

**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
METROPOLITAN AUDIT COMMITTEE MEETING**

February 12, 2013

On Tuesday, February 12, 2013, 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, Chairman
Brack Reed, Vice Chairman
Richard Riebeling, Director of Finance
Jacobia Dowell, Council Member

Others

Mark Swann, Metropolitan Auditor
Carlos Holt, Internal Audit Manager
Lauren Riley, Internal Auditor
J. Dell Crosslin, Crosslin & Associates, P.C.
John Crosslin, Crosslin & Associates, P.C.
David Hunt, Crosslin & Associates, P.C.
Dan Miller, Crosslin & Associates, P.C.
Theresa Costonis, Department of Law
Mike Curl, Metro Council Office
Kim McDoniel, Metro Finance

Committee Member Absent

Diane Neighbors, Vice-Mayor
Steve Glover, Council Member

Quorum present? Yes

Call Meeting to Order

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

Approval of Minutes

The minutes of the meeting on December 11, 2012, were approved.

New Business

External auditor presentation of FY 2012 Single Audit and Management Letter (Crosslin & Associates, P.C.)

Mr. David Hunt and Mr. John Crosslin with Crosslin & Associates presented the Letter of Recommendations to Management for June 30, 2012. They began by discussing the differences between material weaknesses and significant deficiencies. Three primary areas were discussed as being recurring items within Metro: lack of segregation of duties; lack of timely bank reconciliations and failing to make timely cash deposits. Mr. Dan Miller, also with Crosslin & Associates, then presented the A-133 Single Audit for the year ended June 30, 2012.

Crosslin & Associates distributed these two presentations to the committee for review. Although no questions were raised from the committee, Mr. Brannon stated that the presentations would be held for review and any additional action would be made at the July meeting.

Discussion on request to amend current Internal Audit Work Plan to include an audit of Nashville Expo Center (State Fair) Ovations Food Service Contract (Mark Swann – Metropolitan Auditor)

Mr. Swann explained that a request was made by the State Fair prior to the December Audit Committee Meeting to amend the Audit Work Plan to include a contract review of the Ovations Food Service contract. Mr. Swann requested consideration of the revision for approval by the Committee. Mr. Swann noted that the audit was approximately 75-80% complete, but should the request for amendment be denied, all work would cease immediately.

Ms. Dowell moved to approve the amendment. Mr. Reed seconded. Motion carried.

Mr. Brannon noted that the Committee was notified via email prior to the meeting that the audit work was taking place.

Discussion on Audit of Payments From and To Nashville Electric Services audit report issued January 17, 2013 (Mark Swann – Metropolitan Auditor)

Mr. Swann explained an audit was performed of payments in-lieu of taxes and payments to and from Nashville Electric Services (NES). Mr. Swann stated that re-performance of the Finance Department's complex calculations and spreadsheet revealed no errors.

Mr. Swann noted the biggest issue during the audit was the plant asset which accounts for approximately two thirds of the payment. For fiscal year 2012, Metropolitan Nashville Government paid NES \$58 million for electric services and received \$26.7 million for payment in-lieu of property taxes and reimbursement for shared use of the Metro Nashville 800 MHz trunked radio system. Mr. Swann stated that the shared bill-out of the radio system utilized historical procedures for the allocation. However, none of these procedures were in writing. Mr. Swann stated that Internal Audit recommended the Metropolitan Government Emergency Management Committee establish a formal process to determine the cost structure for maintenance and operation of the radio system infrastructure before allocating the total cost to internal users and external agencies. Additionally, the procedures should be reviewed on a regular basis.

Mr. Swann stated an under billing of \$67,537 by Metro Radio Communications was calculated over a three year period during the audit. Internal Audit believes Metro made a mistake in the billing process.

Mr. Brannon asked if NES would pay the under billing. Mr. Swann responded he was not aware if Metro had billed NES.

Mr. Brannon asked if Metro would bill NES. Mr. Swann responded that he was told Metro would go back and bill NES or negotiations would take place about increasing the NES share.

No additional questions were raised from the committee.

Discussion on Audit of the Acceptable Use of Information Technology Assets – Metro Action Commission audit report issued February 8, 2013 (Mark Swann – Metropolitan Auditor)

Mr. Swann stated that the final portion of the Acceptable Use policy audit was completed. Mr. Swann explained that this audit covered Metro's adherence to and awareness of the security policy within the Metro Action Commission. Approximately 35 employees were surveyed, and a sample of internet logs and emails were obtained. Mr. Swann stated that overall results were satisfactory. The only area noted was a training issue, as approximately one third of employees believe their emails are private. One employee was noted as having a thumb drive that was unencrypted.

Mr. Brannon asked if anything ever came of the lost thumb drive five years ago. Mr. Swann responded that nothing ever came of the incident as far as he is aware.

Discussion of the Office of Internal Audit Recommended 2013 Annual Work Plan (Mark Swann – Metropolitan Auditor)

Mr. Swann stated he distributed the proposed 2013 Annual Work Plan to the Committee prior to the meeting, and he received minimal responses. Mr. Swann explained that the goal of the plan is to have an audit in all auditable entities within a five to six year cycle. Mr. Swann noted the plan fits with the resources Internal Audit currently has and anticipates.

Ms. Dowell asked about the process to submit a request for an audit. Mr. Swann responded that an email or phone call is sufficient. Mr. Swann stated the only received audit request from a council member was to audit the central office of Metro Schools (MNPS).

Ms. Dowell stated this was an audit she was interested in and would like to know when the last audit was performed. Mr. Swann recommended that should an audit take place, an outside consulting firm be used. Mr. Swann noted that the central office staffing is a managerial decision based on what they believe they need as far as staffing. Mr. Swann pointed to past payroll, IT security management, and food services audits within schools. Additionally, Mr. Swann noted the CY 2013 Audit Plan contains an audit of the Student Management System application.

Ms. Dowell noted that with the Central Office reorganization there has been concern and input from outside parties. Mr. Swann recommended that the topic be narrowed for a specific audit. Ms. Dowell agreed and stated that outside parties were concerned that full time employees had no job function, were working only part time, or were working a few hours a week and not coming into the office. Mr. Swann noted that these concerns were partially addressed by a previous audit response that the schools will begin using the "Kronos" system for time management. This implementation will provide additional accountability. Ms. Dowell stated she would ask for a specific objective for the Central Office audit.

Mr. Riebeling responded that this request was pretty broad to audit all functions of the MNPS central office. With regard to the "Kronos" time management system, he stated that is an area that Metro as a whole is looking at possibly implementing and the next meeting on the topic would be in a few weeks.

Mr. Swann explained that the CY 2013 Audit Work Plan contains eight audits from CY 2012 that will roll into CY 2013. The Plan contains 18 additional audits for CY 2013. Two investigations are held open in case any arise. Within the Plan, 1,000 hours are allocated to investigations; 9,300 hours are allocated to audits. In the audit hours are 1,000 hours for hotel audits. This will

allow for approximately 20 hotel audits for the year. Mr. Swann stated that though 2,000 hours were discussed as being allocated to hotel audits, he saw it as better to limit this to 1,000 hours and spend time on other audits. Hotel audits thus far have found under payments ranging from \$486 to \$18,694.

Mr. Brannon asked for the total amount of underpayments discovered in the completed hotel audits. Mr. Swann responded with total underpayments of \$21,616.

Mr. Riebeling questioned which areas have not been audited in a while. Mr. Swann responded on this particular Audit Work Plan, the Assessor of Property, the Planning Department, the Industrial Development Board, and Capital Project Management for Water and Stormwater are all new areas or higher risk areas.

No other questions were raised from the committee.

Mr. Brannon asked if there was a motion to approve the Audit Work Plan. Mr. Reed motioned for approval. Ms. Dowell second. Motion carried.

Old Business

Hotel Occupancy Tax Audits (Mark Swann – Metropolitan Auditor)

Mr. Swann noted this was sufficiently covered during the discussion of the CY 2013 Audit Work Plan.

Mr. Brannon agreed.

Audit of Nashville Electric Services by State Comptroller's County Audit Division (Mark Swann – Metropolitan Auditor)

Mr. Swann noted this audit report was issued. Mr. Riebeling stated the response from the council members was that the issue was taken seriously and addressed and that the board chair did an excellent job laying to rest any concerns. Mr. Swann noted that NES stated they felt management was the first line of defense and internal audit was the second line. They felt they failed in this regard and want to improve.

Mr. Brannon asked what staff they have in Internal Audit. Mr. Swann responded that they have six members, but did have three at one time. Mr. Riebeling added that they have hired Kraft CPAs to look into whether they may remain independent if they are working for the agency. Mr. Swann added by IIA standards, they would be independent. Mr. Swann stated that there is a difference in a Board that is compensated, volunteer, or accepting full risk. Additionally, Audit Committee meetings had been cancelled numerous times in the past year; thus, minimal oversight from the Nashville Electric Services Audit Committee.

No other questions were raised from the committee.

Follow-up on external auditor presentation FY 2012 CAFR (Bob Brannon – Committee Chairman)

Mr. Swann questioned the Crosslin representatives about the rising balances in the un-reconciled items mentioned previously. Mr. Swann asked if there was a total dollar value. Mr.

Holt added years ago when Internal Audit discovered the amount, it was several thousands of dollars. A check for this amount was handed over to the General Fund. Mr. Hunt noted that the amount cannot be taken as unidentified property. The recommendation they would make is to write a check to the General Fund.

Mr. Riebeling asked if a motion was needed to accept the CAFR.

Mr. Brannon stated he preferred to keep the CAFR open in case someone finds an issue later.

Metro Integrity Line (Hotline) Status and Investigation Reports (Carlos Holt – Internal Audit Manager)

Mr. Holt advised that three hotline alerts were received in January – one safety, one policy, and one fraud. One issue is currently open. Mr. Holt added that for the 2012 calendar year, 32 original incidents were reported to the hotline covering nine different types of issues.

Mr. Brannon asked if fraud issues were required to be reported to the State. Mr. Holt responded that this is correct.

Ms. Dowell questioned about reporting the fraud to the State. Mr. Swann responded that if certain criteria and thresholds were met, then the suspected fraud would be turned over to the State. Mr. Holt added that the categories assigned to previous complaints were chosen by the person making the claim. Thus, the category is not indicative of the true outcome of the investigation. Mr. Swann added that the hotline is not for HR issues, which is being stressed to employees.

Internal Audit Project Status (Mark Swann – Metropolitan Auditor)

Mr. Swann presented the status of audit projects for the Office of Internal Audit. Mr. Swann noted that 18 projects were completed since this time last year. As of now, eight projects from CY 2012 are open. One audit was outsourced to ITS.

Other Administrative Matters (Mark Swann – Metropolitan Auditor)

FY 2014 Proposed Budget

Mr. Swann stated that a two percent budget cut was required. This equates to \$22,000 for the Office of Internal Audit. Mr. Swann proposed the cut be made to professional services.

FY 2013 Budget

Mr. Swann stated that the Office of Internal Audit will be on budget this year.

Staffing

Mr. Swann advised that an internal auditor resigned. A Senior Auditor was hired. There are currently two open positions that are budgeted. These will be filled in the future.

Nashville Chapter Tennessee Society of CPA's Reappoint for Mr. Brannon

Mr. Swann noted that Mr. Brannon had been reappointed to another term for the Nashville Chapter of the Tennessee Society of CPA's committee appointment. Mr. Swann expressed his appreciation for Mr. Brannon's service to the committee over the past years.

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

Mr. Swann noted that if any items arise before the July meeting, another meeting may be scheduled if necessary.

Meeting adjourned after 65 minutes.

The next meeting is scheduled for Tuesday, July 9, 2013.