

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

Letter of Recommendations to Management

June 30, 2013



October 31, 2013

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, 2013, 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, 2013. Under professional standards, we are providing you with the accompanying information related to the conduct of our audit. We have also audited and reported on separately the financial statements of the following discretely presented component units: Metropolitan Nashville General Hospital and Bordeaux Long-Term Care and Knowles Home (funds of the Hospital Authority), the Metropolitan Transit Authority, and the Metropolitan Nashville Airport 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, 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 our 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 material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 consider the following deficiencies in internal control to be material weaknesses:

COUNTY REGISTER AND CIRCUIT COURT

Lack of Segregation of Duties with Financial Transactions

Observation

During our audit procedures over cash receipts and cash disbursements at these offices, we noted either one or several clerks are responsible for multiple duties which involve financial transactions, such as handling incoming cash receipts, processing these cash receipts, making physical deposits to the bank, maintaining check stock, processing cash disbursements, signing checks, including checks written to themselves for deputy clerk fees, and posting transactions to the Access database. There was no documentation that these functions were reviewed by another employee. These incompatible accounting functions constitute deficiencies in internal control which could lead to undetected misappropriation of funds as well as undetected material misstatements of the offices' financial information.

Recommendation

We recommend that management design and implement procedures that would more effectively segregate certain duties between employees that handle cash and those that record cash transactions. The following are suggestions for improving controls and segregation of duties:

- (1) An employee independent of posting transactions to the accounting records should be responsible for opening the mail/receiving cash and checks over the counter and making copies of checks received. This person should also prepare a daily cash receipts log indicating the dollar amount, nature of cash receipt, and court case. This person should also prepare and make the daily deposit to the bank.



- (2) The employee responsible for preparing the daily cash receipts log and making the daily deposit should submit the daily cash receipts log, bank deposit slip and copies of the checks to an independent employee for timely posting the daily cash receipts to the accounting records.
- (3) An employee independent of posting transactions to the accounting records and with no check signing authority should maintain the physical check stock for all bank accounts. In addition, this employee should maintain a check log for issuing check stock to the employee responsible for processing cash disbursements. This check log should list the sequence of checks issued, the number of checks issued and be signed and dated by both the employee maintaining the check stock and the employee requesting and receiving issued checks. Any unused or voided checks should be logged back into the check log.
- (4) An employee independent of the duties described in (1)-(3) above should be responsible for posting daily cash receipts and cash disbursement transactions as well as preparing the checks for cash disbursements.

Management's Response

County Register

1. *At this time the Register of Deeds Office does not have ample staff to accomplish this process. Furthermore, it does seem that we would be duplicating to some degree the process we are currently using.*
2. *We agree that an independent employee should timely post the daily cash receipts to the accounting records. We do have an independent employee performing this process.*
3. *Steve Moore, Chief Deputy of Information Technology, maintains all check stock. Checks are locked in the safe in the Information Technology department. Steve maintains a spreadsheet for each checking account that includes the date, check numbers, signature of employee requesting check and signature of employee releasing checks.*
4. *Currently, Charles Snyder, Chief Deputy of Finance, is responsible for posting daily cash receipts and cash disbursement transactions as well as preparing checks for cash disbursement. He will continue to do so. He has no involvement in opening and dispersing mail. Also, a second employee verifies bank deposits on the bank statement against daily accounting reports from our document recording/retrieval system.*



Circuit Court

At the time of the audit and upon the recommendations of the auditors, Management immediately implemented the following procedures regarding the receipting and disbursement of Minor Trust Funds:

Requests made from a Bank regarding a withdrawal from a Trust Account are to be logged on the C3Plus Bank Request Log by a Bookkeeper. This Bookkeeper will enter the Date, Docket #, Request Type, Requested By, and Amount Requested and will send the request to the appropriate Bank. When the request is returned from the Bank, it will be given to the other Bookkeeper. This bookkeeper will enter the remaining information on the Bank Request Log which will be Processed By and Amount Received. After this information is entered, the payments received from the Bank will be given to the Chief Clerk or Team Leader to be receipted and posted to the appropriate Docket #. In the past, the Internal Auditor has verified payments have been receipted and disbursed correctly but will now include comparing the Bank Request Log to the Docket # verifying all transactions have been correctly entered.

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In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 31, 2013, 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:

CENTRAL GOVERNMENT

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 timely. Specifically, the Concentration and Operating, Trustee's imprest and Water and Sewer customer refunds checking accounts were not reconciled timely for several months of the fiscal year. 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.



Recommendation

All bank accounts should be reconciled timely on a monthly basis by the Government and all unusual 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

Division of Accounts

Management agrees with this recommendation and agrees that the timeliness of completing bank reconciliations declined during the 2013 fiscal year and during the first months of the 2014 fiscal year. Staff assignments will be evaluated to determine where reassignments can be made in order to improve the timeliness of central bank reconciliations.

Metro Water Services

Metro Water Services goal is to have the Customer Refund Account reconciled according to the guidelines of Metro Finance Department. These guidelines are to have the Customer refund account reconciled no later than two to three months after the close of the current month. MWS has hired a Finance Officer II for the CSC Cash Section and he is currently being trained on the reconciliation of the refund account. This function is one of his main responsibilities and after training there should be no foreseen reason for the refund account not to be reconciled according to the guidelines of Metro Finance.

Old Outstanding Items on Bank Reconciliations

Observation

Reconciliations for the Trustee's imprest checking account and the Water and Sewer customer refunds account include excessive quantities of reconciling items that have been outstanding in excess of one year.

Recommendation

Though none of the items identified are significant individually or in the aggregate for the respective bank accounts, the Government should evaluate the propriety of reconciling items over a year old periodically (at least annually) and include adequate explanations for any resultant adjustments.



Management's Response

Trustee's Office

Every effort has been made to begin evaluating the reconciling items at least once a year. Since this task is tedious, two employees have been working on evaluating outstanding items. We believe we will make significant progress in this area over the next several months after which, we will work to maintain these improvements.

Metro Water Services

Metro Water Services has begun to reconcile the outstanding items that are over a year old. This has been incorporated into the monthly reconciliation of the Customer Refund Account to evaluate the outstanding items.

Infrastructure Reported Using the Modified Approach

Observation

The Government has adopted the alternative to recording depreciation expense on selected infrastructure assets. Under this method, referred to as the modified approach, the Government expenses certain maintenance and preservation costs and does not report depreciation expense. Roads and bridges are accounted for using the modified approach. The Government's Condition Rating of Transportation Network showed that the percentage of lane miles in fair or better condition for fiscal 2013 was lower than the required percentage under the Government's established policy.

Recommendation

In order to continue using the modified approach for selected infrastructure assets, we recommend that the Government maintain its roads and streets in accordance with its established policy of at least 70 percent of its road and street system at a fair or better condition.

Management's Response

Management agrees with this recommendation. While there was overall improvement in the road condition during the 2013 fiscal year - following the deterioration experienced after the 2010 flood - road conditions are not yet back up to the standard of 70% in fair or better condition. Road conditions are expected to be back up to the standard over the next two to three years.



COUNTY REGISTER

Deposit Timing for Cash Collections

Observation

During our testing of cash receipts of the County Register office, we noted cash collections for escrow monies are not routinely deposited within three days of physical receipt. The State of Tennessee mandates in the Audit Manual that cash collections should be deposited within three days.

Recommendation

The County Register office should implement procedures that assure that the office abides by the State of Tennessee Audit Manual requirement for depositing escrow monies within three days of receipt.

Management's Response

The Register of Deeds office will make a concerted effort to deposit all escrow monies within three days of receipt.

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Management's responses to the material weaknesses, significant deficiencies, and 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 report 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 & Associates, P.C.

CROSSLIN & ASSOCIATES, P.C.