

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

Letter of Recommendations to Management

June 30, 2018



October 31, 2018

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, 2018, 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, 2018. 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) and the Metropolitan Transit 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, the Emergency Communications District, and the Convention Center Authority. 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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During our audit, we noted the following matters that are opportunities for strengthening internal controls and operating efficiency and are presented for your consideration. This letter does not affect our report dated October 31, 2018, on the aforementioned financial statements. 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 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, and Water and Sewer customer refunds checking accounts were 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. One of two months tested of the Operating and Concentration account reconciliation was not prepared timely, having been completed 111 days after month end. Two Water and Sewer customer refund account reconciliations were tested, both having not been completed timely, being completed an average of 79 days after month end.

Additionally, the two MNPS Lunchroom checking account reconciliations tested were not notated with dates, therefore the timeliness of preparation and review were not determinable.

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

Operating and Concentration Account

Management agrees with this recommendation. Some routine accounting tasks such as bank reconciliations fall behind at certain times of the year due to conflicting projects. Management has reassigned staff to provide a dedicated resource for the Operating and Concentration Account reconciliation, and management has implemented additional procedures to proactively monitor the completion and review of reconciliations and address issues prior to the targeted deadlines. Additionally, management is implementing a new accounting system scheduled to go live on July 1, 2019, and plans to utilize functionality of that system to provide more automation and timeliness to the bank reconciliation.

Water Services Customer Refund Account

Management agrees with this recommendation. The personnel responsible for the reconciliation was temporarily acting as Stores Inventory Manager in addition to their regular duties. The personnel subsequently retired and the responsibility had to be transferred to new staff. Beginning this fiscal year 2019 all but one month has been submitted before the 45 day requirement so far this year. The outlier was a result of conflicting items that were resolved shortly after the 45 day period.

MNPS Lunchroom Account

Management agrees with this recommendation. The Department will note on the form the date when the bank reconciliation is completed. This will aid in determining the timeliness of the procedure.

Old Outstanding Items on Bank Reconciliations

Observation

Reconciliations for the Water and Sewer Customer account include many reconciling items that have been outstanding in excess of the 18 month write off policy.

Recommendation

Though none of the items identified are significant, either individually or in the aggregate for the accounts, the Government should periodically evaluate the propriety of reconciling items over one year old and ensure compliance with its 18 month write off policy. The Government's evaluation of reconciling items should occur on at least an annual basis and include adequate explanations for any resulting adjustments.



Management's Response

Water Services Customer Refund Account

Management agrees with this recommendation. There are still older outstanding items requiring additional research and Water Services continues to research to clear up outstanding items and will maintain focused on the Customer Refund Account during fiscal year 2019. During this fiscal year we will be writing off some of the accounts after due diligence has been done.

Segregation of Duties for Cash Receipts

Observation

In testing internal controls over the MNPS's cash receipts, we noted there is only a single employee that handles checks received at the District office. This employee receives payments, writes receipt, stamps for deposit, creates a deposit slip, and makes deposits. Additionally, a secondary employee that records the receipts does not reconcile the receipts to the deposit slip. We also identified that employees that have access to the safe also have access to record journal entries. A lack of proper segregation of duties surrounding cash receipts could lead to an increased risk of misappropriation of assets.

Recommendation

These duties should be segregated between multiple employees or compensating controls should be put in place to detect any errors made by an individual with significant responsibility surrounding cash receipts. This will reduce the likelihood of cash errors and misappropriation of assets.

Management's Response

MNPS

Management agrees with this recommendation. We have taken some action to resolve this problem. A second lock box has been purchased to store cash and checks in until it is deposited and only one employee has the key. We will ask our Audit team to reconcile receipts, deposit slips and posting to journals, and provide a report showing this procedure has been completed.

Employment Eligibility Verification

Observation

During testing of payroll and related controls, 30 MNPS employees were tested, I-9 Employment Eligibility Verification forms could not be provided for 4 employees, 3 of which were hired after the requirement became effective on November 6, 1986. This form is required by the federal government for all employers to obtain from their employees.



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 Interim Director of Human Resources will be asked to take on the task of reviewing employee records for this form and setting up a control to monitor the record retention policy and detect and correct discrepancies.

Register of Deeds

Observation

Several issues of noncompliance with the Government's policies were noted during payroll testing, which included sick and vacation time being paid in excess of the Government's policies, an employee was paid as an active employee while taking over a year of sick time, the federal income tax withholding rate on sick, vacation, and bonus checks tested was 20% rather than 25%, and 5 employees tested were paid in excess of the maximum salaries per the Letter of Agreement with the Government.

Deposits were not being recorded properly, causing issues in the account reconciliation process.

During cash disbursements testing, several supporting invoices were discovered to have not been retained and had to be requested from the vendor. During credit card disbursement testing, instances were noted of credit card payments being made late, business purpose not being properly documented, and proper vendors not consistently recorded in the general ledger system. For travel disbursements, several instances were noted of employee CONUS Allowance Summaries and return of remainder of cash advances not being submitted timely.

During the audit period, a single member of accounting had access and performed functions for cash receipts, cash disbursements, the general ledger, and reconciled the bank account.

Recommendation

We recommend the payroll policies be reviewed for compliance with the Government's policies, and amended accordingly, and accounting functions be divided between multiple employees, as available. We also recommend training be done for those in accounting functions on record retention and proper deposit recording processes, as well as with all employees in the department to retrain on the travel process. These will protect against misappropriation of assets and noncompliance.



Management's Response

Upon receipt of the auditor's recommendations, our administration conveyed the following procedures that were implemented with our new administration:

We have reviewed our payroll policies and the accounting functions have been changed from one employee that was assigned to do this by the previous administration. Our administration now has three employees who divide the accounting functions between accounts receivable, accounts payable and general ledger which has resulted in greater efficiencies and transparency. Training will be completed for each employee on record retention and proper deposit recording processes which will ensure compliance as recommended in this audit. Our policy no longer allows under our administration any cash advances which mirrors Metro Governments policies. Our payroll is now with the largest payroll company recognized for compliance with payroll, attendance and benefits accrual tracking.

The employees that were paid in excess from the previous administration will be corrected in the next fiscal year Letter of Agreement. Invoices handled by the previous administration that were not retained has been corrected with our administration and are in compliance due to the streamlined processes created in partnership with Metro. The department no longer has multiple credit cards that were assigned by the previous administration and all employees will be retrained as recommended in this audit with our administration on the travel process to ensure compliance.

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, 2019 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.

In addition, the MNPS Debt Service Fund had a cash balance (and a loan from the MNPS General Fund) at June 30, 2018. Operating loans that extend beyond the close of the fiscal year are not permissible by statute.

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

Management agrees with this recommendation. The Government has been in correspondence with the State of Tennessee regarding this issue. Tax anticipation notes were issued retroactively for the fiscal year ended June 30, 2019, and will be issued for future fiscal years in conjunction with the budget preparation process. Cash balances are monitored and cash flow projections are prepared monthly. A corrective action plan has been developed to ascertain that all funds have positive cash balances and there are no outstanding operating loans at June 30, 2019.

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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