

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

Letter of Recommendations to Management

June 30, 2010



October 31, 2010

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, 2010, 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, 2010. 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 Electric Power Board, 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 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, we considered the Government's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.



Our consideration of internal control over financial reporting 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. 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:

**CLERK AND MASTER, JUVENILE COURT CLERK, SHERIFF WORK
RELEASE AND INMATE TRUST**

Lack of Dual Entry Accounting System

Observation

During our audit procedures for the agency funds, we noted that certain offices lack a dual entry accounting system to account for daily financial transactions such as cash receipts and cash disbursements. Instead, these offices use various methods such as Excel or an Access database to track transactions and cash balances. Entries to record changes in trust funds held for third parties and to record liabilities due to third parties were required to be made during the audit process. This deficiency in internal control could lead to undetected misappropriation of funds as well as undetected material misstatements of the offices' financial information.

Recommendation

We recommend that the offices utilize a dual entry accounting software package. Staff and related management should use this accounting software on a daily basis to account for all financial transactions. We further recommend that management use this accounting software to produce timely and accurate financial statements at month-end and at fiscal year-end.

Management's Response

Clerk and Master

The accounting division is researching the financial software package QuickBooks as a tool for month-end and fiscal year-end financial statements. The question remains whether use of the tool will be duplicative and whether the new case management system can provide this function.



Juvenile Court Clerk

We agree with the recommendation and have taken steps toward implementation. Our office is currently working to move toward a computerized dual entry accounting system. We have met with our IT representative, and have determined that operating in both the current system and the computerized system until all bugs have been worked out will be the best plan of action. Most money taken in is receipted into the computer, with the exception of bugs being identified and worked on by the IT department, and our next step is to make disbursements through the same program (JIMS). After training is complete and disbursements are made through JIMS, we will go online with our Operating Account and Child Support Account. With receipts and disbursements already being run through JIMS, we anticipate this move to occur shortly after computerized disbursements are functioning effectively. Once fully online, our office will work with the IT department to assess the functionality of financial statement production, and create a list of functions to submit to the coding team to expand our electronic reporting capabilities.

The new Finance Officer has established lines of communication with both the independent auditors as well as the in-house auditor for the Circuit Court Clerk in order to obtain advisement throughout the implementation process.

JIMS also has the capability to maintain account balance sheets for each minor trust fund. We will post interest to these accounts two times per year, as well as enter all disbursements ordered by the court. The minor trust accounts will be divided into three groups alphabetically, and each bookkeeper will be responsible for checking the bank statements of their assigned accounts for fees, withdrawals, etc., and reporting them to the Finance Officer. The Finance Officer will then request reimbursement of any fees, make the appropriate entries into JIMS, and post interest semi-annually.

Sheriff Work Release and Inmate Trust

The DCSO does utilize a dual accounting system for the Inmate Trust account. Along with EBS we utilize a software package called ACTFAS. This is a software package that allows us to maintain a daily transaction accounting of every inmate's account for all incoming and outgoing funds. In order to maintain the correct balance in this account, the DCSO performs a daily account balance process that matches the ACTFAS balance to the daily bank balance. This helps insure an easily balanced bank statement at the end of each month. The one downfall to the ACTFAS system is that when running month-end reports and year-end reports, the software allows for a beginning date and defaults to the current day that the report is being run. Therefore when verifying reported balances, balances/activities are run from the start date desired to the current date, then from the beginning of the next reporting period to current date must be backed out to give the appropriate balances/activities for your desired reporting period. It should be noted that the owners of the ACTFAS software are in the process of being notified to determine if the ability to include an ending date for a reporting period can be programmed into the software.



CLERK AND MASTER, JUVENILE COURT CLERK, COUNTY REGISTER

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

Clerk and Master

1.) Management acknowledges that presently many of the bookkeeping duties are not segregated. This is a result of having only 2 bookkeepers. As this is a small office it would be difficult as well as duplicative to have one person receive and log in all funds and then have another employee actually post the transactions. Our current system prints receipts for our walk in customers only after the transaction has been posted to the correct matter. We are not in a position to delay service to walk in customers because only one bookkeeper is allowed to touch the money or complete the transaction.

Having an independent person log in mail to be processed by bookkeeping creates additional work for staff.

2.) It would be difficult to have only one bookkeeper maintain the check stock and not be a signor of checks. Currently, there are 3 persons authorized to sign checks on behalf of the office: the two bookkeepers and the Clerk and Master. Check numbers are reviewed against monthly bank statements and corresponding matters posted in Excel spreadsheets.

The Clerk and Master will review monthly the bank statements, issued checks and the deposit logbook.

Anyone with checking writing authority will no longer be allowed to be a signatory on checks made to themselves for special officer services.

A request has been made and granted to hire an additional bookkeeper.

Juvenile Court Clerk

We agree with the recommendation and are currently formulating a plan of action for implementation. The new Finance Officer is currently assessing the responsibilities and abilities of each bookkeeper, along with creating a comprehensive list of necessary tasks to redistribute accounting functions. We will, to the best of our ability, segregate tasks according to the recommendation in order to improve controls and lessen opportunities for misappropriation and misstatement. A monthly calendar will be put into place outlining the tasks required throughout the course of each month, such as reconciliations, reports, cutting checks, etc.

When implementation of the computer software is complete, any accounting entries made will be linked to the individual bookkeeper that makes the entry. This will help with accountability and allow the bookkeeping staff to more easily double check the work of others.

Again, the Finance Officer has established lines of communication with parties experienced in the proper operations of a bookkeeping staff, and will consult when necessary to ensure actions taken will eradicate our current material weaknesses.



County Register

We have implemented some of the items that were discussed at the exit conference. Wherever feasible we have segregated certain duties (bank reconciliations, daily deposits, etc.) among our RODC employees.

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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, 2010, 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

Accounts Payable FASTPak Approvals

Observation

In evaluating the Government's internal controls established to ensure that cash disbursements are approved by appropriate Government personnel, we compared the information maintained in the central office to the supporting documentation and approved signatures. We noted that personnel in the central office do not have current signature cards on file with which to verify propriety of approvals for disbursements made using FASTPaks (i.e., disbursements processed in paper form, as opposed to those processed using automated workflow in the EnterpriseOne computer system). The most recent signature cards on file were obtained in 2002 and several others were much older.

Recommendation

Though most departments process disbursements using automated workflow, we recommend that management ensure that current signature cards for those assigned with approval authority are maintained for departments that continue to process disbursements using FASTPaks.

Management's Response

Management agrees with this recommendation. Confirmation of signatures will be sent to the few remaining agencies that are not on AP workflow by February 2011.



Cash Disbursements Review Procedures

Observation

During our substantive testing related to the Government's expenditures and cash disbursements, we identified a significant data entry error that was not detected by two separate internal reviews. A \$3,978.10 invoice for transportation supplies and materials was entered to the accounting system as \$397,810.00 (the invoice was processed as a FASTPak disbursement). The Government has established controls designed to detect such errors, including detailed review of the Batch Report by separate personnel at the department level and at the central office – neither review detected the error. Accordingly, the disbursement was approved for payment and a check was mailed to the vendor for the incorrect amount on March 11, 2010. The Government was informed by the vendor of the error on April 14, 2010, and the money was refunded on April 29, 2010. An additional control designed to detect significant errors with respect to the Government's cash disbursements is the department head review of monthly budget to actual reports. In the case described above, the error was identified prior to the preparation of the monthly reports. However, management believes that the error would have been detected during its review of the respective monthly budget report.

Recommendation

Though we noted no other instances of large errors going undetected during our audit procedures, we recommend that the Government ensure that personnel assigned with responsibility for performing detailed reviews understand the critical role they fill in safeguarding the Government's assets. The lapse identified by our audit and noted above can serve as an example that highlights the need for attentiveness in every transaction processed.

Management's Response

Management agrees with this finding. The accounts payable supervisor took appropriate action with the reviewer when the payment for the wrong amount was disclosed by the vendor. Management will continue to stress the importance of the accounts payable review process with all accounts payable reviewers.



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 primary concentration and operating account, and the Water and Sewer customer refunds and Trustee's imprest checking accounts were not reconciled timely for each of the first 7 and 11 months of the fiscal year, respectively. The Government does have certain compensating controls in place to timely detect significant misstatements in the financial statements. Furthermore, additional personnel were assigned to assist in completing the primary concentration and operating account reconciliations and, since then, improvement in timeliness has been made. However, the risk of not identifying cash errors and possible fraud related to cash increases greatly when bank accounts are not reconciled timely.

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

Management agrees with this recommendation. Central bank account reconciliations are often delayed during the year-end closing process and around the time unclaimed property is processed in order to remit unclaimed property to the state by deadlines. In order to minimize the impact of these time sensitive annual activities, staff assignments have been rearranged to provide additional resources dedicated to bank reconciliations. Water and Sewer bank reconciliations fell behind due to additional workloads around a billing and collection system implementation, and management at Water and Sewer has taken action to prevent delays in bank reconciliations in the future. The Trustee lost a key staff member last year and another key employee this year and is in the process of training another back-up employee to do bank reconciliations.

Old Outstanding Items on Bank Reconciliations

Observation

Reconciliations for the following bank accounts include excessive quantities of reconciling items that have been outstanding in excess of one year: the primary concentration and operating account, the Trustee's imprest checking account, and the Water and Sewer customer refunds account.



Recommendation

Though none of the items identified are significant individually or in the aggregate for the respective bank account, 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

Management agrees with this recommendation and will implement a process to resolve reconciling items over 18 months old on a monthly basis.

SHERIFF WORK RELEASE AND INMATE TRUST

Deposit Timing for Cash Collections

Observation

During our testing of cash receipts of the Sheriff Work Release and Inmate Trust Fund, we identified a significant number of cash collections that were not deposited within three days of physical receipt. The State of Tennessee mandates in its Audit Manual that cash collections received should be deposited within three days. We also noted in several instances that checks and cash collected from various jails and detention centers in Davidson County were physically deposited in the bank as late as six days after receipt.

Recommendation

The Sheriff Work Release and Inmate Trust Fund should implement procedures that assure that the Fund abides by the State of Tennessee Audit Manual requirement for depositing checks and cash within three days of receipt.

Management's Response

As discussed, out of the five (5) samples that were found to be deposited past the state requirement, we concur that two of the five were outside said requirement. However the remaining three deposits were taken to the bank within the three-day requirement. The process at the time was such that the DCSO bank run normally took place at approximately 3:00 PM and the bank would not post that deposit until the next day. If the state requirement only accepts the posting date as the third day then we concur that the requirement was not met. On the other hand the DCSO received the money, completed our part of the deposit and delivered funds to the bank within the proper time requirement. It should be noted that for the audit period, the DCSO only made three bank runs/deposits during a week; Monday, Wednesday and Friday. Since that time, we have increased our bank runs/deposits from three times a week to one every business day and the delivery is usually made around 1:00 pm prior to the daily posting time. Therefore this should not be an issue in the future.



CRIMINAL COURT CLERK

Lack of Computerized Dual Entry Accounting System

Observation

During our audit procedures over the agency funds held by this office, we noted lack of a dual entry computerized accounting system to account for daily financial transactions such as cash receipts and cash disbursements. Instead, this office uses manual account ledgers to account for its financial transactions. While this office does track its financial transactions in separate ledger accounts for its cash receipts and disbursements, the office could increase its efficiency and the effectiveness of financial reporting by upgrading to a computerized accounting system.

Recommendation

We recommend that the office utilize a computerized dual entry accounting software package. Staff and related management should use this accounting software on a daily basis to account for all financial transactions. We further recommend that management use this accounting software to produce timely and accurate financial statements at month-end and at fiscal year-end.

Management's Response

The Criminal Court Clerk's office acknowledges, and appreciates, the recommendation. Due to the complicated nature of fines/costs/taxes assessed by the Court, it is important to note the system currently utilized by our office (assessing and receipting; and the monthly transfer of funds to the State and various local jurisdictions involved) works extremely well.

TRUSTEE'S OFFICE

Administrator Monitoring

Observation

As noted in the letter of recommendations to management for fiscal 2009, an outside vendor, Manatron, has full administrator access to applications and databases on the TaxMan production server, and management does not monitor authorized administrator activities at the operating system, database, and application levels. This could allow unauthorized changes to the TaxMan application to occur and go undetected by management.



Recommendation

We understand management's position that Manatron needs full access to these applications and databases since the responsibility for support and for correcting any data inconsistencies that may occur have been delegated to Manatron. However, internal control could be improved if server usage were monitored and periodic reviews were performed on administrator activities by a representative of the Trustee's Office. This could be affected by designating a liaison to work with Manatron, as suggested by management in their prior year response. These procedures and reviews should be documented by the Trustee's Office and include the date performed and representative's identity. In addition, these policies and procedures should be formalized with a policy that authorizes Manatron's full access and acknowledges that this is an acceptable risk.

Management's Response

We concur. Manatron needs full access to applications and databases on the production server. The Trustee's Office understands the auditors' position on limiting security rights of Manatron on the TaxMan production server. The Trustee's Office is now tracking server usage – this is being performed by a Trustee's Office employee, the designated liaison between the Trustee and Manatron. The Manatron Senior Support Analyst, with the Trustee's Office employee's direction, is the only Manatron employee with access to the production database. Only after the issue has been tested on one of our test databases and on the Trustee's Office employee's clearance, the Manatron Senior Support Analyst is granted access to review production data. The contract the Metropolitan Government entered into with Manatron establishes a formal policy allowing Manatron full access to the Manatron application and databases required to support their product. Internal control reports describing access may be produced for any period upon request.

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Management's responses to the material weaknesses and comments identified in our audit have not been subjected to audit procedures 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.