

INTERNAL CONTROL AND COMPLIANCE SECTION



Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Mayor and Aldermen
City of Franklin, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, Tennessee (the "City"), as of and for the year ended June 30, 2011 (except for the Pension Fiduciary Fund, which was as of and for the year ended December 31, 2010), which collectively comprise the City's basic financial statements and have issued our report thereon dated December 8, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 over financial reporting 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 described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting 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 deficiencies described in the accompanying schedule of findings and questioned costs as IC-11-1 and IC-11-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Mayor and Aldermen, others within the City, federal awarding agencies and pass-through entities, and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 8, 2011



Independent Auditors' Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each
Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133

To the Board of Mayor and Aldermen
City of Franklin, Tennessee

Compliance

We have audited the City of Franklin, Tennessee's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item CF-11-3.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item CF-11-3. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Mayor and Aldermen, others within the City, federal awarding agencies and pass-through entities and the Comptroller of the Treasury, State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin & Associates, P.C.

Nashville, Tennessee
December 8, 2011

CITY OF FRANKLIN, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 JUNE 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	<u> X </u> yes	<u> </u> no
Significant deficiencies identified not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major programs:		
Material weakness identified?	<u> </u> yes	<u> X </u> no
Significant deficiencies identified not considered to be material weaknesses?	<u> X </u> yes	<u> </u> none reported

Type of auditors' report issued on compliance: for major programs:	Unqualified	
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Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)	<u> X </u> yes	<u> </u> no
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Identification of major programs:

CFDA Number and Name of Federal Program or Cluster

Federal Transit Cluster:

20.500 ARRA - Federal Transit Administration Capital Grants
 20.507 Federal Transit Administration Capital Grants
 20.205 ARRA - Transportation Planning and Construction
 66.458 ARRA - Clean Water State Revolving Funds
 15.928 Battlefield Acquisition
 14.218 ARRA - Community Development Block Grant
 81.128 ARRA - Energy Efficiency and Conservation Block Grant
 97.036 Public Assistance

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 yes X no

CITY OF FRANKLIN, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

Item # IC-11-1 - Net Pension Asset

Criteria, Condition, Context, Cause and Effect

The City administers the City of Franklin Employees' Pension Plan and Trust (the Plan), a single employer defined benefit pension plan. The City has no regulatory amount to contribute to the Plan, but has established an informal policy to annually contribute an actuarially determined amount in four quarterly installments. The amount contributed by the City is based on the annual actuarial valuation as well as budgetary and other considerations.

As of June 30, 2011 and 2010, the City's cumulative contributions to the Plan had exceeded the amounts determined in the actuarial valuations. In accordance with requirements of Governmental Accounting Standards Board Statement No. 27, the cumulative differences between the City's actual contributions and the contributions determined by the actuarial valuations is recorded as an asset or liability in the statement of net assets. As the City's cumulative contributions have exceeded those calculated in the actuarial valuations, the City should have a net pension asset recorded in the financial statements. The City has not recorded the net pension asset, which totaled \$2,086,928 and \$1,941,338 as of June 30, 2011 and 2010, respectively.

Recommendation

We recommend that management review the actuarial valuation performed each year to determine if there is a net pension obligation or asset as a result of differences between actual and calculated contributions. Such differences should be recorded within the statement of net assets to ensure that the City's financial statements are presented in accordance with U.S. generally accepted accounting principles.

Management Response

The management of the City of Franklin concurs. Additional excess contributions to the Pension Plan are not anticipated at this time. Thorough review of the expected GASB 27 update will be taken and management will follow that guidance.

Item # IC-11-2 - Governmental Activities Infrastructure

Criteria, Condition, Context, Cause and Effect

Street infrastructure assets are recorded within the City's financial records and in the statement of net assets when a street has been formally accepted by the City. Acceptance is made under the City's acceptance policy, which includes a bond inspection on the street.

Out of eleven street additions selected for audit testing, seven streets totaling \$5,920,000 were determined not to be assets of the City. The City had not formally accepted them as of June 30, 2011 under the street acceptance policy. The streets were included in a computer tracking system, and were therefore incorrectly added to the streets addition listing prior to formal acceptance.

The City's financial records for governmental activities infrastructure assets and corresponding infrastructure stated in the statement of net assets were overstated. The City subsequently reviewed and removed all unaccepted streets at June 30, 2011.

CITY OF FRANKLIN, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

Item # IC-11-2 - Governmental Activities Infrastructure (Cont.)

Recommendation

We recommend that management review and update the City's street acceptance policy. The policies and procedures should ensure that streets are recorded within the financial records only after all acceptance procedures have been performed and appropriately documented. This will help to ensure that street infrastructure assets are reflected appropriately in the financial statements.

Management Response

The management of the City of Franklin concurs. Review of the process of street acceptance and surety/bond releases is underway. Additional coordination of departmental interaction on street identification is underway in 2012.

Item # CF-11-3

SECTION III - FEDERAL AUDIT FINDINGS AND QUESTIONS COSTS

Grant Compliance

TOC Phase III, Infrastructure Upgrades

CFDA 20.205

U.S. Department of Transportation

Criteria

In connection with its grant agreements, the City should code only allowable expenditures to each grant's financial record. Grant expenditures should be made in accordance with the budgets or other allowable costs sections specified in the agreements.

Condition and Context

For one out of twelve selections during grant testing, it was determined that the cost should not have been coded to the grant.

Questioned Cost

The item selected for testing was an invoice for \$495. Through further review performed by City management, it was determined that expenditures totaling \$77,265 were included in the grant expenditures on the City's records but should not have been coded to the grant.

Cause

The invoices were not properly labeled and were charged to the TOC Phase III Grant.

Effect

The City has subsequently adjusted its schedule of expenditures of federal awards to remove the expenditures. The City had not requested reimbursement for the amounts; therefore, there is no liability to the grantor agency.

CITY OF FRANKLIN, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011

SECTION III - FEDERAL AUDIT FINDINGS AND QUESTIONS COSTS (Cont.)

Recommendation

We recommend that the City establish policies and procedures that ensure all grant expenditures are charged to grants that are eligible and allowable under program guidelines. The policies and procedures should be in-place and operating effectively to ensure that invoices are properly coded and reviewed before they are charged to grants.

Management Response

The management of the City of Franklin concurs the grants receivable for this grant was estimated higher than actual with the associated grant schedules matching the estimate. When TOC equipment expenditures and reimbursements were reviewed, only eligible expenditures were claimed. After the review, the estimated grant expenditures, receivable, and grant schedules were reduced to actual. In 2012, expenditures to this grant are being coded to separate accounts to identify those eligible for reimbursement: equipment (not grant eligible) and equipment (grant eligible). The grant receivable in 2012 will be set up using the expenditures coded to the equipment (grant eligible) account.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

All prior year audit findings have been resolved.

