



**METROPOLITAN GOVERNMENT OF NASHVILLE  
AND DAVIDSON COUNTY**

Letter of Recommendations to Management

June 30, 2007



**KPMG LLP**  
1900 Nashville City Center  
511 Union Street  
Nashville, TN 37219-1735

October 31, 2007

The Honorable Mayor and Members of Council  
The Metropolitan Government of Nashville and Davidson County  
Nashville, Tennessee

Ladies and Gentlemen:

We have audited the financial statements of the governmental activities, the business type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Nashville and Davidson County, Tennessee (the Government) as of and for the year ended June 30, 2007, which collectively comprise the Government's basic financial statements and have issued our report thereon dated October 31, 2007. We also have audited the financial statements of each of the Government's nonmajor governmental, nonmajor enterprise, internal service, and fiduciary funds, as well as the financial statements of the Sports Authority Fund as of and for the year ended June 30, 2007. We did not audit the financial statements of the following discretely presented component units: the Nashville District Management Corporation, the Metropolitan Development and Housing Agency, the Electric Power Board, the Metropolitan Transit Authority, the Metropolitan Nashville Airport Authority, the Emergency Communications District, and the Industrial Development Board.

In planning and performing our audit of the aforementioned financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the Government's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting. The maintenance of adequate control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote



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likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control that we consider to be material weaknesses, as defined above.

KPMG identified the following significant deficiencies during the performance of the 2007 audit:

**Significant Deficiencies**

**GENERAL GOVERNMENT**

***Audit Adjustments to Accrued Liabilities and Accounts Receivable Balances***

During our audit procedures over accrued liabilities, we identified various unrecorded liabilities which, in the aggregate, were considered material to the respective reporting units. The identified amounts were for expenditures incurred prior to June 30, 2007 and invoiced during fiscal year 2008:

<b><u>Reporting Unit</u></b>	<b><u>Unrecorded Liability Accruals Recorded</u></b>
Education Capital Projects	\$ 3,258,615
General Government Services	453,145
Infrastructure Services	325,245
Injured on Duty	153,315
Stormwater Operations	91,177
Human Resources	39,733
Metropolitan Employees' Flexible Benefits Plan	18,969
School Print Shop	15,570
Recreational and Cultural Services	12,989
Regulation and Inspection Services	2,500

During our audit procedures over accounts receivable, we also identified a significant fluctuation in the accounts receivable balance of the District Energy System when compared with the balance of fiscal year 2006. Upon further investigation, management determined that an accounts receivable totaling approximately \$667,000 had not been recorded during the closing process and was subsequently recorded by the Government.

We recommend that management implement more stringent review procedures to identify possible unrecorded accrued liabilities and accounts receivable. We further recommend that management obtain explanations for significant account variances identified during the year-end closing process and resolve any unusual variances timely.



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Management's Response

We concur. We will implement procedures to address these matters during the 2007-2008 fiscal year. Accelerating the issuance of the June 30, 2007 CAFR by six weeks required an earlier general ledger closing, which impacted several departments throughout Metro. We will modify our timing and procedures for the June 30, 2008 closing to improve communication and coordination with regard to year end accruals that are generated at the department level. Additionally, we will develop additional reporting tools that will enhance the central monitoring of post-closing transactions in order to better detect fiscal year 2007-2008 activity that is processed by departments after June 30, 2008 is closed.

KPMG identified the following other control deficiencies during the performance of the 2007 audit:

**Other Control Deficiencies**

**GENERAL GOVERNMENT**

***Federal Grant Reimbursement Procedures***

During our audit procedures over the cash draw process of the Federal Highway Administration Greenways/Pedestrian Bridge Parks program administered by the Metropolitan Board of Parks and Recreation (Parks), it was noted that Parks did not submit timely reimbursement request submissions in order to minimize the time between expenditure and reimbursement as prescribed in the Grants Management Manual. As such, reimbursable expenditures were allowed to accumulate for long periods of time (in some cases, in excess of 18 months); more timely reimbursement requests would lead to higher interest income earned by the Government and improve the cash flow position.

We recommend that the Government monitor compliance of the Division of Grants Coordination policy to ensure timely reimbursement.

Management's Response

We concur. The Greenways/Pedestrian Bridge grants are different from the majority of the Government's grants in that they are capital in nature, involve high dollars, and do not dictate a specific reimbursement period (monthly, quarterly, etc.). These particular grants are substantially completed; however, we agree that Parks did not request timely reimbursement as directed in the Grants Management Manual. The Government has recently expanded its procedures to monitor the cash position of its various funds. This process will highlight those funds that have unreimbursed grant expenditures, and departments will periodically be required to provide evidence that requests for reimbursement have been submitted to grantors.

***Passwords, Administrator, and Administrator/Vendor Monitoring***

We determined that IT personnel with Administration level access within the AssessPro application perform business functions, and the AssessPro login password has not been changed for several years. Additionally, one vendor (PATRIOT) has server, database, and administrator access within the system. As management does not monitor administrator activities at the operating system and database levels,



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unauthorized changes (including programmatic and/or configuration changes) to the AssessPro application may go undetected.

We recommend that management change the AssessPro login password and the PATRIOT user should be limited to vendor access. Management should also implement a policy to monitor and routinely review administrator activities within the application, database, and server.

*Management's Response*

We concur. Patriot is writing a new version of their AssessPro product. The new version of AssessPro will use Active Directory for logins and passwords. This new version will be finished in late 2009.

Patriot has been our Database Administrator since we implemented AssessPro. They only access the database at the assessors office request and always ask for permission prior to entering the data base. They also will not make any programmatic and/or configuration changes unless already approved by the Assessors office and/or ITS.

***Documentation of Physical Access Reviews***

We determined that IT personnel did not document and/or did not retain documentation of the results of the physical access review for the ITS Howard School data center.

We recommend that management document all physical access reviews and retain this documentation.

*Management's Response*

We concur. While we currently do these reviews periodically when needed or upon specific request, we will put a process in place during FY 2008 to maintain the documentation supporting those reviews.

***Backup Tape Restoration Testing***

We determined that management does not routinely test the effectiveness of the backup restoration process and the quality of the backup tapes. These procedures are crucial to ensure that tapes are not corrupt and that the data can be recovered from the tapes if required.

We recommend that ITS management routinely test the effectiveness of the restoration process and the quality of the backup tapes by periodically restoring data from the backup tapes.

*Management's Response*

We concur. Our current backup software availability made this test nearly impossible to perform on a regular basis. We plan to implement a testing plan when we move to our new backup software solution during FY 2008.



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## **DEPARTMENT OF WATER AND SEWERAGE SERVICES**

### ***Deeded Property***

The Department of Water and Sewerage Services performed various analytical procedures on a number of account balances. During the final review, the Department noted that deeded property additions were received, but not recorded, during fiscal year 2007 totaling approximately \$6.7 million. The employee previously responsible for recording these entries was no longer employed by the Government.

We recommend that management implement more robust procedures during the year-end close process to appropriately identify and address unrecorded items.

### **Management's Response**

We concur. There were two employees involved in the deeding process of new water and sewer infrastructure at Metro Water Services. One passed away a couple of years ago and the other retired at the end of the 2007 fiscal year. The hiring / promotion into the vacant position (created from the employee that retired at the end of June) has been actively pursued and will shortly be filled.

During our review of the process two areas were determined to need focus during FY 2008.

First, better utilization of the "engineering tracking" software for the field inspectors along with laptops and VPN access will allow continuous updates as to the status of a lay and deed project. This will allow management and the employee recording the deed to better diagnose problems and find project specific remedies as to why a project is not timely progressing to deeded status.

Second, the Valve Operations sub-process, the last and important sub-process prior to deeding, was not operating appropriately. A new procedure has been instituted in FY 2008 where an initial inspection with the contractor and inspector on the valves prior to the physical field inspection was created. Any obvious deficiencies will then be corrected prior to the physical test. This has and will continue to cut down on the number of iterations required to get all items addressed. After the initial inspection a deficiency list is sent to the contractor and developer for corrections. This initial inspection was not done in the past and was the source for delays and confusion caused by the contractors not addressing these items in a timely fashion. The wait time for the results of the physical test have been greatly reduced as well in an effort to get the deeds recorded quicker.

### ***IT Access and Administrator Monitoring***

We determined that developers currently have administrator level access to the production environment. Additionally, administrator and vendor activities within the AS/400 and HTE application are not adequately monitored, and the logical access review for fiscal year 2007 was not completed prior to the end of the fiscal year. These deficiencies could allow an administrator or developer to make unauthorized changes to program code or application configurations difficult to detect.

We recommend that management remove the developers' administrative access to the AS/400 and the HTE application. Additionally, we recommend that management conduct periodic logical access reviews of users and monitor and review administrator and vendor activities within the AS/400 and HTE applications.



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Management's Response

We concur. The Department of Water and Sewerage Services agrees that periodic logical access reviews are necessary, however, the Department of Water and Sewerage Services does not have staff to segregate System Administration from Application Development. The Department of Water and Sewerage Services currently has only 2 employees capable of performing System Administration tasks. Both of these employees need to be able to perform application development tasks in order to support the system. As this is less than the minimum staff level needed to ideally provide adequate coverage of the system with restrictive access features, we will consider other ways to monitor the access and activity of these individuals.

***IT Change Management Procedures***

We determined that management has not implemented consistent change management practices with regard to emergency, planned, and unplanned changes to the HTE application. Additionally, changes to the HTE application are not tested and approved by management before being placed into production. This greatly increases the risk that changes are not technically feasible, are inconsistent with financial reporting objectives, do not meet end user requirements, or have a negative impact on existing controls.

We recommend that management implement consistent change management practices with regard to emergency, planned, and unplanned changes to the HTE application and that changes to the application be tested and approved by both management and end users prior to being placed into production.

Management's Response

We concur. Routine request will continue to be tracked using the BMC Service Desk Express application provided by ITS. Internally and externally developed modifications to HTE will be documented and maintained. This documentation will be stored in a folder set up on the Department of Water and Sewerage Services network and will include the System Change Request form, documentation of changes made, the person responsible for those changes, and end-user testing sign-off documentation.

**TRUSTEE'S OFFICE**

***Passwords, Administrator, and Administrator/Vendor Monitoring***

We determined that the TaxMan login password has not been changed for two years. Additionally, one vendor (Manatron) has application administrator and database administrator rights on the TaxMan production server. As management does not monitor administrator activities at the operating system, database, and application levels, unauthorized changes (including programmatic and/or configuration changes) to the TaxMan application may go undetected.

We recommend that management change the TaxMan login password, and the Manatron user should be limited to vendor access. Management should also implement a policy to monitor and routinely review administrator activities within the application, database, and server.



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Management's Response

We concur. Changes to the TaxMan production server are currently controlled and monitored, and management believes that there is limited risk of unauthorized changes. Regarding password access, management plans to work with ITS and Manatron to address this and other issues with the intention of having resolution by June 30, 2008.

**METROPOLITAN NASHVILLE PUBLIC SCHOOLS**

***Food Service Inventory Procedures***

We determined that, during the physical inventory counts at several locations, inventory was recorded on the incorrect line of the preprinted inventory count sheets, and obsolete inventory was included in the counts. These errors caused inventory to be incorrectly valued, and the inventory balance to be misstated which was subsequently adjusted.

We recommend that management communicate to the cafeteria managers performing the physical inventory counts that obsolete items are to be segregated during the count procedures and excluded from the count reports. Cafeteria managers should also be instructed to only record inventory quantities on the preprinted sheets if the descriptions match exactly; discrepancies should be reported so the sheets can be updated and a manual adjustment can be made to ensure the inventory is properly valued.

Management's Response

We concur. Additional communication and training to improve the inventory count process will be implemented during FY 2008.

***Access of Terminated Employees***

We determined that nine terminated MNPS employees had active EBS user accounts, increasing the risk that unauthorized changes to data may have occurred and reducing user accountability.

We recommend that management immediately revoke the user accounts of the terminated employees identified. MNPS personnel should follow the established procedures by immediately revoking the user accounts of terminated employees, and department supervisors should thoroughly review the access rights of their employees to determine if any additional changes need to be made.

Management's Response

We concur. Incorrect procedures were being followed by certain Human Resource employees. Corrective procedures have been communicated during FY 2008 and all known errors have been addressed and corrected.

We also note that certain matters were reported to the Metropolitan Hospital Authority in a separate letter dated October 31, 2007.





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This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*KPMG LLP*



**KPMG LLP**  
1900 Nashville City Center  
511 Union Street  
Nashville, TN 37219-1735

October 31, 2007

Members of the Board of Trustees  
Metropolitan Nashville Hospital Authority  
Nashville, Tennessee

Ladies and Gentlemen:

We have audited the financial statements of Metropolitan Nashville General Hospital (MNGH) and Bordeaux Long Term Care and Knowles Home, enterprise funds of the Hospital Authority of Nashville and Davidson County, Tennessee (the Hospital Authority) as of and for the year ended June 30, 2007, which collectively comprise the Hospital Authority's basic financial statements and have issued our reports thereon dated October 31, 2007.

In planning and performing our audit of the aforementioned financial statements, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital Authority's internal control. The maintenance of adequate control designed to fulfill control objectives is the responsibility of management. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, controls found to be functioning at a point in time may later be found deficient because of the performance of those responsible for applying them, and there can be no assurance that controls currently in existence will prove to be adequate in the future as changes take place in the organization.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.



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### **Material Weaknesses**

KPMG LLP (KPMG) identified the following material weaknesses during the performance of the 2007 audit:

#### **METROPOLITAN NASHVILLE GENERAL HOSPITAL**

##### ***Contractual and Bad Debt Allowance Analyses***

During our audit procedures over the contractual and bad debt allowances for patient accounts receivable, we identified several payor groups that were not appropriately reserved as of June 30, 2007 in the amount of approximately \$723,000. Two of these payor changes were due to fiscal year 2007 being the first quarter of payment history collected on these payors and the June 2007 reserve balances did not reflect the current reimbursement rates for new contracts entered into in April 2007. Also, actual payment history on Pending TennCare was different than the expected collection rate used to reserve Pending TennCare.

We recommend that MNGH implement policies and procedures that require a review of historical collection rates that is based on the most current data available to capture changes in payor reimbursement. In addition, we recommend the conversion rate and the mix between disability and nondisability of Pending TennCare be periodically reviewed to ensure the reserves related to Pending TennCare are adequate.

##### ***Management's Response***

MNGH currently runs a monthly paid claims report for paid claims greater than 90 days old (average payment timeframe) and compares the actual payment percentages to the accounts receivable allowance report on a monthly basis for overall reasonableness. Henceforth, MNGH will ensure any new payors are reviewed at year end to ensure reserve percentage is based upon the latest available paid claims data up through the year end close process. MNGH has implemented a formal review process in fiscal year 2008 for Pending TennCare accounts that entails a periodic review of any changes in the mix of overall pending TennCare convertibility as well as the mix of pending TennCare disability verses nondisability conversions so as to reflect appropriate reserves on this unique payor category.

##### ***Accounts Receivable, Prepaid Expense, and Liabilities Procedures and Cut-off***

We identified the following audit adjustments through the performance of our audit procedures:

- A large State payment received subsequent to year-end totaling approximately \$1,348,000 for a special one time Tennessee Disproportionate Share payment related to fiscal year 2007 should have been accrued and recorded as revenue.
- In reviewing the detail of prepaid expenses, we identified three items that were not appropriately recorded. Two items totaling approximately \$107,000 of recorded prepaid items should have been amortized into expense and approximately \$710,000 of recorded prepaid expense was related to an invoice included in accounts payable.



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- During our audit procedures over accrued liabilities, we identified several unrecorded liabilities totaling approximately \$60,000. The identified amounts were for capital expenditures incurred prior to June 30, 2007 and invoiced between July and September in fiscal year 2008.
- In addition, approximately \$369,000 of checks were written prior to year-end, but mailed after year-end. Due to the automation of writing checks, accounts payable is reduced as checks are written and this caused accounts payable and cash to be understated as of June 30, 2007.

We recommend that management implement more stringent cutoff review procedures to identify possible unrecorded liabilities and receivables and the appropriateness of recorded prepaid balances.

#### *Management's Response*

MNGH has implemented several enhancements to the prepaid and cutoff processes in fiscal year 2008 to address these audit discoveries. Specifically, prepaid expense balances are formally reviewed quarterly to ensure propriety of balances. Fiscal year end cutoff procedures henceforth will include appropriate accounting adjustments for unmailed processed checks as well as a formal review of any subsequent material receipts relating to the prior year for proper recording of receivables/revenue. The year end accrual process has also been revised to capture all capital related items received or in process during the fiscal year.

#### **Significant Deficiencies**

KPMG identified the following significant deficiencies during the performance of the 2007 audit:

### **METROPOLITAN NASHVILLE GENERAL HOSPITAL**

#### ***Information Technology General Controls (ITGC) over Access, Change Management and Computer Operations***

We determined controls over access to Affinity to be ineffective. We noted the following deficiencies in controls related to access:

- Periodic reviews of active user access with a focus on segregation of duties is not being performed and if performed at the request of a department manager, that review is not documented. We noted that 16 out of a sample of 45 users were not current employees and one employee had multiple active user accounts;
- MNGH does not have appropriate password policies in place. Currently Affinity does not have password complexity enabled; and
- SecureLink access logs are not reviewed periodically by management and do not include the remote user's activity while logged into the Affinity application.

In testing change management controls, we noted that there is not a distinct delineation of responsibilities between business function users and IT departmental business users, both of whom can move changes into production. The same users who are responsible for administering the Affinity application also move changes into production.



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Within the controls for computer operations, we noted that no documentation exists related to the appropriateness of timing for running Affinity jobs, if jobs completed successfully, and what steps were taken to resolve errors if needed. Backup tapes are stored on-site at MNGH and are not kept in a locked cabinet or safe, and the storage cabinet is not fireproof. Backup tapes are not rotated off-site on a daily basis and inventories of tapes are not kept, as outlined in the MNGH Offsite Procedures document. Additionally, backup tapes are not tested periodically.

We recommend that management of MNGH perform and document periodic logical access reviews for Affinity users including vendors with a focus on segregation of duties. Additionally, we recommend that MNGH enable password complexity within Affinity. Management should also include remote access user's activity on the SecureLink access logs and periodically review the SecureLink logs. We recommend that MNGH segregate the business functions of administering the Affinity application from the IT function of moving changes into production. We recommend management implement and document job processing and operating and monitoring procedures so as to provide reasonable assurance around completeness and timeliness of system and data processing.

We recommend that management have a secured off-site storage for backup tapes and routinely test the effectiveness of the restoration process and the quality of the backup tapes by periodically restoring data from backup tapes. Management should also consider securing backup tapes that are stored on-site.

#### *Management's Response*

A procedure for password complexity using passwords with eight characters in length with at least one alpha and one numeric character will be created and implemented by March 31, 2008. A procedure for reviewing and documenting logical access of Affinity users through a report of active users and through a visual screen of users currently in system will be created and implemented by March 31, 2008. A procedure for reviewing SecureLink Access Audit reports will be created and implemented by March 31, 2008.

In order to create a distinct delineation between business function users and IT departmental business users, we will need to restructure the user groups. Management has developed a two phase plan, with phase one to develop a new hierarchy structure, which will be implemented by November 1, 2007 and the second phase to create role based menus, which will be implemented by January 31, 2008.

A policy and procedure for verifying completion of the midnight job processing will be created and implemented by November 1, 2007.

Starting October 1, 2007, Iron Mountain will provide storage, daily rotation to off-site and inventory of backup tapes. Also designated IS staff will begin conducting a monthly/random test restore of Affinity related backups. This procedure will be described in a documented policy.



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### **Control Deficiencies**

KPMG identified the following other deficiencies during the performance of the 2007 audit:

#### **BORDEAUX LONG TERM CARE AND KNOWLES HOME**

##### ***Information Technology General Controls (ITGC)***

In regards to change management controls, we noted changes to the Keane RAM application are not tested by management prior to being moved into production. Backup tapes are not periodically tested for recoverability. Administrator access and activities within the Keane RAM application and on the server are not monitored.

We recommend that management implement a test environment for testing of vendor released patches prior to implementing the patches in the production environment. Management should routinely test the effectiveness of the restoration process and the quality of the backup tapes through periodic restoration of data from backup tapes. Management should perform periodic access review of administrator access as well as monitor administrator activities within the Keane RAM application and associated servers.

##### ***Management's Response***

A test environment for Keane RAM patch testing will be setup with a target date of March, 2008. Once the test environment is set up, we will use the backup tapes to setup the test system which will be the same as a full restore of the application.

When Keane needs to work on a problem, they use PCAnywhere to connect to a PC located in the IT department. This PC must be setup for Keane prior to making the connection. Once they are connected, we monitor what they are doing on the screen. RAM also has a report called Activities Maintenance that will report on 249 different Activities, one activity per report. Information Systems will run this report and select 5 random reports each month and email the information to the ARM Department Director for review.

Periodic file restore have been successfully restored. As mentioned above when the test environment is setup, a full Keane system restore will be performed.

BLTC Facility management has been working on the construction of a new server room which will separate telecommunications (phones & paging) from the network servers. Plans to move in were scheduled for the spring of 2007. Delays in construction of the server room and network/AD/email migration were delayed until Sept 2007. We will obtain a quote for keyless entry system (stand alone keypad or card system) to the server room and move forward as practical and the budget permits.



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This communication is intended solely for the information and use of management, the Finance Committee, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**