

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

Letter of Recommendations to Management

June 30, 2016



October 31, 2016

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, 2016, 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, 2016. 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.

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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, 2016, 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 on a timely basis. Specifically, the Operating and Concentration, Trustee Checking 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 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

Concentration and Operating Account

Management agrees with this recommendation. Most routine accounting tasks fall behind at the beginning of the new fiscal year as a result of year end reporting for the prior fiscal year and certain set up that is required at the beginning of each new fiscal year. Additionally, a new staff person was hired December 2015 to assist with the bank reconciliation process; that employee left in April 2016. Another staff person was transferred to assist with the bank reconciliation process in May 2016. It is expected that the additional staff will enhance the timeliness of bank reconciliations going forward.

Trustee Checking

Management agrees with this recommendation. In 2015 the Office of the Trustee began implementing a new tax accounting software system. This implementation and the subsequent training that was required caused our office to fall behind in preparing reconciliations. Also, various staff responsibilities have been reassigned including the preparation of the reconciliation. These reassignments will improve the timeliness of the bank reconciliation going forward.

Metro Water Services Customer Refunds Account

Management agrees with this recommendation. We have been working to resolve outstanding issues and will be focusing on completing our monthly reconciliations timely throughout the year.

Old Outstanding Items on Bank Reconciliations

Observation

Reconciliations for the Water and Sewer Customer Refunds Account include many reconciling items that have been outstanding in excess of one year.

Recommendation

Though none of the items identified are significant, either individually or in the aggregate for the bank account, the Government should periodically evaluate the propriety of reconciling items over one year old. 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

Metro Water Services Customer Refunds Account

Management agrees with this recommendation. There are still accounts requiring additional research. We continue to research and clear outstanding items and will maintain focus on the Customer Refund Account through fiscal year 2017.

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 18 receipt batches on the Farmer's Market, of which 7 were not posted to the general ledger until an average of 8 days after the cash 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. 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

Farmer's Market

Management agrees with this recommendation. During the period of the findings, the Nashville Farmers' Market was transitioning staff and responsibilities due to an unexpected vacancy. This Nashville Farmers' Market management team has addressed the findings and recommendations by improving reassigning responsibilities to ensure that the receipts are recorded to the general ledger in a timely fashion.

Office of Trustee

Management agrees with this recommendation. The reason for a delay in entering property tax cash receipts was two-fold. First, we only had one employee trained in recording cash receipts. Because that was just one of her many responsibilities and because she had no back-up to assist in her absence, she often fell behind in these duties. Further, in 2015 we began implementing a new tax accounting software system. This implementation and the subsequent training that was required caused our office to fall behind in recording property tax cash receipts.



The implementation of the new software is complete and we have trained two new staff members on the procedure for recording property tax cash receipts. The delays caused by learning new software and only have one employee enter the data are now resolved. Two employees processing the cash receipts will ensure that there are no delays caused by one employee's workload increasing or during one employee's absence from work.

Missing Employee Evaluations

Observation

In testing internal controls over payroll, we identified that 21 of 30 MNPS employees tested and 3 of 29 general government employees tested did not have documentation of an evaluation for fiscal year 2016 included in the personnel file. None of the employees identified were Civil Service employees. As a best practice, an annual evaluation should be performed and documented in the personnel files for all employees.

Recommendation

Evaluations should be completed at least annually for all employees and retained in their personnel files to provide documentation supporting changes in employment.

Management's Response

MNPS

Educator performance evaluations are maintained in the Tennessee Department of Education's TNCompass system. All but one of the 22 names identified as missing performance evaluations are educators and all have performance evaluations on file within TNCompass. Educators and principals are evaluated using the TEAM (Tennessee Educator Acceleration Model). Since 2011, educators and principals are required by law to have evaluation scores comprised of both qualitative and quantitative measures. It is also a requirement of districts to submit all TEAM evaluation information to the TDOE via the state database, TNCompass. Our district utilizes another system, Randa TOWER, for educator and principal qualitative measures, which is an electronic sign-off and submission process (no paper). We are required to submit these data to TNCompass as well. The Human Resources' Talent Management division audits these data quarterly and have done so since the 2013-14 school year.

We are looking into an efficient method for transmitting new performance evaluation records (for more than 5,000 educators) into the employee's personnel file going forward, while also complying with the state requirements noted above.

There was one support employee who was found not to have an employee performance evaluation in their personnel file. Effective several weeks ago, to consolidate the monitoring and management of all employee performance evaluations, the support employee performance evaluation management process was also assigned to the Talent Management division of Human Resources. By the end of this school year, we will have implemented an efficient way to monitor the completion of support employee performance evaluations on an annual basis, which does not exist now.



MNPS leadership understands the value of and fully supports documenting and reviewing performance evaluations with our employees. We believe it is an important component and tool for facilitating employee development.

General Government

The Metropolitan Charter along with the Civil Service Rules states that Civil Service employees must be evaluated at least on an annual basis. Those Non-Civil Service departments are not required to perform annual performance evaluations if they do not see fit. We often advise those departments that it is a good practice to review their employee's performance and provide feedback however those offices/departments are ruled by the rules and policies set up by their Boards and Commissions and do not necessarily follow the Civil Service Rules.

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 2016 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. 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. Groups 1, 3 and 4 were assessed in 2016, and the percentage of lane miles in fair or better condition increased compared to 2014.



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.

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. Roads and streets are expected to be back up to the standard of 70% in fair or better condition over the next two to three years.

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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

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