METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
METROPOLITAN AUDIT COMMITTEE MEETING

February 14, 2012

On Tuesday, February 14, 2012, at 4:00 p.m., the Metropolitan Nashville Audit Committee met in the Metropolitan Courthouse, 2nd Floor, Committee Room 4. The following people attended the meeting:

Committee Members
Bob Brannon, Chair
Brack Reed, Vice Chair
Steve Glover, Metro Council
Richard Riebeling, Director of Finance
Jacobia Dowell, Metro Council
(Arrived 12 minutes after start of meeting)

Others
Mark Swann, Metropolitan Auditor
Carlos Holt, Internal Audit Manager
Margaret Darby, Department of Law
Mike Curl, Metro Council Finance

Committee Member Absent
Diane Neighbors, Vice Mayor

Quorum present? Yes

Call Meeting to Order

Bob Brannon, Committee Chair, called the meeting to order.

Approval of Minutes

The minutes of the meetings on October 11, 2011, and December 13, 2011, were approved.

New Business

Mark Swann, Metropolitan Auditor, stated that three audit reports were issued since the last meeting in December.

Discussion on Music City Convention Center Construction Audit Report issued on December 19, 2011 (Mark Swann – Metropolitan Auditor)

The Music City Convention Center construction is at the midpoint as of September with over $365 million paid out of the $585 million budget and continues to go forward. The report issued in December was the 4th interim report and covered three objective areas:

1. The first objective was the Convention Center Authority's project management tasks for the convention center. A consultant was hired that does a lot of construction audit work. A responsibility matrix was mapped out to help ensure the Convention Center Authority was addressing key project management tasks. Basically, everything was covered except for a couple of key individuals who were potentially tasked with more responsibility than they could handle on a daily basis. There was some re-shifting of responsibilities to spread the workload a little bit better and an additional hiring in the financial area to help spread responsibility for these tasks.

2. A second objective was related to Diversity Business Enterprise at 20 percent goal reporting. Mr. Swann stated the Office of Internal Audit was able to verify the percentage reported to the State of Tennessee and to the public was supported and accurate.

   The third objective was to look at local and statewide labor participation goals. Mr. Swann disclosed that there was no stated management goal of what that percentage should be. As the project moves on, fewer contractors and subcontractors have been providing home addresses, so a local labor percentage calculation becomes troublesome. There are some alternatives to get it accomplished. Mr. Swann discussed certified payroll home addresses could be obtained and kept in a separate file. If a new employee came on site, the address record would be kept separate so it wouldn't be a public document but would be available for the Convention Center Authority or third parties to review and to calculate percentages if that was important.

   December 2010 had the highest percentage of addresses with 212 out of 325 addresses being available for workers on site which was about 90 percent of the workers on site. For that particular snapshot of the project, 55 percentage local labor participation and 61 percent statewide labor participation was documented working on the project. The percentages were down from the preceding year. The Office of Internal Audit recommended the Convention Center Authority establish a local worker participation percentage goal and determine how they would measure it going forward. Mr. Swann said he believes the Convention Center Authority had decided to continue monitoring local labor participation for the workers providing addresses, but no set percentage goal had been established.

   Mr. Swann said there was a lawsuit that the Convention Center Authority had to address where one of the labor unions wanted the home addresses of workers. Mr. Riebeling said that the court ruled that the addresses need to be released. The Convention Center Authority decided to appeal this decision, and the judge has decided to stay the request for providing information until the appeal is completed. Because of privacy issues, it is ripe for appeal. The Convention Center Authority did not want to openly give away workers addresses without some kind of authority. There was nothing to hide, but it could open the door for other issues.

<u>Discussion on Office of Criminal Court Clerk Audit Report issued on December 20, 2011 (Mark Swann – Metropolitan Auditor)</u>

This audit was added to the CY 2011 Internal Audit Work Plan by the Metropolitan Nashville Audit Committee based on activities in the Criminal Court Clerk's Office and media reports. When the audit was started, Mr. Torrence was still the Criminal Court Clerk. Soon after the audit started, he resigned and Mr. Gentry took over. The Criminal Court Clerk's Office collected almost $6 million in revenues in 2011 and had expenses in excess of $5 million. Mr. Swann discussed the following areas:

1. The fixed and tracked assets controls were working as management intended.
2. Payroll and timekeeping was one of the segregation of duty problem areas where the person entering the time was also the person approving the time.
3. In the procurement of goods, there was no delegated authority letter from the Director of Metro Nashville Purchasing. Mr. Gentry signed the delegation of authority as soon as he took over. There was also a segregation of duties issue where the same person ordering the goods was also approving invoices. Mr. Swann pointed out that most of the Criminal Court Clerk's expense money is on payroll so segregation of duties on payroll is a bigger issue.

4. There were some issues with revenue collections in the Justice Integration System, which is the main system used to account for revenue. Some of the privileges could be tightened down to improve segregation of duties and provide less responsibility across the board to several different positions.
5. The Criminal Court Clerk's office has funds held in trust of approximately $9 million, which represents the collateral for bail bond companies. Crosslin & Associates did an extensive amount of work on checking for collateral and confirmation of bank deposits. Mr. Swann said that they had reviewed work done by Crosslin & Associates and had placed reliance on their work. Mr. Swann said that there were some issues in the past where cash and collateral that was supposed to be held had been withdrawn from the bank or sold without adequate notification to the courts. This was supposed to be reported back to the court, but for whatever reason, the controls had broken down and the money was unavailable before it was known. In response, the bond capacity was reduced.
6. A survey was sent out to the stakeholders of the Criminal Court Clerk's Office and 228 responses were received. The great majority of the responses were positive about their interaction with the Criminal Court Clerk's Office, and they strongly agreed that the service was prompt. That's between judges, customers and defendants so from an operational standpoint they were doing their job well.
7. The issues in the confidential report distributed to the Metropolitan Nashville Audit Committee were being addressed by Mr. Gentry going forward.

(Council Lady Jacobia Dowell arrived.)

<u>Discussion on Davidson County Clerk's Office Audit Report and State of Tennessee Division of County Audit Special Report issued January 26, 2012 (Mark Swann – Metropolitan Auditor)</u>

This audit was on the initial CY 2011 Internal Audit Work Plan and was prioritized after Channel 5 media reports and a request received from Mayor Dean to initiate an audit of the Davidson County Clerk's Office. In the interim time, the District Attorney had asked the State of Tennessee Comptroller of the Treasury and the Tennessee Bureau of Investigation to conduct an investigation. A joint audit/investigation of the Davidson County Clerk's Office was initiated. All of the issues that were primarily in the media report were covered in the State of Tennessee Division of County Audit and Tennessee Bureau of Investigation special report. The State of Tennessee Division of County Audit and the Tennessee Bureau of Investigation special report highlights were:

1. Gratuities/fees received for solemnizing marriages were estimated at $119,000 for 2,985 ceremonies.
2. There were employee payroll and leave accounting with no time and attendance records being available. Questionable pay disguised as overtime in lieu of holiday bonuses for two years in a row was paid which totaled $20,000 and $40,000.
3. It was disclosed that Mr. Bush was working part-time with full benefits; however, it is believed that constitutional officers are permitted to give whatever benefits they want to an employee even if they only work two hours per week since the civil service rules do not apply in this situation. Mr. Brannon inquired if it had been determined if the Metropolitan Nashville Council had any control over the state constitutional offices. Mr. Riebeling stated the only control is limited to the annual budget appropriation approval by the Metropolitan Nashville Council. Mr. Riebeling stated that Metro Nashville civil service employees working twenty or more hours per week were eligible for benefits.

The Committee requested the Department of Law to review the Metropolitan Nashville Council adopted benefits plans, for Metropolitan Nashville government employees, to determine if they have any restrictions concerning part-time employee participation in these plans. If so, would these restrictions apply for employees of elected offices? Ms. Darby stated that she would research this issue and report back to the Committee at the next meeting.

4. The Davidson County Clerk's Office had eliminated armored car pick-up service due to prior year budget cuts.

The Office of Internal Audit reviewed the following areas:

1. Procurement – competitive bidding documentation was not available for 20 of 33 routine purchases during the three year audit scope.
2. Asset accounting records – Over 61 asset records had not been updated to record disposal of the assets.
3. Hotel/Motel Tax Audits Prior Audit – The agreed upon recommendations and corrective action plan on auditing hotels/motels had not been implemented. The Davidson County Clerk's Office had only performed four audits of hotels/motels in the last three years.
4. Regarding revenue collections, the Davidson County Clerk's Office collects over $100 million annually, and the revenue is generally well controlled. However, preprinted receipt forms were not used for business tax field collections, personal checks were cashed, fees were waived without written policy for guidance, and cashier and bookkeeper custody transfers were not always documented (seven percent of the 655 tills reviewed).
5. Davidson County Clerk fees and commissions were remitted semi-annually versus daily as stated in the Metropolitan Charter.
6. There is no receivable system, so there is no way to know what revenue is supposed to come into the system. The Office of Internal Audit was able to determine the revenue received was recorded, deposited in the bank, and checks sent to the appropriate agency.

<u>Discussion of Office of Internal Audit Recommended CY 2012 Internal Audit Annual Work Plan (Mark Swann – Metropolitan Auditor)</u>

The recommended CY 2012 Internal Audit Annual Work Plan (copies provided to members) includes 25 potential audits with 16 audits and three investigations to be completed in calendar year 2012 based on 11,500 available resource hours.

Attachment F, the last page of the handout, is a color coded map of past Metro Nashville internal audit coverage. The pale red areas indicate areas where there has not been an audit performed by the Office of Internal Audit in the past four years. The units with dots as borders are areas included in the recommended CY 2012 Internal Audit Work Plan. Page three of the handout summarizes the recommended CY 2012 Internal Audit Work Plan on one page for the members' consideration. The members were provided time to review the recommended CY 2012 Internal Audit Work Plan.

A request for potential audit projects was sent out to all council members and department heads. This was the first year that no responses were received.

Mr. Swann stated that it was agreed during the last meeting that an audit of Nashville Electric Services would be added to the recommended CY 2012 Internal Audit Work Plan; however there's been discussions this week between the State of Tennessee Division of County Audit and Nashville Electric Services. The Comptroller of Treasury for the State of Tennessee agreed to do the audit of Nashville Electric Services. Mr. Swann recommended the Nashville Electric Services audit be removed from the recommended CY 2012 Internal Audit Work Plan. Mr. Swann stated that there will still be an external financial audit for Nashville Electric Services in addition to the audit performed by the State of Tennessee Division of County Audit.

Ms. Dowell inquired about the possibility of auditing the Transportation Licensing Commission based on some concerns she had received in her office. Mr. Swann stated that a policy and procedures compliance related audit had been completed recently for the Transportation Licensing Commission. Mr. Riebeling stated a separate comprehensive study is being performed by Metro Nashville which includes the Transportation Licensing Commission and he believed the report should address most of Ms. Dowell's concerns.

Mr. Reed asked if any best practices or performance audit projects were included in the recommended CY 2012 Internal Audit Work Plan. Mr. Swann stated the recommended audit for telecommunications could be considered a performance audit. Also, the current audit of Metro Parks Department Golf Operations has elements of leading practices and performance objectives. Mr. Swann went on to describe that general accepted government auditing standards defines almost any non-financial attestation audit as a performance audit. Mr. Reed reiterated his desire for additional best practices/performance audit projects going forward.

Mr. Glover inquired about including the Metropolitan Nashville Public Schools teacher retirement pension plan as part of the recommended CY 2012 Internal Audit Work Plan. Discussion followed primarily concerning if the State of Tennessee or Metro Nashville was responsible for the teachers retirement plan. Mr. Riebeling stated that Metro Nashville does manage an old closed teacher retirement plan that no longer has any active contributors. He also believed the State of Tennessee manages the current active Metropolitan Nashville Public Schools teacher retirement pension plan. Mr. Swann was tasked to follow-up and report at the next committee meeting concerning who is responsible for managing this retirement plan.

A motion was made to approve the recommended CY 2012 Internal Audit Work Plan with the removal of Nashville Electric Services audit, the motion was seconded, and the recommended CY 2012 Internal Audit Work Plan was approved as amended.

Old Business (Committee Chair)

- Agreement was made that further discussion of the audit of Nashville Electric Services was not required since it was covered in the section immediately above.
- Mr. Swann informed the members that Crosslin & Associates, P.C. were not at this meeting since they were not yet prepared to release the FY 2011 Metro Nashville Management Letter or Single Audit. They may request a special meeting just for the opportunity to discuss these items.

Metro Hotline Status

Mr. Holt provided information on the Metro Nashville IntegrityLine. He said that the calls slow down this time of year and calls have stabilized at about 30 per year. There had been three new calls since the first of January 2012. There were seven open issues now. Mr. Holt discussed that a hotline call in January 2011 regarding the navigation lights on the Cumberland River at the Jefferson Street Bridge resulted in a call to Metro Public Works who then later arranged for lights to be repaired on the bridge. This possibly prevented an accident similar to one in another state where a large boat destroyed part of the bridge and seriously impacted vehicle traffic.

Internal Audit Project Status

Mr. Swann stated out of 27 audit projects approved in the CY 2011 Internal Audit Work Plan, 16 were completed and 9 audit projects were in-progress. The goal of 17 reports in CY 2011 was short by one report, the Davidson County Clerk’s Office which was issued in January 2012. Three investigation reports were completed last year. The audits of Register of Deeds and Metro Nashville Public Schools Payroll should be completed soon, and the reports should be released next month.

Other Administrative Matters (Mark Swann – Metropolitan Auditor)

- Auditor I Recruitment – A second round of interviews will start this week. There were a total of 150 qualified applicants. The initial review team has narrowed the list to four potential candidates to be interviewed this week.
- FY 2012 Budget versus Actual Report reflects the Metropolitan Nashville Office of Internal Audit being on budget. We have been waiting since January 20th on a management consulting contract for auditing services with Experis Finance to be approved by Metro Nashville Purchasing Department and Metro Nashville executive management before starting additional out-sourced or co-sourced projects.
- The initial FY 2013 budget recommendation submitted includes a two percent reduction from the prior year or $22,500. Consulting has been reduced again by $17,500 leaving approximately $82,500. After the annual payment for the Metro Nashville Integrity Line, this leaves approximately $65,000 for outside consulting. This will leave a financial challenge to complete one or more outside consulting audit project in FY 2013. Mr. Riebeling inquired if the Office of Internal Audit would require a budget carry-forward request this year. Mr. Swann stated a carry-forward was likely due to the prolonged contract execution with Experis Finance.

Consideration of Items for Future Meetings (Bob Brannon - Committee Chair)

No items were discussed.

Adjournment

The next meeting is scheduled for Tuesday, June 12, 2012.