

**METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON  
COUNTY**



**METROPOLITAN NASHVILLE  
AUDIT COMMITTEE**

**WORKBOOK**

**January 11, 2021**

*"Fraud and falsehood only dread examination.  
Truth invites it."  
– Samuel Johnson –*

**METROPOLITAN NASHVILLE**  
**METROPOLITAN AUDIT COMMITTEE MEETING AGENDA**  
**January 11, 2021, 4:00 p.m.**

**This meeting will take place via WebEx and will be broadcast live through the Metro Nashville Network, (MNN). The broadcast may be streamed live at: <http://stream.nashville.gov>.**

- I. Call Meeting to Order (Brackney Reed – Committee Chairman)
- II. Approval of Minutes (Brackney Reed – Committee Chairman)
  - Approval of Minutes for November 24, 2020, meeting.
- III. New Business
  - Presentation of the Metropolitan Nashville Government Comprehensive Annual Financial Report for the Year Ended June 30, 2020. (External Auditor)
  - Discussion on the Follow-Up Audit of the Metropolitan Nashville Fire Marshal’s Office, issued December 18, 2020. (Lauren Riley – Metropolitan Auditor)
  - Discussion on the Audit of the Metropolitan Beer Permit Board, issued December 23, 2020. (Bill Walker – Principal Auditor)
  - Discussion on the Audit of the Department of Codes and Building Safety Fuel Transactions, issued January 6, 2021. (Bill Walker – Principal Auditor)
  - Tentative Discussion on the Audit of the Metropolitan Trustee. (Lauren Riley – Metropolitan Auditor)
- IV. Other Administrative Matters (Lauren Riley – Metropolitan Auditor)
  - 2021 Proposed Meeting Schedule.
  - Recommendation implementation follow-up status
- V. Consideration of Items for Future Meetings (Brackney Reed – Committee Chairman)
- VI. Adjournment of Public Meeting – Next Regular Meeting Tuesday, February 9, 2021.
- VII. Call for a motion to enter executive session (Brackney Reed – Committee Chairman)
- VIII. Executive Session Agenda – (Brackney Reed – Committee Chairman)
  - If needed, discussion of pending or ongoing audits or investigations. (Lauren Riley – Metropolitan Auditor)

**METROPOLITAN NASHVILLE**  
**METROPOLITAN AUDIT COMMITTEE MEETING AGENDA**  
**January 11, 2021, 4:00 p.m.**

Note: Upon a majority vote of committee members in attendance for the public portion of the meeting, the Metropolitan Nashville Audit Committee may hold confidential, nonpublic executive sessions to discuss the following items (T.C.A. § 9-3-405<sup>1</sup>):

- Items deemed not subject to public inspection under T.C.A. §§ 10-7-503<sup>2</sup> and 10-7-504<sup>3</sup> and all other matters designated as confidential or privileged under this code;
- Current or pending litigation and pending legal controversies;
- Pending or ongoing audits or audit related investigations;
- Information protected by federal law; and
- Matters involving information under T.C.A. § 9-3-406<sup>4</sup> where the informant has requested anonymity.



To request an accommodation, please contact Lauren Riley at (615) 862-6111.

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<sup>1</sup> T.C.A. § 9-3-405(d). Establishment of audit committee, Notice requirements, Open meetings, Confidential, nonpublic executive session.

<sup>2</sup> T.C.A. § 10-7-503. Records open to public inspection, Schedule of reasonable charges, Costs.

<sup>3</sup> T.C.A. § 10-7-504. Confidential records.

<sup>4</sup> T.C.A. § 9-3-406. Establishment of process for confidential reporting of suspected illegal, improper, wasteful or fraudulent activity, Retaliatory activities prohibited.

**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
AUDIT COMMITTEE MEETING MINUTES  
November 24, 2020**

On Tuesday, November 24, 2020, at 4:00 p.m., the Metropolitan Nashville Audit Committee met via a WebEx video meeting due to the COVID-19 pandemic. The following people attended the meeting:

Committee Members

Brackney Reed, Chamber of Commerce  
Charles Frasier, Tennessee Society of CPAs  
Zulfat Suara, Council Member  
Kevin Crumbo, Director of Finance  
Thom Druffel, Council Member  
Jim Shulman, Vice-Mayor

Others

Lauren Riley, Metropolitan Auditor  
Theresa Costonis, Department of Law  
Phil Carr, Chief Accountant  
John Crosslin, Crosslin  
Justin Crosslin, Crosslin  
Mike Leonard, Dept. of General Services  
Mark North, Metro Nashville Public Schools  
David Proffitt, Metro Nashville Public Schools  
Casey Megow, Metro Nashville Public Schools  
Laura Henry, Office of Internal Audit  
Seth Hatfield, Office of Internal Audit  
Innocent Dargbey, Office of Internal Audit  
Bill Walker, Office of Internal Audit

*Quorum present? Yes*

**CALL MEETING TO ORDER**

Mr. Reed called the meeting to order.

A **roll call** was conducted by Ms. Riley. The following members were in attendance:

- Brackney Reed
- Kevin Crumbo
- Thom Druffel
- Zulfat Suara
- Jim Shulman

A **motion** to conduct the meeting using a WebEx video format because it was necessary to protect the safety and welfare of Tennesseans due to the COVID-19 pandemic and to conform to Governor Bill Lee's Executive Order Number 60 was made, seconded and carried. Specifically, a roll call was conducted with the following votes:

- Brackney Reed - Yes
- Kevin Crumbo - Yes
- Thom Druffel – Yes
- Zulfat Suara - Yes
- Jim Shulman - Yes

## APPROVAL OF MINUTES

Mr. Reed inquired about acceptance or changes to the draft September 8, 2020, Audit Committee meeting minutes. Councilmember Suara stated there was an error in the minutes. The draft minutes stated she had already submitted four legislations related to the Collier report. Councilmember Suara advised it should read that she will submit four filings as they had not all been filed as the draft minutes implied. Ms. Riley stated she would modify the minutes accordingly. A **motion** to approve the presented September 8, 2020, Metropolitan Nashville Audit Committee meeting minutes with corrections, was made and seconded. A roll call was conducted with the following votes:

- Brackney Reed - Yes
- Kevin Crumbo - Yes
- Thom Druffel – Yes
- Zulfat Suara - Yes
- Jim Shulman - Yes

The motion carried.

## NEW BUSINESS

Discussion on Director of Metropolitan Water Services, Scott Potter's request for an audit of the Metropolitan Water Services Meter Reading and Billing received September 9, 2020.

Ms. Riley provided an overview of the request, scope, and timing of the audit. Councilmember Druffel inquired if an analysis would be conducted identifying the increase in overall collections due to the recent rate increase. The purpose of this analysis would be to explore the possibility of lowering rates if revenues exceeded projections. Mr. Crumbo advised that rates are something that were agreed upon with the State of Tennessee as part of addressing the Metropolitan Nashville Government's financial issues. These rates are regulated. Changes in rates may be limited. This would need to be researched.

Councilmember Suara inquired if the audit would include the collections process since collections could be impacted by the rate changes. Ms. Riley stated currently collections was not included. Ms. Riley noted the Office of Internal Audit had conducted an audit of this area in the past and not much had changed. Concern appeared to be primarily focused on the accuracy of the billing process. Since there was a sense of urgency to look into this matter, the collections process was initially scoped out. Ms. Riley advised collections could be placed back into the scope. Councilmember Suara stated the collection process should be undertaken within the audit.

Mr. Reed inquired how this would impact the approved Annual Audit Work Plan. Ms. Riley requested this audit be substituted for a planned audit of the Metro Water Services Stormwater billing and revenue collections process.

A **motion** to approve amending the Metropolitan Office of Internal Audit's Approved Audit Plan by removing the Metropolitan Water Services Stormwater Billing and Revenue Collections audit and adding the Metropolitan Water Services Meter Reading, Billing, and Collections audit was made and seconded. A roll call was conducted with the following votes:

- Brackney Reed - Yes
- Kevin Crumbo - Yes
- Thom Druffel – Yes

- Zulfat Suara - Yes
- Jim Shulman - Yes

The motion carried.

Mr. Frasier entered the meeting at approximately 4:20 p.m.

Discussion on the Metropolitan Nashville Public Schools Capital Projects Process issued September 9, 2020.

Ms. Riley summarized the objectives, observations, and recommendations for the audit. Councilmember Suara asked why the prevailing wages recommendation was rejected. Mr. North advised Metropolitan Nashville Public Schools has a different procurement process than the General Metropolitan Nashville Government. Mr. North advised it will take some internal discussions before a decision is made. Mr. Proffitt added they read the response as either accept or reject. They did not want to formally accept a recommendation they may not implement.

Councilmember Suara inquired about vendors that were selected outside the public bidding process. Councilmember Suara asked how the vendors were selected and if there appeared to be any conflicts. Mr. Proffitt advised the vendors noted in the report were selected prior to his tenure. Processes have changed to ensure solicitations are conducted through the public bidding process.

Councilmember Suara inquired about the recommendation pertaining to the project management system utilized by Metropolitan Nashville Public Schools. Specifically, did the Metropolitan Nashville Public Schools have a software system. Mr. Proffitt advised they do have one and will work through the budget process to obtain funding to enhance the existing system. Councilmember Suara noted the Metropolitan Council was reviewing a resolution related to computer funds in the Metropolitan Nashville Public Schools Capital Spending Plan that may now be reimbursed by the CARES Act funding. Councilmember Suara recommended these capital spending funds, if reimbursed, might be a good source of software funding since project management software is important in ensuring proper valuation of projects.

Councilmember Druffel inquired if construction costs were being incurred before applicable funding was approved. Councilmember Druffel also asked if cost estimates were being completed within the appropriate time frames. Mr. Proffitt advised construction does not occur until funding has been secured. Budget estimates are also completed before funding has been secured.

Vice-Mayor Shulman inquired about the prevailing wage rates and what is the process for changing the specific rates. Mr. North advised any changes would be discussed internally and presented to the Metropolitan Nashville School Board. Mr. North stated he would need to research whether any change required the Metropolitan Nashville School Board's approval.

**Action Item:** Vice-Mayor Shulman requested Mr. North inform him once Mr. North's research is complete.

Discussion on the Audit of the Davidson County Criminal Justice Center Construction Project issued November 4, 2020.

Mr. Walker summarized the objectives, observations, and recommendations for the audit.

Councilmember Druffel inquired if community meetings were held in determining moving the original location of the construction site from the Harding Road location to downtown. Vice-Mayor Shulman stated to his knowledge there were multiple community engagements and discussions. Councilmember Druffel stated the increase in the original budget was large. Councilmember Druffel asked if the scope drove the increase or the spending. Mr. Walker advised the scope generally drove the increase.

Councilmember Suara inquired if the Department of Finance or the individual departments was involved in setting policies regarding the recommendations. Councilmember Suara asked, if it is set at the department level, should the Department of Finance be involved to ensure consistency. Mr. Walker advised the departments have greater knowledge on the day to day activities. Councilmember Suara advised having a checklist that could be applied to various departments to ensure consistency would be helpful.

Mr. Frasier asked about the \$5.8 million needed subsequent to the keys being turned over to the Davidson County Sheriff's Office. Mr. Frasier inquired on what this amount was used. Mr. Walker stated while the keys were turned over the project was not complete and additional finishing work needed to be done. Additional issues came up that had to be addressed. This amount would be audited in a follow up audit sometime in 2021.

Vice-Mayor Shulman inquired about people being allowed on the site who should not have been. Vice-Mayor Shulman inquired if this was something that showed up in the audit. Mr. Walker advised the audit looked at established criteria and the onsite issues were not included.

#### **OTHER ADMINISTRATIVE MATTERS**

Ms. Riley provided an update on the status of recommendation follow-up. Ms. Riley also discussed the new formal internal policies and procedures related to how implementation follow-up will be conducted. No discussion ensued.

Ms. Riley summarized the budget status for Office of Internal Audit. No discussion ensued.

Ms. Riley summarized current project status. No discussion ensued.

The next regularly scheduled meeting is December 8, 2020, at 4:00 p.m.

The public meeting adjourned after approximately 1 hour and 10 minutes.

A **motion** was made for the Metropolitan Audit Committee to go into Executive Session and was seconded. A roll call was conducted with the following votes:

- Brackney Reed - Yes
- Kevin Crumbo - Yes
- Thom Druffel – Yes
- Zulfat Suara - Yes
- Jim Shulman - Yes

The motion carried.

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The minutes for the November 24, 2020, Metropolitan Nashville Audit Committee meeting are respectfully submitted.

Lauren Riley, Metropolitan Auditor  
Secretary, Metropolitan Nashville Audit Committee





**A Report to the  
Audit Committee**

**Mayor**  
John Cooper

**Nashville Fire Department**  
**Director Chief**  
William Swann

**Audit Committee Members**  
Kevin Crumbo  
Thom Druffel  
Charles Frasier  
Brackney Reed  
Jim Shulman  
Zulfat Suara

**Audit Recommendations Follow-up –  
Audit of the Metropolitan Nashville  
Fire Marshal’s Office**

December 18, 2020

Metropolitan  
Nashville  
Office of  
Internal Audit

## EXECUTIVE SUMMARY

December 18, 2020



### Why We Did This Audit

To evaluate management's implementation of previous audit recommendations as of December 18, 2020.

### What We Recommend

Management should continue efforts to implement the remaining three recommendations issued.

# Audit Recommendations Follow-Up - Audit of the Metropolitan Nashville Fire Marshal's Office

## BACKGROUND

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On November 11, 2019, the Metropolitan Nashville Office of Internal Audit issued an audit report on the inspections and life safety plan reviews performed by the Metropolitan Nashville Fire Marshal's Office between April 1, 2016, and March 31, 2019. The audit report included ten recommendations, all of which were accepted by management for implementation. Office of Internal Audit guidelines require monitoring and follow-up to ensure that the recommendations assessed as high or medium risk are appropriately considered, effectively implemented, and yield intended results.

## OBJECTIVES AND SCOPE

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The objectives of this follow-up audit were to determine if the recommended action or an acceptable alternative was implemented.

The scope of the follow-up audit included all ten accepted recommendations that management reported as implemented.

## WHAT WE FOUND

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Of the initial ten recommendations made, the Fire Marshal's Office has implemented seven recommendations and partially implemented three recommendations. The three partially implemented recommendations are open because of the additional work required for the implementations to cause or significantly influence the intended benefits. The three open recommendations are on track to be implemented by March 2021.

## AUDIT FOLLOW-UP RESULTS

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The initial audit report encompassed the inspections and life safety plan reviews performed by The Metropolitan Nashville Fire Marshal's Office between April 1, 2016, and March 31, 2019. The audit report included ten recommendations all of which were accepted by management for implementation.

The Office of Internal Audit will close a recommendation only for one of the following reasons:

- The recommendation was effectively implemented.
- An alternative action was taken that achieved the intended results.
- Circumstances have so changed that the recommendation is no longer valid.
- The recommendation was not implemented despite the use of all feasible strategies or due to lack of resources. When a recommendation is closed for these reasons, a judgment is made on whether the objectives are significant enough to be pursued at a later date in another assignment.

The scope of the follow-up audit included all ten accepted recommendations that management reported as implemented. Of the ten accepted recommendations, seven recommendations were fully implemented, and three were in progress. Implementation actions were evaluated, as well as progress being made on any open recommendations. Details of the implementation status and updated implementation dates can be seen in Appendix A.

## METHODOLOGY

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To achieve the audit objectives, auditors performed the following steps:

- Reviewed the implementation status report provided by the Fire Marshal's Office.
- Interviewed key personnel within the Fire Marshal's Office, including the Fire Marshal, Deputy Fire Marshal, and the Information Systems Administrator.
- Reviewed a Service Organization Control (SOC) report.
- Obtained an assessment of the Service Organization Control report from the Chief Information Security Officer.
- Accessed various SharePoint applications to verify relevant information.
- Observed user interface with upgraded web version of ImageTrend repository application.
- Considered risk of fraud, waste, and abuse, and information technology risks.
- Detail-tested sampled inspections and re-inspections.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## AUDIT TEAM

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Innocent Dargbey, CPA, CMFO, In-Charge Auditor

Lauren Riley, CPA, CIA, ACDA, CMFO, Metropolitan Auditor

## APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

The following table shows the guidelines followed to determine the status of implementation.

**Table 1**

Recommendation Implementation Status	
<b>Implemented</b>	The department or agency provided sufficient and appropriate evidence to support the implementation of all elements of the recommendation and the recommendation’s implementation caused or significantly influenced the benefits achieved.
<b>Partially Implemented</b>	The department or agency provided some evidence to support implementation progress but not of all elements of the recommendation were implemented.
<b>Not Implemented</b>	The department or agency did not implement a recommendation because: a) of lack of resources; b) an alternative action was taken that achieved the intended results; c) circumstances have so changed that the recommendation is no longer valid.

The following are the audit recommendations made in our original audit report dated November 19, 2019 and the current implementation status of each recommendation based on our review of information and documents provided by the Fire Marshal’s Office.

Recommendation	Implementation Actions	Outstanding Issues	Implementation Status
<p><b>A.1</b> Develop and disseminate standard operating procedures among all levels of staff and management.</p> <p><b>Assessed Risk Level: High</b></p>	Existing operating procedures guidelines (OPG) were reviewed and amended as necessary. Several new policies were added in September, November, and December of 2019, and two additional policies have been added in April 2020. The updated policies are posted on the SharePoint site and available to the department.	None	<b>Fully Implemented/ Closed</b>
<p><b>A.2</b> Ensure policies are regularly reviewed, consistently followed, and the dates of revision or review are noted to ensure alignment with version changes in codes and industry standards.</p> <p><b>Assessed Risk Level: High</b></p>	As stated in A.1, the OPG’s are on the SharePoint site for review. This tracks updates and rescinds to previous versions of OPGs. Deputy and Assistant Fire Marshals will be evaluated on structured reviews of policies and will ensure those policies meet current standards.	None	<b>Fully Implemented/ Closed</b>

## APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

<p><b>A.3</b> Policies and standard operating procedures should emphasize follow-up inspections and supervisor review of sampled inspections, especially those related to high risk occupancies, to ensure that the reports include relevant and adequate inspection information.</p> <p><b>Assessed Risk Level: High</b></p>	<p>This was incorporated into the OPGs. The Fire Marshal’s Office has included Supervisor Review of Inspections as criteria in evaluations for Deputy Fire Marshal and Assistant Fire Marshal positions</p>	<p>16 out of 21 failed inspections reviewed were not re-inspected due to several predicaments, notably Covid-19 and lack of cooperation from property managers. Management will provide monthly status of the 16 to the Office of Internal Audit. Other elements of this recommendation were fully implemented.</p>	<p><b>Partially Implemented/ Open</b></p>
<p><b>A.4</b> Establish a complete list of inspectable occupancies by obtaining and comparing occupancy data from other departments and update the list periodically.</p> <p><b>Assessed Risk Level: High</b></p>	<p>The Fire Marshal’s Office has obtained a list of property locations and occupancies from CityWorks data management team, managed by Metro IT. This list will allow us to fill in gaps we have in our list of inspectable occupancies. This will be reviewed on a regular basis to ensure the list is current.</p>	<p>Lists of locations and occupancies obtained from Metro IT are currently being reviewed together with other Metro departments like Codes and Planning to ensure that it is as complete as possible.</p>	<p><b>Partially Implemented/ Open</b></p>
<p><b>A.5</b> Establish a process for gathering and reviewing reports of third-party prevention testing performed. This will enable the Fire Marshals to schedule follow-up inspections.</p> <p><b>Assessed Risk Level: High</b></p>	<p>This will be a priority in the next few months. It will necessitate a contract at no cost to Metro with a third-party vendor that will ensure compliance with the code for notification of annual inspection, testing and maintenance of fire protection systems. The process of initiating an RFP and subsequent contract will take six months. The benefit will be to increase compliance, without having to assign FMO staff to the task.</p>	<p>As part of procurement process, an Intent to Award letter dated 11/3/2020 was sent to a prospective vendor of Electronic Reporting Services. Contracting process is expected to begin 30 days after.</p>	<p><b>Partially Implemented/ Open</b></p>

## APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

<p><b>B.1</b> Review information systems’ access privileges to ensure proper segregation of duties. Other compensating control measures should be established should the user identified maintain administrative access privileges.</p> <p><b>Assessed Risk Level: Medium</b></p>	<p>The Fire Marshal’s Office implemented this review immediately after receiving the initial audit report and will continue to monitor access. The Fire Marshal’s Office completed a review of access changes and is confident that proper controls are in place. The Fire Marshal’s Office will continue to review permissions and access to records management programs to ensure control measures are working.</p>	<p>None</p>	<p><b>Fully Implemented/ Closed</b></p>
<p><b>B.2</b> Continue to pursue the inclusion of all National Fire Protection Association codes and checklists in ImageTrend while emphasizing the efficiencies to be derived.</p> <p><b>Assessed Risk Level: Medium</b></p>	<p>The Fire Marshal’s Office created the checklists necessary for each type of occupancy inspected and will incorporate these into the updated version of ImageTrend going forward. This will be for both NFPA and ICC code sets.</p>	<p>None</p>	<p><b>Fully Implemented/ Closed</b></p>
<p><b>B.3</b> Establish a policy and procedural statements to address the limited availability of audit trails in ImageTrend. The policy should state that periodic reviews of report openings dated after finalization will be conducted. Procedures should state the steps to follow if report changes are necessary.</p> <p><b>Assessed Risk Level: Medium</b></p>	<p>The FMO has implemented a policy to address the audit trails in ImageTrend. A procedure to lock the inspection record after 24 hours has been implemented to prevent the editing of the finalized report, and the policy outlines the steps to follow to make changes after the report has been locked. A copy of the policy “OPG 9.02 Inspections Practices – Documentation” is attached for review.</p>	<p>None</p>	<p><b>Fully Implemented/ Closed</b></p>

**APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS**

<p><b>B.4</b> Schedule and provide the additional training necessary for users to be able to maximize the full potential of ImageTrend, especially all inspectors knowing that it is possible to access the application even without internet access.</p> <p><b>Assessed Risk Level: Medium</b></p>	<p>Training has been completed on the updated version of ImageTrend. All inspectors are trained on how to use the application in the field without internet connectivity, and they understand that the record will synchronize with the network once they return to the office. Currently our inspectors are working remotely, using their tablet computers to the fullest extent possible.</p>	<p>None</p>	<p><b>Fully Implemented/ Closed</b></p>
<p><b>B.5</b> Ensure a current annual internal control assessment report from ImageTrend and other external information systems service providers is obtained, reviewed in consultation with Metro Chief Information Security Officer, and retained in the office.</p> <p><b>Assessed Risk Level: High</b></p>	<p>The Fire Marshal's Office obtained the most recent SOC2-TYPE2 report for ImageTrend and caused the report to be reviewed by the Chief Information Security Officer. The Fire Marshal office will continue to request the annual internal control assessment report from ImageTrend and submit it for review with the Metro Chief Information Security Officer on an annual basis.</p>	<p>None</p>	<p><b>Fully Implemented/ Closed</b></p>



**A Report to the  
Audit Committee**

**Mayor**  
John Cooper

**Beer Permit Board Executive  
Director**  
Benton McDonough

**Audit Committee Members**  
Kevin Crumbo  
Thom Druffel  
Charles Frasier  
Brackney Reed  
Jim Shulman  
Zulfat Suara

Metropolitan  
Nashville  
Office of  
Internal Audit

# Audit of the Metropolitan Nashville Beer Permit Board

December 23, 2020



## EXECUTIVE SUMMARY

December 23, 2020



### Why We Did This Audit

The audit of the Beer Permit Board was conducted as part of the approved 2020 Audit Work Plan. The audit was initiated based on the number of years since the last audit.

### What We Recommend

- Establish periodic reviews of CityWorks exception reports for refunds, deleted cases, and waived fees to ensure they are necessary and authorized.
- Ensure reconciliations are being conducted, reviewed, and approved between amounts recorded CityWorks, bank deposits, and the Oracle R-12 system. Ensure discrepancies are followed up on and resolved timely.
- Establish formal guidelines for the issuance of all refunds, especially the state mandated \$250 permit application fee.
- Ensure cash and check deposits are made within one business day to comply with Metropolitan Department of Finance policy.

# Audit of the Metropolitan Nashville Beer Permit Board

## BACKGROUND

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The Metropolitan Nashville Beer Permit Board has jurisdiction over licensing, regulating, and controlling the transportation, storage, sale, distribution, possession, receipt, and manufacture of beer of an alcoholic content of not more than eight percent by weight or any other beverage of like alcoholic content. The Beer Permit Board constitutes the sole administrative agency in the Metropolitan Nashville Government for the administration of all laws and ordinances relating to beer and like alcoholic beverages.

## OBJECTIVES AND SCOPE

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The objectives of this audit are to determine if the Beer Permit Board:

- Complied with state and local laws, regulations, Metropolitan Nashville Government policies, and Beer Permit Board rules and regulations.
- Established controls that operated effectively to ensure operational and fiscal information was complete, accurate, and timely recorded.

The scope of the audit included the review of operational and fiscal information from July 1, 2018, through June 30, 2020. Trend analysis was performed on revenues for fiscal years 2017 through 2020.

## WHAT WE FOUND

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The Beer Permit Board complied with state and local laws, regulations, and internal rules and regulations. Beer Permit Board meetings are scheduled twice every month, with emergency meetings scheduled when necessary, and minutes are available to the public. The Beer Permit Board reviews and approves or denies applications in accordance with applicable laws and regulations. Permit applications are reviewed by administrative support staff before submitting to the Beer Permit Board for approval. Inspections are timely scheduled and performed. Violations are properly adjudicated. Permit fees, annual privilege tax, and fines are timely assessed and collected.

Revenue reported in the Oracle R-12 system was \$53,385 lower than amounts collected per CityWorks for the three fiscal years analyzed. Reconciliations were not being consistently performed. Written policies and procedures related to refunds or deleted transactions do not exist. Periodic review of exception reports for refunds or deleted transactions are not being conducted. Deposits were not made timely. Summary of leave time taken by staff did not agree with payroll records. Staff administrative access to information system applications was not monitored and related transactions were not reviewed.

## GOVERNANCE

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The Metropolitan Nashville Beer Permit Board consists of seven members who serve a term of four years. Each member is appointed by the Mayor and approved by the Metropolitan Council. The establishment and operations of the Beer Permit Board are subject to State of Tennessee Code Annotated T.C.A. § 57-5 and the Metropolitan Nashville Code of Laws Chapters 7.04, 7.08, 7.20, and 7.24.

The Beer Permit Board meets twice a month to approve permit applicants, review violations, incur penalties made by existing permit holders, and establish the rules and policies related to its mission. The Beer Permit Board employs an administrative staff of five employees who report to an Executive Director. The Executive Director is appointed by and reports to the Beer Permit Board.

## BACKGROUND

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The Beer Permit Board is a self-sustaining agency within the Metropolitan Nashville Government. Operational costs are supported by fees and revenues collected from permits, violations, and other services offered by the Beer Permit Board. High level financial information is presented in Exhibits A and B.

### Exhibit A: Financial Highlights - Fiscal Years 2019 and 2020

Description	2019	2020
Revenue	\$ 418,725	\$ 562,616
Salary	(273,350)	(344,393)
Fringe Benefits	(119,376)	(137,355)
Other	(52,388)	(58,336)
<b>Net revenue\loss</b>	<b>\$ (26,389)</b>	<b>\$ 22,532</b>

Source: Metropolitan Government Oracle R12 System

### Exhibit B: Revenue by Source – Fiscal Years 2019 and 2020

Revenue Source	FY19 Budget	FY19 Actual	FY20 Budget	FY20 Actual
Beer Law Violation Fine	\$ 214,000	\$ 118,400	\$ 214,000	\$ 255,684
Beer Permit Priv Tax	200,100	184,792	205,000	210,558
Beer Permit	103,000	115,100	172,800	93,134
Photostat & Microfilm	100	433	300	3,240
<b>Totals</b>	<b>\$ 517,200</b>	<b>\$ 418,725</b>	<b>\$ 592,100</b>	<b>\$ 562,616</b>

Source: Metropolitan Government Oracle R-12 System

The Beer Permit Board uses CityWorks Permits, Licensing, and Land repository system to process beer permit applications, annual privilege tax payments, and payments for fines and civil penalties assessed for violations. CityWorks gives the Beer Permit Board direct control of the application processes. Designed to simplify applications for customers and streamline workflows for staff, CityWorks is used to help accurately track the permit application process throughout the operational lifecycle.

Beer Permit Board inspectors also use CityWorks to conduct inspections for initial applications and existing permit holders. Inspectors are provided with tablets preloaded with CityWorks which they can directly access during inspections in the field. Data is updated on the central server housing the application. All Beer Permit Board administrative staff have access to CityWorks.

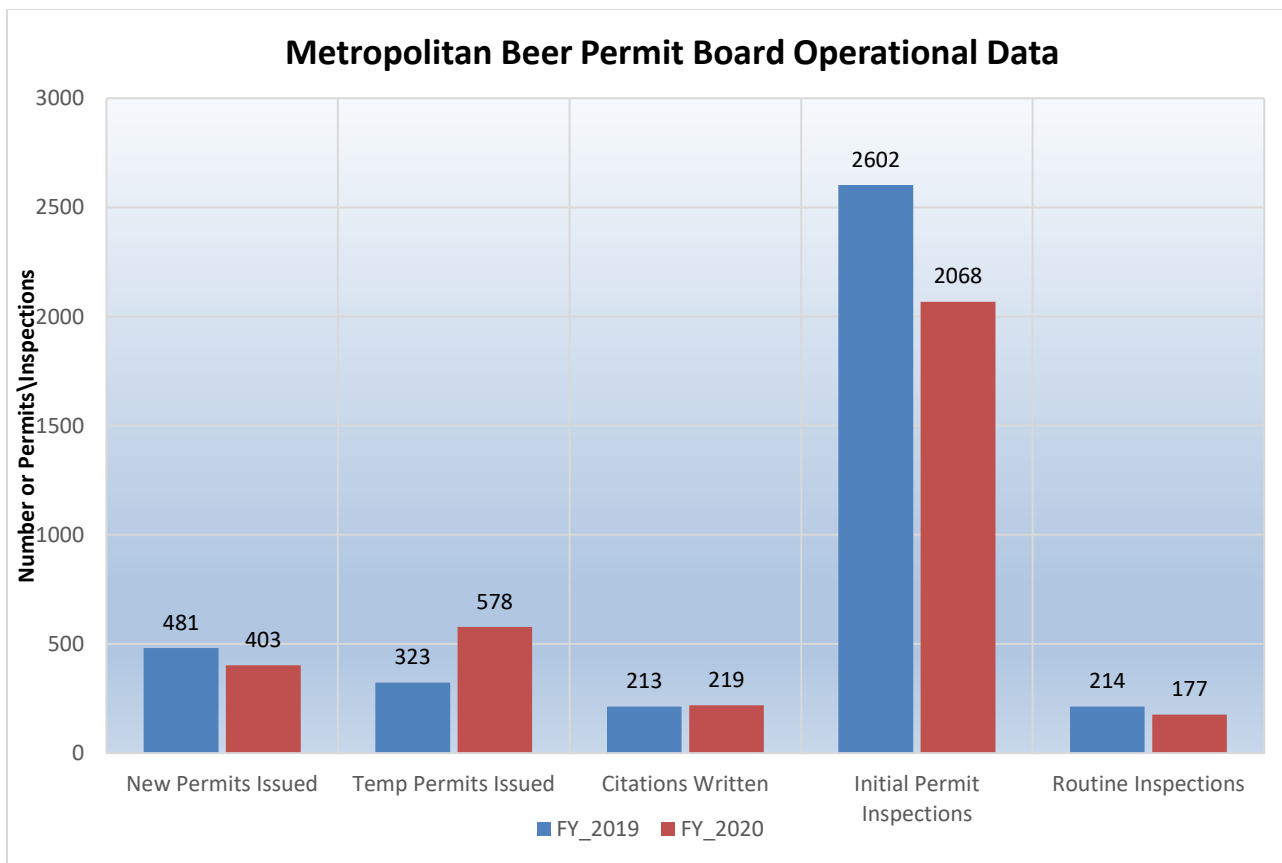
Exhibit C shows the status of permits as of June 30, 2020. Inspections for fiscal years 2020 and 2019 are presented in Exhibit D.

**Exhibit C: Permits Status as of June 30, 2020**

Permit Type	Issued	Pending	Temporary
On-Site Sales	1,077	83	13
Off-Site Sales	564	30	17
On & Off-Site Sales	133	40	141
Caterer	87	5	1
Special Events	41	30	1
Wholesale\Distributor	39	3	-
Manufacture	12	4	-
<b>Totals</b>	<b>1,953</b>	<b>195</b>	<b>173</b>

Source: Metropolitan Government CityWorks PLL System

**Exhibit D: Summary of Operational Data for Fiscal Years 2019 and 2020**



Source: Metropolitan Government CityWorks PLL System

The duties of the operational staff include administrative support and inspections. Administrative support involves scheduling Beer Permit Board meetings, preparing and distributing meeting agendas, presenting permit application status to the Beer Permit Board for review and determination, following up with customers regarding decisions, organizing customer trainings, and collecting, summarizing, and depositing permit fees, privilege tax payments, and fines. The inspections line of business provides information and performs inspections for applicants and permit holders to ensure compliance with applicable laws and regulations.

## AUDIT OBJECTIVES AND CONCLUSIONS

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1. *Did the Beer Permit Board comply with state and local laws and regulations, Metropolitan Nashville policies, and Beer Permit Board rules and regulations?*

**Yes.** The administrative staff provides support in various roles aimed at achieving the goals and objectives set by the Beer Permit Board. Beer Permit Board meetings were conducted in accordance with applicable laws and regulations. Ten Beer Permit Board meetings were reviewed. Official minutes from the meetings agreed with items on the agendas. Any changes to applicable laws, regulations or policies were timely and accurately posted to the Beer Permit Board website. Additionally, the Executive Director prepared a monthly report of key performance indicators that provided information to the Beer Permit Board and various stakeholders. Some items included in the reports are most common violations, top five districts with new permits, total applications and permits processed and issued, and number and types of inspections performed.

A sample of 25 permit applications were reviewed. Each permit application was processed and approved in accordance with applicable rules and regulations of the Beer Permit Board. A sample of 25 inspections related to initial permit applications and violations were reviewed. All 25 applications were processed and approved in accordance with applicable laws, regulations, and policies. An additional 13 inspections related to routine inspections were reviewed. All 13 applications were conducted and processed in accordance with applicable laws, regulations, and policies.

2. *Did the Beer Permit Board establish controls that operated effectively to ensure operational and fiscal information is complete, accurate, and timely recorded?*

**Generally, no.** The administrative support staff has designed and effectively implemented controls over operational processes. However, critical controls over fiscal processes were not being consistently followed.

The Beer Permit Board has implemented general and access controls over information system applications and network data folders in accordance with Metropolitan Nashville Government Information Technology Services protocols. The Beer Permit Board has designed controls such as segregation of duties, security of assets, and reconciliations over the cash collection process. However, these controls were not consistently followed.

Opportunities for enhancing fiscal and application controls exist. Written policies and procedures related to refunds or deleted transactions do not exist. (See Observation C.) Periodic review of exception reports for refunds or deleted transactions were not being conducted. Refunds were made for permits and other fees without documented management review. (See Observation B.) Deposits were not timely and account reconciliations between CityWorks, bank deposits, and Oracle R-12 were not being consistently completed. (See Observation A.) Revenue collections recorded in CityWorks did not agree with amounts recorded in the general ledger.

Leave time tracked internally by the Beer Permit Board did not reconcile to payroll records in the R-12 system. (See Observation E.) Management did not review access levels and exception reports within the CityWorks systems. (See Observation B.)

## AUDIT OBSERVATIONS

Internal control helps ensure entities achieve important objectives to sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision-making and governance of the organization. See **Appendix B** for a description of the observation *Assessed Risk Rating*.

### **Observation A – Understatement of Revenue**

Revenue reported in the Oracle R-12 system was \$53,385 lower than amounts reported as collected in CityWorks for the three fiscal years analyzed. Exhibit E shows the comparative revenue analysis for these three years.

#### **Exhibit E: Comparative Revenue Analysis**

Fiscal Year Ended	Revenue Per CityWorks PLL	Revenue per Financial Report *	Variance
June 30, 2018	\$ 501,870	\$ 482,922	\$ 18,948
June 30, 2019	\$ 444,175	\$ 418,725	\$ 25,450
June 30, 2020	\$ 571,603	\$ 562,616	\$ 8,987

Source: Metropolitan Government Cityworks PLL and Oracle R12 Systems

\* June 30, 2020, amount excludes \$3,700 deposited in August (see below)

The Beer Permit Board attributed part of the difference for fiscal year 2020 to a lack of training on how to enter revenue receipts into the new Oracle R-12 system. The Oracle R-12 system was rolled out in September of 2019. Identification of the \$64,000 in unrecorded deposits was made during the audit. The collections were then recorded into the Oracle R-12 system. The reason for the remaining difference of \$53,385 could not be determined due to lack of information.

Additionally, a sample of 66 deposits covering four months found 7 deposited amounts were different from the amounts recorded in CityWorks by a total of \$1,623. An explanation for the differences could not be provided. In August 2020, 8 deposits totaling approximately \$3,700 were found in the Beer Permit Board’s office safe that had not been deposited. Seven of the 8 deposits were for transactions in February and March 2020. The funds were deposited late due to the Covid-19 pandemic according to the Beer Permit Board.

Underreporting of revenue could impact the ability of the Beer Permit Board to perform its functions as a self-sustaining agency. The lack of timely reconciliations between the CityWorks system, bank deposits, and R-12 increase the risk of fraud or errors. The reported actual amounts that are less than budgeted amounts affect future budgets and ultimately the ability to add needed operational resources.

#### *Criteria:*

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Metropolitan Government Revenue Recognition Policy – Finance Dept. Policy #11

#### *Assessed Risk Rating:*

**High**

*Recommendation for management of the Metropolitan Beer Permit Board:*

Ensure daily reconciliations are being conducted, reviewed, and approved between amounts recorded in the CityWorks system, actual bank deposits, and the R-12 system. Ensure any discrepancies are followed up on and resolved in a timely manner.

***Observation B – Lack of Review on Exception Reports***

Management review of exception reports that identify potential erroneous or unauthorized activities are not being conducted. All five full-time administrative staff and the Executive Director have administrative level access within the CityWorks system. Administrative access gives each staff member the ability to re-open cases, change case status, delete cases, waive fees, and issue refunds. Administrative access is reasonable due to the limited number of staff to practice segregation of duties and to ensure fewer interruptions in operations. However, there are no compensating controls. An example of such a control is a periodic review of all deleted cases, waived fees, and issued refunds by the Executive Director to confirm they are necessary and properly authorized. The lack of compensating controls may lead to erroneous or unauthorized activities.

*Criteria:*

- *COSO, Control Activities—Principle 10—*The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- *COSO, Control Activities—Principle 11—* The organization selects and develops general control activities over technology to support the achievement of objectives.

*Assessed Risk Rating:*

**High**

*Recommendation for management of the Metropolitan Beer Permit Board:*

Establish periodic reviews of CityWorks exception reports for refunds, deleted cases, and waived fees to ensure they are necessary and authorized. Evidence of reviews should be retained for audits and review by other stakeholders.

***Observation C – Lack of Formal Guidelines for Refunds***

The Beer Permit Board has not established formal guidelines for the proper authorization, approval, and processing of refunds. Refunds are issued for permit fees, privilege taxes, and civil penalties. T.C.A. § 57-5-104(a) explicitly prohibits refunding any portion of the \$250 application fee. No portion of the fee can be refunded to the applicant regardless of whether the application is approved or denied. There were 38 refunded transactions totaling \$8,409 during the scope period. No reviews were documented by management to confirm that these were properly authorized and conformed to applicable laws and regulations. Without guidelines from the board, there is an increased risk of issuing invalid or unauthorized refunds.

*Criteria:*

- *COSO, Control Activities—Principle 10—*The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- *COSO, Control Activities—Principle 12—*The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

- Tennessee Code Annotated § 57-5-104 – Intoxicating Liquors

*Assessed Risk Rating:*

**High**

*Recommendation for management of the Metropolitan Beer Permit Board:*

Establish formal guidelines for the issuance and approval of all refunds. Document management review of refunds. The guidelines should state under what circumstances fees and fines, especially the state mandated \$250 permit application fee, can be refunded. Supporting documentation verifying refund policies are being followed should be retained in accordance with the Metropolitan Clerk’s General Records Schedule and Record Disposition Authorization.

**Observation D – Timeliness of Deposits**

Deposits of cash and check payments were not made timely as specified by Metropolitan Finance Department – Treasury Policy #9. Policy requires all funds collected at agency locations to be deposited in Metropolitan Nashville Government bank accounts within one business day of receipt. The policy also requires all deposits be entered in the Metropolitan Nashville Government’s general ledger within two business days of the deposit into the bank account. A review of 66 deposits totaling \$120,926 showed that 38 deposits (58 percent) totaling \$91,234 were late by at least 1 day. Exhibit F shows the make-up of the 38 late deposits.

**Exhibit F: Late Deposit Summary**

Days Late	# of Times Late
2 Days	9
1 Day	9
4 Days	5
3 Days	5
6 Days	3
5 Days	3
7 Days	1
12 Days	1
11 Days	1
10 Days	1
<b>Totals</b>	<b>38</b>

*Source: Office of Internal Audit Deposit Analysis*

An additional 8 deposits totaling approximately \$3,700 were discovered in August 2020 and deposited. Seven of the 8 deposits were for February and March 2020 transactions and were deposited late due to the Covid-19 pandemic according to the Beer Permit Board.

Cash and check receipts are susceptible to the risks of misappropriation, unrecorded receipts, and fraud. The sooner cash and checks can be deposited, the less exposure to theft or loss of funds.

*Criteria:*

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Internal Control and Compliance Manuals for Tennessee Municipalities
- Metropolitan Government Cash Deposit Policy – Treasury Policy #9.



*Assessed Risk Rating:*

**Medium**

*Recommendation for management of the Metropolitan Beer Permit Board:*

Ensure cash and check deposits are made within one business day to comply with Metropolitan Finance Department policy.

***Observation E – Leave Time***

A more formal, systematic process for requesting, approving, tracking, and recording leave balances and accruals is needed. The Beer Permit Board is a small office and the management of leave time is informal. Discrepancies exist in leave amounts recorded in internal supporting documentation and amounts reported in processed payroll. Leave time shown in Beer Permit Board supporting documentation was compared to payroll records for three employees. The results showed variances that management was unable to explain. All three employees had variances in their vacation hours, two of the employees had variances in their sick hours, and one employee had a variance in compensatory hours. Some of the employees had more hours recorded by management than were processed in payroll while some had more hours per the payroll records compared to management's records. While the test focused on leave time taken and not accruals, these discrepancies will ultimately affect accrual balances maintained by management. Not maintaining accurate time and attendance records may lead to incorrect accrual balances and payments being made to employees. Metropolitan Nashville, State, and Federal government policies may also be violated leading to negative public image.

*Criteria:*

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Internal Control and Compliance Manuals for Tennessee Municipalities.
- Metropolitan Government Civil Service Policy.

*Assessed Risk Rating:*

**Medium**

*Recommendation for management of the Metropolitan Beer Permit Board:*

Develop and maintain an accurate time and attendance record keeping system for leave time. Retain supporting documentation for leave time request, approvals, and accruals. Periodically reconcile employee leave time taken between the payroll records in the Oracle R-12 system and internal records.



## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## **METHODOLOGY**

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To achieve the audit objectives, auditors performed the following steps:

- Reviewed relevant Tennessee Code Annotated, Metropolitan Nashville Government Code of Laws and ordinances, Metropolitan Nashville Government policies, and Beer Permit Board rules and regulations.
- Interviewed administrative staff of the Metropolitan Beer Permit Board.
- Reviewed prior audits performed by the Metropolitan Nashville Office of Internal Audit and by other jurisdictions.
- Reviewed and analyzed financial data to determine compliance with code of laws, Metropolitan Nashville Government policies, and Metropolitan Beer Permit Board rules and regulations.
- Evaluated internal controls currently in place.
- Considered risk of fraud, waste, and abuse and information technology risks.
- Detail-tested sampled fiscal and operational transactions.

## **AUDIT TEAM**

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Innocent Dargbey, CPA, CMFO, CICA, In-Charge Auditor

Bill Walker, CPA, CIA, CFE, Principal Auditor

Lauren Riley, CPA, CIA, ACDA, CMFO, Metropolitan Auditor

## APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

We believe that operational management is in a unique position to understand best their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

Risk	Recommendation	Concurrence and Action Plan	Expected Completion Date
<b>Recommendations for management of the Metropolitan Beer Permit Board:</b>			
H	<b>A.1:</b> Ensure daily reconciliations are being conducted, reviewed, and approved between amounts recorded in the CityWorks system, actual bank deposits, and the R-12 system. Ensure any discrepancies are followed up on and resolved in a timely manner.	<b>Accept</b> – The Executive Director now works with a staff member who was trained in using R-12 to make sure all deposits are reviewed and reconciled daily. A note of any discrepancies is addressed. Unfortunately, a lack of training made it difficult to record the deposits in the new system; however, our office manager has since been trained and is now recording deposits as required.	November 13, 2020
H	<b>B.1:</b> Establish periodic review of CityWorks exception reports for refunds, deleted cases, and waived fees to ensure they are necessary and authorized. Evidence of reviews should be retained for audits and review by other stakeholders.	<b>Accept</b> - Executive Director now compares exception reports monthly for refunds, deleted cases, waived fees to ensure they are necessary and authorized.	November 13, 2020
H	<b>C.1:</b> Establish formal guidelines for the issuance and approval of all refunds. The guidelines should state under what circumstances fees and fines, especially the state mandated \$250 permit application fee, can be refunded. Supporting documentation verifying refund policies are being followed should be retained in accordance with the Metropolitan Clerk’s General Records Schedule and Record Disposition Authorization.	<b>Accept</b> – The Executive Director now reviews all revenue daily and documents any refunds or discrepancies. Documentation is kept as well.	November 13, 2020
M	<b>D.1:</b> Ensure cash and check deposits are made within one business day to comply with Metropolitan Finance Department policy.	<b>Accept</b> - Executive Director now makes deposits instead of relying upon inspectors whose time in the office is limited.	November 13, 2020

## APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

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M	<p><b>E.1:</b> Develop and maintain an accurate time and attendance record keeping system for leave time. Retain supporting documentation for leave time request, approvals, and accruals. Periodically reconcile employee leave time taken between the payroll records in the Oracle R-12 system and internal records.</p>	<p><b>Accept</b> – After reviewing the audit information, Executive Director found that he had failed to include a limited number of payroll dates which led to a discrepancy during the audit. While the Executive Director currently retains supporting documentation for leave time requests, approvals, and accruals, he will now periodically reconcile leave and provide staff with updated leave totals instead of relying on the data from R-12.</p>	December 11, 2020
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## APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
<b>HIGH</b>	Large financial impact >\$25,000  Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
<b>MEDIUM</b>	Moderate financial impact \$25,000 to \$10,000	Partial controls  Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	The potential for negative public trust perception
<b>LOW/ Emerging Issues</b>	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective  Implementing / enhancing controls could prevent future problems	Generally, complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
<b>Efficiency Opportunity</b>	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			



**A Report to the  
Audit Committee**

**Mayor**  
John Cooper

**Department of Codes and  
Building Safety Director**  
Bill Herbert

**Audit Committee Members**  
Kevin Crumbo  
Thom Druffel  
Charles Frasier  
Brackney Reed  
Jim Shulman  
Zulfat Suara

Metropolitan  
Nashville  
Office of  
Internal Audit

# Audit of the Department of Codes and Building Safety Fuel Transactions

January 6, 2020

## EXECUTIVE SUMMARY

January 6, 2020



### Why We Did This Audit

The audit was initiated due to the volume of fuel transactions within the Department of Codes and Building Safety.

### What We Recommend

- Ensure adequate segregation of duties exists regarding the requisition, approval, physical receipt, and payment of fuel cards.
- Ensure documentation is generated and retained for the monthly reviews conducted on fuel card activity.

# Audit of the Department of Codes and Building Safety Fuel Transactions

## OVERVIEW

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The Metropolitan Government of Nashville and Davidson County purchases fuel for government vehicles and equipment across a multitude of departments and agencies. Fuel cards are used by the Department of Codes and Building Safety for vehicles utilized by inspectors to perform inspections and other duties throughout the Davidson County area. Fuel cards transactions made by the Department of Codes and Building Safety can be categorized into two groups, fuel cards issued by the Department of General Services, Office of Fleet Management and fuel cards issued under a new pilot rental program started in April 2020 by the Department of Codes and Building Safety.

During fiscal years 2019 and 2020, the Department of Codes and Building Safety purchased 52,662 gallons of fuel at a cost of \$105,983.

## OBJECTIVE AND SCOPE

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The objective of this audit was to determine whether fuel card transactions were supported by a valid business purpose and conformed to applicable policies and procedures by the Metropolitan Nashville Government.

The audit scope included fuel card transactions processed from July 1, 2018, through June 30, 2020.

## WHAT WE FOUND

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All fuel transactions appeared to be for valid business purposes and monitoring procedures were in place. There were opportunities for improvement regarding segregation of duties and the documentation and retention of monitoring procedures.

## GOVERNANCE

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The Director of Codes is appointed by and reports directly to the Metropolitan Nashville Government's Mayor. The Department of Codes and Building Safety is charged with the duty to administer the Metropolitan Nashville Building Code and the Metropolitan Nashville Zoning Code. The designated fleet coordinator for the Department of Codes and Building Safety is an Assistant Director that reports to the Director.

The Metropolitan Nashville Code of Laws § 2.32.060 authorizes the Office of Fleet Management to adopt additional rules and regulations pertaining to use and operation of Metropolitan Nashville Government vehicles and equipment. To this end, the Department of General Services issued a series of administrative orders as policies and procedures pertaining to fleet acquisition, maintenance, fuel management, assignments, and disposal. The Department of Codes and Building Safety follows these rules for Office of Fleet Management assigned cars and follows internal policies for rental cars utilized.

## BACKGROUND

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The Department of Codes and Building Safety uses fuel cards for vehicles utilized by inspectors to perform inspections and other duties throughout the Davidson County area. Fuel card transactions made by the Department of Codes and Building Safety can be categorized into two groups, fuel cards issued by the Department of General Services, Office of Fleet Management and those issued under a new pilot rental program started in April 2020 by the Department of Codes and Building Safety. The pilot program utilizes an agreement with Enterprise Rental Cars instead of vehicles available through the Office of Fleet Management. The program has matured to the point that the department is currently employing 49 rental cars and 14 Office of Fleet Management assigned cars. Wright Express fuel cards are used for both categories of fuel card transactions. The administration of card usage for rental car transactions resides completely within the Department of Codes and Building Safety.

Designated staff within the Department of Codes and Building Safety review and monitor fuel card transactions to ensure compliance with applicable policies. The Office of Fleet Management, Wright Express, and the Department of Codes and Building Safety conduct analytical procedures to identify unusual transactions. Identified anomalies are then followed up with the individual departments or personnel. A high-level summary of fuel card transactions is presented in Exhibit A.

### Exhibit A – Fuel Usage and Cost for Transactions Processed July 1, 2018 - June 30, 2020

Fiscal Year	OFM (gallons)	OFM (dollars)	Rentals (gallons)	Rentals (dollars)
2018	25,519	\$ 55,208	0	\$ 0
2019	21,040	41,657	6,103	9,119
<b>Total</b>	46,559	\$ 96,865	6,103	\$ 9,119

Source: Office of Fleet Management and the Department of Codes and Building Safety records

## OBJECTIVE QUESTIONS AND CONCLUSIONS

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Were fuel transactions supported by a valid business purpose relating to services provided by the Metropolitan Nashville Government?

**Generally, yes.** Fuel transactions appeared to have a valid business purpose for all reviewed transactions. (See Observations A and B.)

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### Supporting Objectives and Conclusions

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a) Were potentially suspicious fuel transactions supported by business purposes in conformity with the mission of the Metropolitan Nashville Government?

**Yes.** We examined all fuel transactions from July 1, 2018, through June 30, 2020, for the Department of Codes and Building Safety. This represents 52,662 gallons equal to \$105,983. Our review consisted of looking for the following:

- Other than unleaded gasoline fuel purchased;
- Over 25 gallons of fuel purchased in a single transaction;
- Fuel purchases that were not tax exempt;
- Out of state fuel purchases; and
- Non-fuel purchases.

No exceptions were noted. Controls were in place to detect and take corrective measures when fraudulent transactions were detected. For example, two out-of-state transactions found were a result of the fuel cards being compromised via gas pump skimmers. The applicable cards were properly canceled immediately after the first transaction and upon Wright Express notification to the Office of Fleet Management and the Department of Codes and Building Safety.

b) Were adequate controls in place surrounding fuel card issuance, usage, and monitoring?

**Generally, yes.** Each fuel cardholder signs the Wright Express agreement and is required to conform to Office of Fleet Management related Administrative Orders and department policy. The Department of Codes and Building Safety's fleet coordinator reviews fuel card transactions monthly for unallowed or unusual activity. However, we did note improvement opportunities surrounding segregation of duties and monitoring. (See Observations A and B.)



## AUDIT OBSERVATIONS

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Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (COSO)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

### ***Observation A – Segregation of Duties***

A single employee requests, approves, and physically obtains the new fuel cards in addition to approving the fuel card bill for payment. Lack of segregating incompatible duties enhances the risk of fraud or error.

*Criteria:*

*COSO, Control Activities–Principle 10–The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of the objectives to acceptable levels.*

*Assessed Risk Rating:*

**Medium**

*Recommendation for management of the Department of Codes and Building Safety to:*

Ensure adequate segregation of duties exists regarding the requisition, approval, physical receipt, and payment of fuel cards.

### ***Observation B – Monitoring Procedures***

Documentation of the monthly reviews and monitoring of fuel transactions is not maintained. Monthly fuel transactions are reviewed for propriety, but no documentation or other evidence is maintained to prove the review occurred. This increases the risk of such monitoring activities not occurring and increases the risk of fraud, error, or noncompliance with management’s objectives.

*Criteria:*

- *COSO, Control Activities–Principle 10–The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of the objectives to acceptable levels.*
- *COSO, Information and Communication–Principle 13–The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.*

*Assessed Risk Rating:*

**Medium**

*Recommendation for management of the Department of Codes and Building Safety to:*

Ensure documentation is generated and retained for the monthly reviews conducted on fuel card related activity.

## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

## **METHODOLOGY**

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To achieve the audit objectives, auditors performed the following steps:

- Interviewed key personnel at the Office of Fleet Management.
- Interviewed the Department of Codes and Building Safety fleet coordinator.
- Reviewed transactions that appeared unusual.
- Reviewed fueling errors identified by the Office of Fleet Management.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

## **AUDIT TEAM**

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James Carson, CIA, CFE, In-Charge Auditor

Bill Walker, CPA, CIA, CFE, Principal Auditor

Lauren Riley, CPA, CIA, ACDA, CMFO, Metropolitan Auditor

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to understand best their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

Risk	Recommendations	Concurrence and Action Plan	Expected Completion Date
<b><i>Recommendations for management of the Department of Codes and Building Safety to:</i></b>			
M	A.1 Ensure adequate segregation of duties exist regarding the requisition, approval, physical receipt and payment of fuel cards.	<b>Accept:</b> The Finance Manager hired in September reviews all WEX fuel card invoices for accuracy and reasonableness along with approving WEX fuel card invoices for payment in Oracle R12. Second level of invoice review and approval in Oracle R12 required so Assistant Director also monitoring and reviewing fuel card payments. Finance Accounts Payable staff dedicated to Metro Codes via Metro Payment Services also reviews all invoices for duplication, sales tax, and other disallowed items before initiating payment in Oracle R12.	September 2020
M	A.2 Ensure documentation is generated and retained for the monthly reviews conducted on fuel card related activity.	<b>Accept:</b> The Metro Codes Fleet Coordinator maintains monthly files for WEX fuel card invoices. Moving forward, the Fleet Coordinator will sign all WEX fuel card invoices upon completion of review to ensure adequate documentation. Finance Manager also keeps monthly files for all WEX fuel card invoices sent to Metro Payment Services for payment initiation.	December 2020

## APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

Rating	Financial	Internal Controls	Compliance	Public
<b>HIGH</b>	Large financial impact >\$25,000  Remiss in responsibilities of being a custodian of the public trust	Missing, or inadequate key internal controls	Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies	High probability for negative public trust perception
<b>MEDIUM</b>	Moderate financial impact \$25,000 to \$10,000	Partial controls  Not adequate to identify noncompliance or misappropriation timely	Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies	The potential for negative public trust perception
<b>LOW/ Emerging Issues</b>	Low financial impact <\$10,000	Internal controls in place but not consistently efficient or effective  Implementing / enhancing controls could prevent future problems	Generally, complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist	Low probability for negative public trust perception
<b>Efficiency Opportunity</b>	An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient			

**METROPOLITAN NASHVILLE AUDIT COMMITTEE  
2021 MEETING PLAN**

<b>Meeting Date</b>	<b>Proposed Agenda Topics</b>
February 9, 2021 (Tuesday)	<ul style="list-style-type: none"> <li>• Office of Internal Audit Annual Performance Report</li> <li>• Internal Audit Annual Work Plan approval</li> <li>• Internal Audit issued report discussion</li> <li>• Open Audit Recommendations Status</li> </ul>
April 13, 2021 (Tuesday)	<ul style="list-style-type: none"> <li>• Election of Chairman and Vice Chairman</li> <li>• External Audit Single Audit and Management Letter presentation</li> <li>• Metropolitan Auditor performance review</li> <li>• Internal Audit issued report discussion</li> <li>• Open Audit Recommendations Status</li> </ul>
June 22, 2021 (Tuesday)	<ul style="list-style-type: none"> <li>• FY2020 External Audit plan and required communications</li> <li>• Internal Audit issued report discussion</li> <li>• Open Audit Recommendations Status</li> </ul>
September 14, 2021 (Tuesday)	<ul style="list-style-type: none"> <li>• Metropolitan Audit Committee self-assessment</li> <li>• Bylaws annual review</li> <li>• Internal Audit issued report discussion</li> <li>• Open Audit Recommendations Status</li> <li>• External Audit Comprehensive Annual Financial Report Audit Progress Executive Session</li> </ul>
November 23, 2021 (Tuesday)	<ul style="list-style-type: none"> <li>• Internal Audit issued report discussion</li> <li>• Open Audit Recommendations Status</li> <li>• External Audit Comprehensive Annual Financial Report Audit Progress Executive Session</li> </ul>
December 14, 2021 (Tuesday)	<ul style="list-style-type: none"> <li>• External Audit Comprehensive Annual Financial Report</li> <li>• Open Audit Recommendations Status</li> <li>• Internal Audit issued report discussion</li> </ul>

**Implementation Status Update as of January 7, 2021**

Audit Department List	Year	# Accepted	Open Recommendations Before Follow-Up	Implementation Due by 12/31/2020	Open Recs After Response	Notes
Industrial Development Board	2013	6	1		1	
Assessor's Office	2014	14	3		3	
Historic Zoning and Historical Commission Work Force	2015	7	1		1	
Parks and Recreation Maintenance Division	2015	2.5	1		1	
General Government Occupational Safety Program	2017	24	23		23	
DCSO Information Technology Security Practices (CONFIDENTIAL)	2017	45	2		2	
Finance Department Procurement And Business Assistance Office	2018	13	2		2	
ITS Software Asset Management	2018	4	1		1	
Metro Water Services Fire Hydrant Inspections	2018	10	2		2	
Development Conditions	2019	5	5	X	5	Revised date of Feb. 2020
Metro General Government Benefits	2019	4	3		3	
Fire Marshal's Office	2019	10	3		3	
NGH Pharmacy Operations	2019	17	1	X	0	Follow-Up Audit in Progress
Public Library Security	2020	4	1		1	
Metro Parks and Recreation Relationships with Nonprofits	2020	3	2		2	
Treasury Collections	2020	11	11	X	11	Implementation In Progress
Election Commission Operations	2020	3	2		2	
Election Commission Information Systems	2020	8	3		3	
MNPS Capital Projects Process	2020	4	2		2	
Criminal Justice Center Project	2020	5	1		1	
			<b>70</b>		69	



**Office of Internal Audit Budget versus Actual  
GSD General Fund as of December 31, 2020  
FY 2021 Approved Budget**

		<b>FY 2021 Budget</b>	<b>Actual</b>	<b>Difference</b>	<b>Notes</b>
Total Salaries & Fringe		\$ 1,194,500	\$ 390,946	\$ 803,554	
Other Expenses					
Professional & Purchased Services		\$ 195,800	\$ 7,242	188,558	
Building Rent Parkway Towers		\$ 55,500	\$ 28,026	27,474	
Other Expenses		\$ 78,000	\$ 25,603	52,397	
Internal Service Fees		\$ 43,500	\$ 21,744	21,756	Information Technology
<b>TOTAL EXPENSES</b>		<b>\$ 1,567,300</b>	<b>473,561</b>	<b>\$ 1,093,739</b>	<b>30% of budget used to date</b>

<b>Office of Internal Audit Budget History</b>				
<b>For the year ending June 30,</b>	<b>Co-sourcing Audit Budget</b>	<b>Total Budget</b>	<b>Co-sourcing Percent of Budget</b>	<b>FTE</b>
2008	\$ 500,000	\$ 1,477,000	34%	10
2009	231,000	1,481,600	16%	13
2010	112,000	1,262,000	9%	12
2011	234,000	1,359,800	17%	11
2012	165,000	1,265,400	13%	10
2013	156,200	1,277,900	12%	10
2014	60,200	1,179,300	5%	10
2015	45,100	1,214,900	4%	10
2016	75,100	1,290,400	6%	10
2017	125,100	1,382,900	9%	10
2018	248,000	1,545,700	16%	10
2019	248,000	1,566,100	16%	10
2020	248,000	1,574,900	16%	10
2021	195,800	1,565,100	13%	10



# Metropolitan Nashville Audit Committee

## Executive Session Checklist

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- The published agenda must disclose the general nature of the items to be discussed in executive session.  
See, T.C.A. §9-3-405(f)
- All business which is public in nature shall be conducted first.  
See, T.C.A. §9-3-405(g)(1)
- During the regular public session committee must vote to go into private executive session. Must obtain a majority to be successful.  
See, T.C.A. §9-3-405(d)
- Chair must announce during the public portion of the meeting that no business other than the matters stated generally on the published agenda shall be considered during the confidential executive session.  
See, T.C.A. §9-3-405(e)
- Adjourn the public portion of the meeting.  
See, T.C.A. §9-3-405(g)(2)
- Only individuals whose presence is reasonably necessary in order for the committee to carry out its executive session responsibilities may attend the portion of the executive session relevant to that person's presence.  
See, T.C.A. §9-3-405(h)

## Permissible Executive Session Subject Matter

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1. Items deemed not subject to public inspection under §§ 10-7-503 and 10-7-54, and all other matters designated as confidential or privileged under this code
2. Current or pending litigation and pending legal controversies
3. Pending or ongoing audits or audit related investigations
4. Information protected by federal law
5. Matters involving information under § 9-3-406 where the informant has requested anonymity  
See, T.C.A. § 9-3-405(d)