KPMG

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

Letter of Recommendations to Management

June 30, 2009

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

October 31, 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 basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Metropolitan Government of Nashville and Davidson County (the Government) as of and for the year ended June 30, 2009, which collectively comprise the Government's basic financial statements. We have also audited the financial statements of the Sports Authority, the Industrial Development Board, and the General Hospital and Bordeaux Long Term Care Funds of the Hospital Authority, the discretely presented component units of the Government, and the financial statements of each of the Government's non-major governmental, non-major enterprise, internal service and fiduciary funds, and have issued our report thereon dated October 31, 2009. 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. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. Under professional standards, we are providing you with the accompanying information related to the conduct of our audit.

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.

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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 2009 audit:

Significant Deficiencies

GENERAL GOVERNMENT

Audit Adjustment to Revenue Recognition

During our audit procedures over charges for current services, we discovered a cash receipt that was recognized as revenue in both FY 2008 and FY 2009. This item was initially identified by management as a reconciling item; however, it was not investigated or corrected prior to KPMG's audit procedures.

Reporting Unit	Total
Regulation and Inspection Services	$ 20,000

We recommend that management implement more stringent review procedures to evaluate discrepancies relative to the affected reporting unit, taking into consideration the relative size of the reporting unit. Also, management should ensure that cash receipts and revenue are properly recorded in the appropriate period.

Management's Response

We concur. We will implement procedures to resolve reconciling items in a more timely manner and ensure that revenues are recorded at the correct amounts and in the proper accounting periods.

METROPOLITAN NASHVILLE PUBLIC SCHOOLS

Audit Adjustments to Accrued Liabilities

During our audit procedures over accrued liabilities, we identified various out-of-period liabilities which, in the aggregate, were considered significant to the respective reporting units. The identified amounts were for expenditures that related to both fiscal years 2009 and 2010, but were invoiced and paid in fiscal year 2010. The reporting units recorded the full amount of the invoices in fiscal year 2010 instead of recognizing the expenditures over the appropriate fiscal periods. These identified amounts were for expenditures incurred prior to June 30, 2009, but were invoiced and paid during fiscal year 2010:

Reporting Unit		Total
Schools Professional Employees' Insurance	$	799,400
Education Flexible Spending Plan		10,600

We recommend that management implement more stringent review procedures to identify possible out-of-period 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. Additionally, Division of Accounts will continue to enhance the central monitoring of post-closing transactions in order to better detect out-of-period accrued liabilities and other transactions occurring near fiscal year-end.

KPMG identified the following other control deficiencies during the performance of the fiscal year 2009 audit:

Other Control Deficiencies

GENERAL GOVERNMENT

Audit Adjustments to Expense Recognition

During our audit procedures over expenditures, we identified an expenditure recorded in the incorrect period which was considered significant to the respective reporting unit. The identified amount was for expenditures that were for future service periods, but were invoiced and paid in fiscal year 2009. The identified amount for the expenditure paid during FY 2009 which relate to future service periods was as follows:

Reporting Unit		Total
Information Systems	$	206,500

We recommend that management implement more stringent review procedures to identify invoices where service periods cover a portion of more than one fiscal year, thus indicating a need to recognize prepaid expenditures. 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 implement more stringent review procedures to improve the identification of invoices where the service periods cover a portion of more than one fiscal year.

Administrator/Vendor Monitoring of AssessPro

We determined that IT personnel with Administration level access within the AssessPro application perform business functions, which are incompatible duties. Additionally, one vendor (PATRIOT) has server, database, and administrator access within the system. While 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 implement a policy to routinely monitor and review all administrator activities within the application, database, and server and maintain supporting documentation validating the monitoring and review process.

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 and will greatly limit Patriot's business function capabilities. This new version is anticipated to be implemented during fiscal 2010.

Access of Terminated Employees in AssessPro

We determined that two terminated Assessor's Office employees had active AssessPro 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 terminated employees identified. Assessor office 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 on a routine basis to validate user accounts and determine if any additional changes need to be made.

Management's Response

We concur. Corrective procedures have been communicated during FY 2010 and all terminated employees access has been properly revoked.

RECREATIONAL & CULTURAL SERVICES / METRO PARKS

Reconciliation of Re-sale Inventory

We determined that the Metro Parks transitioned the tracking of their re-sale inventory from spreadsheets to a new inventory tracking system during late FY 2008. KPMG noted that the detailed quarterly physical inventory counts of inventory were being properly recorded in the new system, however EBS was not simultaneously updated to reflect the true inventory balance on hand. As a result of our audit procedures over inventory, we identified a difference of $183,000 between the two systems which lead to Metro Parks re-sale inventory being overstated in EBS (system generating financial reporting results). Therefore the government recorded an entry to properly reflect the balance as of June 30, 2009 ($147,000 of this amount related to fiscal 2008).

We recommend that Metro Park's management and personnel from the General Government work together to ensure that the amount being reported per EBS is accurate and appropriate at the conclusion of each quarterly inventory count.

Management's Response

We concur. Corrective procedures have been implemented in FY 2010 to ensure that Metro Parks updates the EBS system to agree with their separate re-sale tracking inventory system each quarter. In addition, Metro Department of Finance management will confirm with Metro Parks at least annually that the amount being reported in EBS agrees with the amount captured in the separate re-sale inventory tracking system.

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. 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 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 completely 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 focus on ways to enhance management's monitoring of access and activity of these individuals.

Access of Terminated Employees

We determined that one terminated Department of Water and Sewerage Services employee had an active HTE user account, 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 terminated employees identified. Department of Water and Sewerage Services 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 on a routine basis to validate user accounts and determine if any additional changes need to be made.

Management's Response

We concur. Corrective procedures have been implemented in FY 2010 and terminated employees access is properly revoked in a timely manner.

TRUSTEE'S OFFICE

Administrator and Administrator/Vendor Monitoring

One vendor (Manatron) has application administrator and database administrator rights on the TaxMan production server. Management does not routinely monitor 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 Manatron be limited to vendor only access or that management implement formalized policies to monitor and maintain evidence of routine reviews performed on administrator activities within the application, database, and server and maintain supporting documentation validating that the monitoring and review process is taking place.

Management's Response

We concur. Manatron needs full access to applications and databases on the production server. The Trustee's Office understands the auditor's position on limiting security rights of Manatron on the TaxMan production server. Manatron maintains support for approximately 700 tax systems throughout the United States. Our understanding is that these tax collection agencies also allow Manatron access to applications and databases as they are ultimately responsible for support and for correcting any data inconsistencies that may occur. These tax agencies, including the Metro Trustee office, have a belief in the integrity and reliability of Manatron, Inc. The Trustee's Office is considering the possibility of tracking server usage by designating a liaison to work with Manatron.

METROPOLITAN NASHVILLE PUBLIC SCHOOLS

Audit Adjustments to Expense Recognition

During our audit procedures over expenditures, we identified various expenditures recorded in the incorrect period which were considered significant to the respective reporting units. The identified amounts were for expenditures that were for future service periods, but were invoiced and paid in fiscal year 2009. The identified amounts for expenditures paid during FY 2009 which relate to future service periods are as follows:

Reporting Unit		**Total**
General Purpose Schools	$	93,700
School Print Shop		4,200

We recommend that management implement more stringent review procedures to identify invoices where service periods cover a portion of more than one fiscal year, thus indicating a need to recognize prepaid expenditures. 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 implement more stringent review procedures to improve the identification of invoices where the service periods cover a portion of more than one fiscal year.

Inventory Count Procedures

During our audit procedures over the physical inventory count taken at fiscal year-end for the schools central storeroom, we identified several count differences. The identified amounts for the inventory items that had been incorrectly counted during the inventory count at year-end were not considered significant to the respective reporting unit.

We recommend that management implement more stringent review procedures to identify inventory count discrepancies during physical inventory counts. During the physical inventory count, the schools central storeroom personnel should perform two counts for each item. One count should be performed by the original count team and a second count by a different count team to verify the accuracy of the original count. We further recommend that management obtain explanations for significant inventory account variances identified during the year-end closing process and resolve any unusual variances timely.

Management's Response

We concur. Management will request a second inventory team to verify the accuracy of the original count during the physical inventory count.

We also note that certain matters were reported to the Metropolitan Hospital Authority in a separate letter dated October 30, 2009.

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