METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

Letter of Recommendations to Management

June 30, 2008

KPMG LLP
401 Commerce Street, Suite 1000
Nashville, TN 37219-2422

January 30, 2009

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, 2008, which collectively comprise the Government's basic financial statements and have issued our report thereon dated October 31, 2008. Our report referred to the adoption of GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*", effective July 1, 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, 2008. We did not audit the financial statements of the following discretely presented component units: the Nashville District Management Corporation, the Gulch Business Improvement District, Inc., the Metropolitan Development and Housing Agency, the Electric Power Board, the Metropolitan Transit Authority, the Metropolitan Nashville Airport Authority, and the Emergency Communications District.

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 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 2008 audit:

Significant Deficiencies

GENERAL GOVERNMENT

Audit Adjustments to Accrued Liabilities, Account Receivables and Revenue Recognition

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, 2008 and invoiced during fiscal year 2009:

Reporting Unit	Total
GSD Capital Plan	$ 917,000
Stormwater	157,000

During our audit procedures over accounts receivable, we identified a significant fluctuation in the accounts receivable balance of the Health Services Fund when compared with the balance of fiscal year 2007. Management determined that the receivable and related revenue for the Ryan White Aids grant was overstated by approximately $558,000 and was subsequently corrected by the Government. This overstatement of revenue also led to federal funds being requested for reimbursement prior to actual expenditures being incurred.

During our audit procedures, we also identified approximately $1,403,000 of accrued liabilities in the Employees' Medical Benefit reporting unit that were not recorded properly in fiscal year 2008. This overstatement of this liability was subsequently corrected by the Government.

We recommend that management implement more stringent review procedures to identify possible discrepancies in accrued liabilities, accounts receivable, revenue, and other transactions occurring near fiscal year-end. We further recommend that management obtain explanations for significant account variances identified during the year-end closing process and resolve any unusual variances timely.

Management's Response

We concur. We will continue to implement procedures to improve communication and coordination with regard to year-end accruals that are generated at the department level during the 2008-2009 fiscal year. Additionally, we will continue to enhance the central monitoring of post-closing transactions in order to better detect fiscal year 2008-2009 activity that is processed by departments after June 30, 2009 is closed.

METROPOLITAN NASHVILLE PUBLIC SCHOOLS

Audit Adjustments to Accrued Liabilities

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, 2008 and invoiced during fiscal year 2009:

Reporting Unit	Total
Education Flexible Spending Plan	122,000
Schools Professional Employees' Insurance	440,000

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

Management's Response

We concur. We will continue to implement procedures to improve communication and coordination with regard to year-end accruals that are generated at the department level during the 2008-2009 fiscal year. Additionally, we will continue to enhance the central monitoring of post-closing transactions in order to better detect fiscal year 2008-2009 activity that is processed by departments after June 30, 2009 is closed.

KPMG identified the following other control deficiencies during the performance of the fiscal year 2008 audit:

Other Control Deficiencies

GENERAL GOVERNMENT

Passwords and Administrator/Vendor Monitoring

We determined that IT personnel with Administration level access within the AssessPro application perform business functions, which are incompatible duties. We also determined that 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 routinely monitors administrator activities at the operating system and database levels, unauthorized changes (including programmatic and/or configuration changes) to the AssessPro application may go undetected.

We recommend that management change the AssessPro login password on a regular basis. Management should also implement a policy to monitor and routinely review all 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 is anticipated to be implemented in late 2009.

Procurement - Open Competition

During our audit procedures for OMB Circular A-133 requirements related to the Special Education Cluster, Title I, and Reading First, we identified various instances where expenditures over $1,000 were not subject to open competitive bidding procedures in accordance with Metro Nashville Public Schools procurement policy nor was there documented rationale to support that either a limited competition or a sole-source contract was executed.

We recommend that management implement more stringent review procedures on the front end to identify expenditures that are scheduled to be incurred and verify all appropriate supporting documentation is in place prior to goods and services being provided. Metro Nashville Public Schools should not procure goods and services without following the appropriate channels of review and oversight as required by the procurement process.

Management's Response

We concur. We will continue to focus on implementation and full compliance with the newly issued revised procurement policy which details Metro Nashville Public Schools open competition policy and documentation requirements.

DEPARTMENT OF WATER AND SEWERAGE SERVICES

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 2008 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.

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 two 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.

TRUSTEE'S OFFICE

Administrator and Administrator/Vendor Monitoring

One vendor (Manatron) has application administrator and database administrator rights on the TaxMan production server. Management routinely monitors authorized administrator activities at the operating system, database, and application levels. As a result, unauthorized changes (including programmatic and/or configuration changes) to the TaxMan application could go undetected.

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

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. Management plans to implement a policy to monitor and routinely review all administrator activities within the applications, database, and server.

Access of Terminated Employees

We determined that two terminated Trustee employees had active TaxMan 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. Trustee 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. Corrective procedures have been communicated during FY 2009 and all terminated employees access has been properly revoked.

The Honorable Mayor and Members of Council
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We also note that certain matters were reported to the Metropolitan Hospital Authority in a separate letter dated October 31, 2008.

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