

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

Letter of Recommendations to Management

June 30, 2017

October 31, 2017

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, 2017, 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, 2017. 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 (funds 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 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 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.

* * * * *

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, 2017, 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, Trustee Deposit/Lockbox, Water and Sewer customer refunds, and MNPS Lunchroom 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. We noted this item in previous audits and have seen improvement, as the reconciliations were completed within an average of 79 days after the end of the month, compared to an average of 101 days for those tested in fiscal 2016.

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 and Trustee Deposit/Lockbox Accounts

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 has cross-trained staff to provide an additional resource for the Trustee Deposit/Lockbox Account reconciliation. Additionally, management is implementing additional procedures to proactively monitor the completion and review of reconciliations and address issues prior to the targeted deadlines.

Water Services Customer Refund Account

Management agrees with this recommendation. The Water Services Customer Refund Account reconciliation has historically been completed within three months after close of each month. Going forward, Water Services will begin immediately targeting a completion date within 45 days after the close of each month.

MNPS Lunchroom Account

Management agrees with this recommendation. Metro Nashville Public Schools had a change in personnel due to retirement. As tasks were reassigned for a period of time, this activity got behind. The reconciliations are now being completed timely.

Review of Bank Reconciliations

Observation

In testing the Government's internal controls over bank reconciliations, we identified certain bank reconciliations tested that did not show documentation of review. Specifically, the Trustee Checking and Trustee Deposit/Lockbox. 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 reconciliations are not reviewed for accuracy.

Recommendation

All bank reconciliations should be reviewed timely by the appropriate level of management. 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

Trustee Deposit/Lockbox and Trustee Checking Accounts

Management agrees with this recommendation. The review of the Trustee Deposit/Lockbox Account reconciliation transitioned to a different staff person during the year ended June 30, 2017, and the reviews were sometimes delayed. The Trustee Checking Account reconciliation that was identified in the auditors' observation was revised after its initial completion, and while the original reconciliation had no notation of review, the revised reconciliation did contain evidence of review. Management is implementing additional procedures to proactively monitor the completion and review of reconciliations and address issues prior to the targeted deadlines.

Old Outstanding Items on Bank Reconciliations

Observation

Reconciliations for the Water and Sewer Customer Refunds and the Trustee Deposits/Lockbox accounts 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 focus on the Customer Refund Account through fiscal year 2018. The accounting employee handling this assignment has been temporarily acting as Stores Inventory Manager during past fiscal year. The Stores position has been filled, and the employee will soon return to the Accounting Division and reemphasis will be placed on this task. Additionally, a new position has been filled in the Accounting Division to assist with this and other tasks.



Trustee Deposit/Lockbox Account

Management agrees with this recommendation. The review of the Trustee Deposit/Lockbox Account reconciliation transitioned to a different staff person during the year ended June 30, 2017, and the reviews were sometimes delayed which contributed to lack of timeliness in resolving outstanding items. Management is implementing additional procedures to proactively monitor the completion and review of reconciliations and address issues prior to the targeted deadlines.

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 5 general receipt batches of the Trustee, of which 3 were not posted to the general ledger until an average of 71 days after the payment was received. While testing property tax receipts, it was noted that substantially all receipt batches were not being recorded to the general ledger until several months after the receipt (of 60 tested, 48 were not recorded for an average of 110 days). 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

Office of Trustee

Management agrees with the recommendation. Our seasonal workload is one contributing factor to the delay. The receipts entered in a shorter amount of time correspond with the dates our business is slower, while the receipts that were reported less timely correspond with the busy season for our office. While this may explain the delay, we still agree to work toward overall consistency in reporting timely. We also experienced some difficulty in getting accurate reports from our new tax accounting software, which is a second contributing factor to the delays in entering cash receipts. We have worked through the latter issue and hope that software reporting no longer causes us to fall behind. We will reevaluate our procedures for entering cash receipts, and consider reassigning or redistributing the workload, and will also assign someone to monitor the progress. We believe all of these things will ensure the cash receipts for our office are processed within a reasonable timeframe.



Segregation of Duties for Cash Receipts

Observation

In testing internal controls over the MNPS's cash receipts, we identified 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. A second employee now reconciles receipts, deposit slips, and posting to journals. This employee has no access to cash or checks at any time. A second lock box has been purchased to store cash and checks not deposited within three day of receipt. Only the employee making deposits has the key.

Recording of Capital Assets

Observation

We identified several cases in which capital assets were not disposed of or placed in service timely or properly, prior to management adjustment subsequent to year end. Individually and in the aggregate, it was determined these items were not material to the current, or any prior, Comprehensive Annual Financial Report, however, depending on the size of upcoming projects, such errors could be material in the future.

Recommendation

It was determined the root cause of these items was due to miscommunication between certain departments of the government and the Financial Operations department. We recommend improvement of the identification and interdepartmental communication of disposals and capital outlay projects that should be capitalized by the Government.



Management's Response

General Government

Management agrees with this recommendation. The employee responsible for the accounting of capital assets retired in July 2016, and those tasks were transitioned to another employee. Additionally, the supervision of capital assets transitioned concurrently. The change in staff and supervision contributed to the issues identified. Management is implementing additional procedures to monitor disposals, completed projects and other capital asset activities to ascertain that all transactions are recorded accurately and timely.

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. Although annual improvement continues to be reflected, the Government's estimated Condition Rating of Transportation Network reflected that the percentage of lane miles in fair or better condition for fiscal 2017 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

General Government

Management agrees with this recommendation. For assessment purposes, the county is divided into 5 groups with groups 1, 3 and 4 assessed in one year and groups 2 and 5 assessed in the alternate year. The condition of groups 2 and 5 was assessed and reported in fiscal year 2017, and the percentage of lane miles in fair or better condition increased compared to 2015.

In May 2010, the Government experienced a major, historic flood which had a significant negative impact on the condition of roads and streets, and the percentage of roads and streets in fair or better condition decreased from 70.0% in the 2010 assessment to 52.7% in the 2011 assessment. Several recent winters of snow, ice and salt usage have continued to provide challenges to improving road and street condition. Also, the Government has experienced population growth, increased tourism, and significant construction which have added more vehicles and equipment on the roadways causing additional deterioration. While there have been lower than historical percentages in the years subsequent to the flood, the condition of roads and streets continues a steady recovery through the Government's efforts as evidenced by the improvement over the 2011 rate.



To the Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and Davidson County, Tennessee
Page 8

Maintaining the condition of the roads and streets in accordance with the policy continues to be a priority as evidenced by the continued funding for roads and streets maintenance in the capital plans. The condition of roads and streets is expected to continue to improve in future years.

* * * * *

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