

**THE METROPOLITAN GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY, TENNESSEE**

Letter of Recommendations to Management

June 30, 2020

October 31, 2020

To the Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and Davidson County, Tennessee
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, Tennessee (the "Government") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements. We have also audited the financial statements of the Sports Authority Fund and the Industrial Development Board Fund, which are discretely presented component units of the Government, and the financial statements of each of the Government's nonmajor governmental, nonmajor enterprise, internal service and fiduciary funds, and have issued our report thereon dated October 31, 2020. We have also audited and reported on separately the financial statements of the following discretely presented component units: Metropolitan Nashville General Hospital (fund of the Hospital Authority), the Metropolitan Transit Authority, and the Convention Center Authority. 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, 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.

In planning and performing our audit of the aforementioned financial statements, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Government's internal control over financial reporting ("internal control") as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control.



Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control to be significant deficiencies:

Timely Preparation of Bank Reconciliations

Observation

In testing the Government's internal controls over bank reconciliations, we identified certain bank accounts that were not reconciled on a timely basis. Specifically, the Operating and Concentration account was not reconciled timely (within 45 days of month end as per the stated internal controls) for the months tested. The Government does have certain compensating controls in place to timely detect significant misstatements in the financial statements. However, the risk of not identifying cash errors and possible fraud related to cash increases greatly when bank accounts are not reconciled timely during the year. Operating and Concentration account reconciliations for two months were tested, both having not been completed timely, being completed an average of 100 days after month end. Further, it was noted that the June 30, 2020 reconciliation covered the months of September 2019 through June 2020 and separate reconciliations for September 2019 through May 2020 were not prepared.

Additionally, the following reconciliations tested were not notated with dates, therefore the timeliness of preparation and review were not determinable: two Metropolitan Nashville Public Schools ("MNPS") Lunchroom checking account reconciliations, one Water and Sewer customer refund account reconciliation, and one Municipal Auditorium checking account reconciliation.

Recommendation

All bank accounts should be reconciled timely on a monthly basis by the Government and all reconciling items should be promptly investigated, adjusted and documented with adequate explanations. This will reduce the likelihood of cash errors and fraud, provide for more timely and accurate financial information, and assist in the effective management of cash flow.



Management's Response

The timeliness of bank reconciliations and the resolution of reconciling items for fiscal year 2020 were negatively impacted by two significant factors: the Government went live on a new accounting system in September 2019 which provided multiple challenges to the bank reconciliation process, and the Government's response to COVID-19 necessitated that most employees work remotely which further impacted the timeliness and documentation of the bank reconciliations. The Government continues to address the impacts of both items and is in the process of implementing various improvements to the bank reconciliation process including assuring timely reconciliation of significant items such as disbursements related to payrolls, quicker identification of any systemic issues that need immediate response, the resolution of older reconciling items, and improved documentation of bank reconciliation completion and review dates. Also, the Government is in the process of reviewing the efficiency and effectiveness of its current bank reconciliation process with the objective of incorporating more automation into the process and eliminating time consuming and paper intensive practices.

Terminated Employees

Observation

During testing of payroll and related controls for 10 terminated MNPS employees, we identified two terminated MNPS employees that continued to receive pay after their termination date. Both employees were terminated in November 2019 and continued to be paid through January 2020. MNPS relies on supervisors in more than 150 departments and locations to report to human resources when an employee in their school or area resigns or is terminated from the district. Timely notification of employee terminations is vital for MNPS to ensure that terminated employees are not being overpaid.

Recommendation

We recommend procedures be established to improve the reporting of employee terminations to human resources to ensure that employee records are updated timely and payments to employees cease after termination.

Management's Response

The MNPS team has created tools to address position control and the possibility of overpayments for terminated employees including Sharepoint sites dedicated to requesting the approval and subsequent creation of vacant positions and the reporting of resignations, retirements or terminations of employees from all locations. The Sharepoint site regarding employee separations was launched in the fall of 2020 and allows principals and department staff to report employee separations to one centralized location for processing, and the log from that site is provided to HR Managers and Employee Services staff daily for validation and data entry which eliminates the multiple avenues for information flow previously used.



MNPS is preparing to launch a roster validation tool that each principal and department timekeeper can use to regularly monitor and certify the individuals appearing on their pay roster so that pay instructions are not generated for any employee who has left MNPS service. This process change should be fully implemented by March 31, 2021. MNPS is committed to the timely and accurate payment of employees, the stewardship of funds used for employee compensation, and continuous improvement and streamlining of processes within the HR function. It is anticipated that these tools will help MNPS validate that the individuals appearing on each payroll are correct and eliminate overpayment issues.

Department of Water & Sewerage Services Cash Receipts and Accounts Receivable Reconciliation

Observation

During our audit of the Department of Water & Sewerage Services (“W&S”), we discovered W&S staff were not consistently recording cash receipts collected on its accounts receivable to the general ledger accounting system on a timely basis. As a result, the general ledger balance of W&S accounts receivable as of June 30, 2020 did not agree to the W&S billing system. Further, the accounts receivable balance in the W&S billing system was not being reconciled to the general ledger accounting system. Timely recording of cash receipts and reconciliation of accounts receivable is imperative to providing management with timely and accurate financial information necessary to make important financial decisions.

Recommendation

We recommend W&S implement process improvements to ensure cash receipts are consistently and timely recorded to the general ledger accounting system. In addition, accounts receivable in the W&S billing system should be reconciled to the general ledger accounting system timely on a monthly basis.

Management’s Response

W&S has implemented a process by which all receipts for the previous days processes are entered daily. This is closely monitored and reviewed by the supervisor at the end of each week. The receipts report is reconciled with the daily cash reports from the billing system and the bank statements weekly. The employee previously responsible for this process has been reassigned and only handles receipts for these processes in a back-up capacity. Account receivable balances are being reconciled monthly and discrepancies addressed as needed. W&S will continue to work with the Government’s Department of Finance on monthly bank reconciliations to address any discrepancies as they arise.



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During our audit, we also noted the following matters that are opportunities for strengthening internal controls and operating efficiency and are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Timely Recording of Cash Receipts

Observation

In testing internal controls over the Government's cash receipts, we identified certain receipts that were not recorded to the general ledger system timely. We tested 6 general receipt batches of the Health Department, of which 2 were not posted to the general ledger until an average of 62 days after the payment was received. Cash receipts not being recorded timely could lead to an increased risk of accounting error or misappropriation of assets.

Recommendation

All cash receipts should be recorded to the general ledger timely. This will reduce the likelihood of cash errors and misappropriation of assets, provide for more timely and accurate financial information, and assist in the effective management of cash flow.

Management's Response

Health Department

Management agrees with this recommendation. We have taken action to resolve this issue. Paperwork was not properly flowing from our areas that take credit cards and it created a lag in claiming the batch deposits to match the cash depository account. Now our Finance staff goes through the bank account daily and claims every Health merchant code deposit and matches it with the summary sheets and receipts coming from the different areas in the department that accept credit cards.



Document Retention

Observation

In testing internal controls over the Government's credit card disbursements, the Farmers Market could not provide supporting documentation for one of our selections. In testing internal controls over the General Government's pension, 2 of 30 pensioner files was found to not include documentation of the Board's approval of the benefit calculation. In testing internal controls over the MNPS's pension, 1 of 30 pensioner files was not provided. In testing internal controls over property tax exemptions, 3 of 60 exemption applications was not provided.

Recommendation

Documentation should be retained as support for transactions and as evidence that the proper internal control process is being followed.

Management's Response

Farmers Market

Management agrees with this recommendation. Management was unable to locate the receipt as the documentation was maintained by an employee no longer employed by the department. Management will create tracking documents and shared files to avoid a lack of documentation due to future employee transitions.

General Government (Human Resources)

Management agrees with the recommendation. In this particular case, the Board approval was inadvertently left out of the file. Going forward, staff has a process/checklist in place to help ensure this does not happen in the future.

MNPS

Management agrees with this recommendation. Benefits has recently revised the process for collecting and storing employee pension files in order to ensure that all requested files can be provided.

Property Assessor

Management agrees with this recommendation. Please note this issue occurred prior to the new administration taking office on September 1, 2016. Since this time, management has created a Compliance Department and tasked it with the responsibility of reviewing all previously approved applications while also maintaining a record of new applications filed with the State Board of Equalization. An electronic copy is maintained for all applications, and every effort is made to locate any application that our internal review shows was not previously on file with our office.



Employment Eligibility Verification

Observation

During testing of payroll and related controls, 30 MNPS employees were tested, an I-9 Employment Eligibility Verification form could not be provided for 1 MNPS employee. This form is required by the federal government for all employers to obtain from their employees hired after November 6, 1986.

Recommendation

We recommend a review of these forms be performed to ensure adequate compliance and a control be implemented to monitor the record retention policy and detect and correct discrepancies.

Management's Response

MNPS

Management agrees with this recommendation. The Department has recently revised the process for collecting and storing I-9 information in order to prevent this discrepancy from occurring in the future.

Deficit Cash Balance

Observation

Certain tax supported funds of the Government operate much of the year in a cash deficit. Subsequently, the Government has had to issue tax anticipation note (TAN's) to authorize those deficit cash funds to borrow from the funds that have positive cash balances. Since the TANs must be paid back before June 30, 2021 under State statute, the Government has to plan to make sure that all of the tax supported funds end the year with positive cash balances.

Recommendation

We recommend that the Government develop a plan to assure that these funds end each year in a positive cash position with any interfund loans repaid as of year end. This will help to assure the Government is in compliance with State statute.



Management's Response

General Government (Finance)

Management agrees with this recommendation. Cash balances are monitored and cash flow projections are prepared monthly to ascertain that all funds will have positive cash balances and there will be no outstanding TAN's at June 30, 2021. Additionally, the operating budget for FY21 included funding for "cash restoration" in all tax supported funds. While the restoration will not eliminate the need for TAN's, it is expected to improve cash balances that have declined over recent years. The Government has been in correspondence with the State of Tennessee regarding this issue to ascertain that the State approves of the Government's actions and plans regarding cash balances and TAN's, and that the Government is in compliance with all State requirements.

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Management's responses to the comments identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the audit committee, management, and others within the Government, and federal and state awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

CROSSLIN, PLLC