

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

Letter of Recommendations to Management

June 30, 2019



October 31, 2019

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, 2019, 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, 2019. 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, 2019, 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. Operating and Concentration account reconciliations for two months were tested, both having not been completed timely, being completed an average of 78 days after month end. One of two months tested of the Water and Sewer customer refund account reconciliation was not prepared timely, having been completed 74 days after month end. Additionally, the other Water and Sewer customer refund account reconciliation tested was 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 (Finance)

Management agrees with this recommendation. Bank reconciliations repeatedly 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.

The Government implemented a new accounting system (R12) which went live in September 2019. The new system contains functionality that can provide more automation and timeliness to the bank reconciliation process. Once we are stabilized and comfortable with the new system, management intends to revise the bank reconciliation process to utilize the new functionality to improve both the timeliness, efficiency and effectiveness of the bank reconciliation process.

Water Services Customer Refund Account (Water Services)

Management agrees with this recommendation. Beginning this fiscal year 2019 most were submitted before the 45 day requirement. The conversion to the R12 software has slowed this process as the Department learns the system. The Department plans to work with Finance on making this process more timely and efficient.

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 receipts, 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 the following action to resolve this issue. A second lock box has been purchased to store cash and checks in until they are deposited, and only one employee has the key. Secondly, the Finance and Audit teams will work together to reconcile receipts, deposit slips and posting to journals, and provide a report showing this procedure has been completed. Additionally, Accounts Receivable is the last line of verification upon posting the completed deposits.

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 2 general receipt batches of the Beer Board, of which both were not posted to the general ledger until an average of 57 days after the payment was received. We tested 3 general receipt batches of the Health Department, of which 2 were not posted to the general ledger until an average of 130 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

Beer Board

Management agrees with this recommendation. Due to limited staff resources who are performing multiple functions, the Beer Board has often fallen behind on entering cash receipts. The Beer Board will review staff assignments and evaluate processes to ascertain that cash receipts will be recorded timely in the future.

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 General Government's pension, 1 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, 1 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

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 finding. 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 (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 for 30 MNPS employees, an I-9 Employment Eligibility Verification forms could not be provided for 1 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 notes (TANs) 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, 2020 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 ensure the Government is in compliance with State statute.

Management's Response (Finance)

General Government

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, 2020. A corrective action plan has been developed to address certain anticipated revenue shortfalls for FY20. The Government has been in continual 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.



To the Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and Davidson County, Tennessee
Page 7

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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

CROSSLIN, PLLC