

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

Letter of Recommendations to Management

June 30, 2021



October 31, 2021

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, 2021, 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, 2021. 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), the Metropolitan Transit Authority, and the Convention Center 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, and the Emergency Communications District. 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 material weaknesses or significant deficiencies 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, 2021, 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 account was not reconciled timely (within 45 days of month end as per the stated internal controls) for the two of the three 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. The August 2020 Operating and Concentration account reconciliation was completed 197 days after month end and the February 2021 reconciliation was completed 58 days after month-end. Timeliness of the preparations did improve as the year progressed and the June 2021 reconciliation was prepared timely.

Additionally, the following reconciliations tested were not notated with dates, therefore the timeliness of preparation and review were not determinable: one Water and Sewer customer refund account reconciliation, and one Municipal Auditorium checking account reconciliation.

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

The Government continues to improve on the timeliness of bank reconciliation process. The Government started an automated reconciliation process in FY22 for the majority of its bank accounts, with an anticipated roll out date of early FY23. This process will allow for weekly bank reconciliations between the bank activity and activity entered the accounting system. In addition, during FY22, an emphasis was placed on timely reconciliations as well as training departments on entering cash receipts properly.

Timely Recording of Cash Receipts

Observation

In testing internal controls over the Government's cash receipts, we identified certain property tax receipts that were not recorded to the general ledger system timely. We tested 60 property tax receipts, of which 2 were not posted to the general ledger until approximately 2.5 months and 5 months, respectively, 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

Management agrees that there are opportunities for strengthening internal controls and operating efficiently as it relates to reconciliation of accounts. As noted in the report, timeliness of preparation did improve as the year progressed in 2021. The Office of the Metropolitan Trustee has implemented procedures to ensure the property tax receipts are recorded to the general ledger within the 45 days of months end as per the stated internal controls. Additionally, the office is working with the Finance Department and the Department of Information Technology Services towards automation of daily deposits posting to the general ledger which will ensure efficiency.

Metro Water & Sewer Fixed Assets

Observation

During our audit, we found a misstatement in Metro Water & Sewer's ("MWS") fixed asset accounts. The misstatement related to MWS finance personnel accounting for transfer of construction work in progress ("CWIP") amounts for CWIP projects closed in fiscal year 2021 and capitalized as fixed additions as a credit to an asset clearing holding account rather than a reduction in CWIP. As a result, an audit adjustment was recommended to reduce CWIP and increase the asset clearing holding account for the amount of CWIP placed in service during the fiscal year.



Recommendation

We recommend the Government reconcile Construction Work in Progress on a monthly basis to properly reflect projects completed and placed in service.

Management's Response

In December 2021, Management developed and implemented a monthly process reconciling construction works-in-progress and related capitalizing/depreciating assets. In order to simplify presentation and tracking of projects, all unfinished capital projects flow through a singular "CWIP" general ledger account. This account is reconciled each month using reports of general ledger activity and fixed asset activity that is run through a separate module for detailed recordkeeping. This procedure has been used to successfully reconcile activity in each month of FY22 (eight months in total). Copies of each month's reconciliation, along with supporting documentation, have been archived and are available for review. This procedure also exists in narrative form, written by Management, and is available for review.

Preparation of the Schedule of Expenditures of Federal Awards

Observation

During the Single Audit, there were several material revisions to the Schedule of Expenditures of Federal Awards ("SEFA") due to overall preparation issues. Errors and revisions included items such as expenditures for certain grants being reported twice, incorrect CFDA numbers and groupings, and expenditures for certain grants including amounts from previous years.

Recommendation

We recommend the Government develop a process to review the SEFA for accuracy of expenditures and proper CFDA classification. This will reduce the likelihood of errors and allow for a more efficient Single Audit process.

Management's Response

Management agrees with this recommendation. The revisions note above were primarily due to changes in staff assigned to the preparation and review of the report as well as the addition of a significant amount of new grants primarily related to the pandemic. The Government has developed a process to review the SEFA for accuracy of expenditures and proper CFDA classifications as well as developed a training for SEFA to be rolled out to departments within the Government.



To the Honorable Mayor and Members of Council
The Metropolitan Government of Nashville and Davidson County, Tennessee
Page 5

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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