade, the GASB continues to research various projects of interest to governmental units. Subjects of note include:

- **Re-Examination of the Financial Reporting Model.** GASB has added this project to its technical agenda to make improvements to the existing financial reporting model (established via GASB 34). Improvements are meant to enhance the effectiveness of the model in providing information for decision-making and assessing a government's accountability.
- **Conceptual Framework is a constant matter being looked at by GASB.** Current measurement focus statements (for governmental funds) to change to near-term financial resources measurement. May dictate a period (such as 60 days) for revenue and expenditure recognition. May expense things such as supplies and prepaid assets at acquisition.
- **Revenue and Expense Recognition** is another long-term project where the GASB is working to develop a comprehensive application model for recognition of revenues and expenses from non-exchange, exchange, and exchange-like transactions.
- **Conduit Debt.** The GASB is looking at improving the definition of conduit debt and determining whether a liability should be reported for these transactions.



Comments, Recommendations, & Other Matters (Continued)

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS FOR GOVERNMENTAL CLIENTS

Free Continuing Education. We provide free quarterly continuing education for all of our governmental clients. Each quarter we pick a couple of significant topics tailored to be of interest to governmental entities. In an effort to accommodate our entire governmental client base, we offer the sessions several times per quarter at a variety of client provided locations resulting in greater networking among our governmental clients. We normally see approximately 100 people per quarter. We obtain the input and services of experienced outside speakers along with providing the instruction utilizing our in-house professionals. We hope City staff and officials have been able to participate in this opportunity, and that it has been beneficial to you. Examples of subjects addressed in the past few quarters include:

ACFR Preparation * GASB Updates * Grant Accounting Processes and Controls * GASB 68 & 71 (Pensions) * Internal controls over revenue and cash receipting and accounts payable, payroll, and cash disbursements * American Recovery & Reinvestment Act (ARRA) information, issues and updates * Single audits for auditees * Collateralization of Deposits and Investments * Internal Controls over Accounts Payable, Payroll and Controls Policies and Procedures Manuals * Segregation of Duties - GASB No. 51 * Intangible Assets * Segregation of Duties * GASB No. 54 * Governmental Fund Balance * Best Budgeting Practices, Policies and Procedures * Data Security and General Information Technology Controls and Best Practices



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Comments, Recommendations, & Other Matters (Continued)

FREE QUARTERLY CONTINUING EDUCATION AND NEWSLETTERS OR GOVERNMENTAL CLIENTS (Continued)

Governmental Newsletters. We produce newsletters tailored to meet the needs of governments. The newsletters have addressed a variety of subjects and are intended to be timely in their subject matter. The newsletters are authored by Mauldin & Jenkins partners and managers, and are not purchased from an outside agency. The newsletters are produced and delivered periodically, and are intended to keep you informed of current developments in the government finance environment.

Communication. In an effort to better communicate our free continuing education plans and newsletters, please email Paige Vercoe at pvercoe@mjcpa.com (send corresponding copy to jbence@mjcpa.com), and provide to her individual names, mailing addresses, email addresses and phone numbers of anyone you wish to participate and be included in our database.



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Conclusion

Comments and Questions?

We appreciate the opportunity to serve the City of Jackson and look forward to continuing to work with the City in upcoming years!



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