

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

July 09, 2013

On Tuesday, July 09, 2013, at 4:00 p.m., the Metropolitan Nashville Audit Committee met in the Metropolitan Courthouse, 2nd Floor, Committee Room Four. The following people attended the meeting:

Committee Members

Brack Reed, Vice Chairman
Steve Glover, Metro Council
Richard Riebeling, Director of Finance
Jacobia Dowell, Metro Council

Others

Mark Swann, Metropolitan Auditor
Carlos Holt, Internal Audit Manager
Kimberly Smith, Internal Auditor
Theresa Costonis, Department of Law
David Hunt, Crosslin & Associates, P.C.
Dan Miller, Crosslin & Associates, P.C.

Committee Members Absent

Diane Neighbors, Vice-Mayor
Bob Brannon, Chairman

Quorum present? Yes

Call Meeting to Order

Brack Reed, Vice Chairman, called the meeting to order.

Approval of Minutes

The minutes of the meeting on February 12, 2013, were approved.

New Business

External Auditor Presentation of Audit Plan for FY 2013 Financial Statements (Crosslin & Associates) David Hunt, Crosslin & Associates, P.C., presented the *Audit Plan for FY 2013 Financial Statements*.

A copy of the *Audit Plan for FY 2013 Financial Statements*, which had been prepared by Crosslin & Associates, P.C., was provided to all members of the Committee. Mr. Hunt provided a briefing of the plan. He also noted that most of the personnel on the audit team would remain the same except that Richard Lockwood is no longer with the firm and Ben Nichols will fill Richard's role as overall manager of the engagement.

There were no questions by the Committee.

Discussion on request to amend current Internal Audit Work Plan to include an audit of Fire Department Grant Management (Mark Swann – Metropolitan Auditor)

Mark Swann stated the Fire Chief, Mr. Billy Lynch requested an audit of grant management for the Nashville Fire Department. Mr. Swann initiated the audit and it is currently in the draft report phase awaiting management's response. A motion was moved and second.

Discussion on Audit of Finance Department Metro Investment Pool audit report issued March 28, 2013 (Mark Swann – Metropolitan Auditor)

Mr. Swann stated that the Metro Investment Pool is the primary mechanism used by the Metropolitan government to invest all of its excess cash at any given point in time. Concerns were raised about the decrease in the investment pool returns during another audit. Even though it is referred to as an investment pool, it serves as both an investment pool and cash management fund for managing Metro Nashville's daily cash needs. The remainder of funds is invested in the Tennessee Local Government Investment Pool. The Tennessee Local Government Investment Pool (LGIP) takes five basis points for administrative fees. In addition, the costs for operating the cash management fund and local administrative costs are also taken out of the returns. In FY 2012, the return from the Tennessee LGIP was less than the total administrative costs resulting in an overall net decrease. Interest charges were made to funds that are part of the Metro Investment Pool and were in a negative position. These charges to the negative balance funds helped offset the lost investment opportunity of the positive funds. All elements are clearly disclosed in the budget each year. Mr. Swann stated that one recommendation is for the Finance Department to do a better job of communicating with other entities within Metro that the fund is more than an investment pool. It is also a cost recovery method that takes care of administrative costs that occur day to day. Out of the 12 months that were tested for correctness of interest allocation, four months had incorrect accounting entries. The SymPro system that was used for allocating costs is very complex and prone to user error when obtaining and entering figures from it. However, SymPro software calculations were independently tested by the Office of Internal Audit with no exceptions noted. One issue was the generic access, having only one user ID. A recommendation is for more individual accountability and better controls over user access.

There were no questions by the Committee.

Discussion on Audit of Nashville Public Library audit report issued March 28, 2013 (Mark Swann – Metropolitan Auditor)

Mr. Swann indicated that in FY 2013, the Nashville Public Library had a budget of over \$22 million. The audit consisted of a review of revenues and expenditures. The Library was benchmarked with other libraries serving similar populations. In terms of benchmarking, almost every city with a similar population spends more money on libraries than Metro. The Office of Internal Audit determined that revenues were for the most part properly managed. Also, there were no material issues with expenditures. However, shortly after the audit scope period, a temporary shortage of a small cash collection amount was discovered at one of the branch libraries by management. The money, which amounted to .5 percent of the total revenue generated, has since been returned. Controls are working as intended. Some improvements recommended by the Office of Internal Audit include obtaining or creating a mechanism to quantify collection (books and materials) shrinkage (loss). New software settings may be needed that would include controls to note when an item is missing and retain the status without being overwritten although the item was never found.

Mr. Reed inquired about the Four Percent fund. Mr. Swann indicated that those are the small fixed asset purchases. Mr. Glover asked if that goes before the council or is that something the Library does on its own. Mr. Riebeling explained that usually, two or three times per year, the Library and other parties go before the council to request use of the \$20-25 million per year of available Four Percent funds. Mr. Reed then asked that since they had a budget of \$4 million and now have \$2 million remaining, do they still have those funds. Mr. Swann replied that the unused amount should carry forward. Mr. Glover inquired if we are required by charter to give each department Four Percent funds. Mr. Swann replied no. Mr. Riebeling added that some departments, such as Finance, have no need for it. The biggest users of the Four Percent fund are the Library, General Services, Parks, and Fleet Management.

Discussion on Audit of Davidson County Election Commission audit report issued April 17, 2013 (Mark Swann – Metropolitan Auditor)

Mr. Swann stated that this was a council requested audit. The Office of Internal Audit concluded that the controls are working properly. The counts from the voting machines to the precincts had effective controls. Totals may never be exact between public count and control totals. Some reasons may include the application from the ballot may not be collected or someone may not finish casting their vote. Out of ten precincts, six had a public count that matched the applications exactly, three were off by one count, and one precinct was off by four counts. However, another machine was brought in that was not included on the precinct tally and the 4 votes were picked up on it. The biggest issue with the Election Commission is related to poll worker recruiting. After coordinating efforts with the State, their opinion was that a series of errors made had eroded confidence in the election process. There were several opinions for improvement regarding the process, such as having an early voting site open every day and the change of addresses due to the flood. A statewide deadline for change of addresses is needed to eliminate future problems. Mr. Swann also suggested voting my mail, which is cost effective and popular in some comparable cities; however, there are additional risks associated with it including signature comparisons. Overall, the Election Commission members were good stewards of their funding. One issue that did come up was that approvals were not always documented for credit card purchases. Regarding the purchase of electronic poll books, the procurement and contract development processes were followed; but, purchase orders weren't submitted prior to the shipment of goods, which prevented a verification of funds prior to shipment.

There were no questions by the Committee.

Discussion on Audit of Beer Permit Board audit report issued April 22, 2013 (Mark Swann – Metropolitan Auditor)

The Beer Permit Board office consists of four employees, including two administrators and two inspectors, who license and regulate the commerce of beer and alcoholic content of not more than five percent. In FY 2012, the office conducted 3,400 inspections and processed approximately 400 beer applications and 400 dance applications. The records kept were very detailed. Revenue was tested and the controls in place are working well due to the intensive manual process. Due to the size of the department, there is a segregation of duties issue with the same person receiving cash, recording cash, and making deposits. Also, the staff was encouraged to automate their processes perhaps through the KIVA system.

There were no questions by the Committee.

Discussion on Audit of Music City Convention Center Construction Project Interim Report Six-Change Orders audit report issued April 29, 2013 (Mark Swann – Metropolitan Auditor)

The Office of Internal Audit contracted this audit with Experis, a contracting firm in Atlanta. They have a Center of Excellency with a concentration in construction auditing. A representative was sent from Arizona with numerous years of experience in construction auditing to review the change orders. He was impressed by the system of controls in place and rated them as the 2nd best observed in terms of the degree of review, process and approval. Seventy-five percent of the change orders were reviewed for appropriateness, including those that went against the contingency fund, and there didn't appear to be anything out of line based on his experience. Metro is significantly below in change order percentage by comparison based on a project of this size, degree of specifications that were available, and the risks associated with it.

Mr. Reed inquired if this would conclude the audit or would it be ongoing. Mr. Swann responded that we are recommending that no more work be done. Additional work could be done if requested. The biggest thing that could be done is to trace payments to contractors and subcontractors, which is already a part of the performance bond requirement. In addition, the insurers are auditing the payroll on all the contractors. Mr. Swann's opinion is that the risk is no longer there. The remaining item is to assure that the asset is appropriately capitalized in the financial statements. This issue will be reviewed by KPMG, the Convention Center Authority external auditor. The recommendation is that additional audit work not be done unless something new comes up that needs to be addressed.

Ms. Dowell inquired about where to obtain a detailed list of paid minority subcontractors. She did not recall getting it. She had seen the consolidated list but wanted to assure that minority vendors were included. Mr. Swann replied that he could retrieve it and it should be on the MCC website. Another audit required him to look at the DBE reporting to assure the calculations were correct. The minority vendor determinations are made by the State. The Office of Internal Audit verified that there was supporting documentation.

Discussion on Audit of Nashville Expo Center Food and Beverage Operations Management Contract audit report issued May 3, 2013 (Mark Swann – Metropolitan Auditor)

Historically, this contract had not been managed the way it should have been. It cannot be determined if certain funding requirements in the contract ever took place. Some leakage of revenues is possible. Monies were still being received during the audit. The understanding is that the contract has been replaced already or in the process of being replaced. The recommendation is that the contract be monitored better on a day-to-day basis.

There were no questions by the Committee.

Old Business

Hotel Occupancy Tax Audits (Mark Swann – Metropolitan Auditor)

Mr. Swann noted that 17 hotel/motel audits had been completed totaling \$62 million in hotel revenue. Ten hotels had exceptions that ranged from \$77-\$18,000. Exceptions less than \$10 are not pursued. The Office of Internal Audit will conduct 25 audits this calendar year.

Follow-up on external auditor presentation FY 2012 CAFR, Single Audit, and Management Letter (Bob Reed – Committee Chairman)

No questions were raised from the Committee.

Metro Hotline Status (Carlos Holt – Internal Audit Manager)

Mr. Holt reported that the Office of Internal Audit had no new hotline reports for the month of June. Hotline activity normally slows down in the summer. The hotline is on track to again receive 18 to 22 calls for the year. Mr. Swann indicated that the hotline contract will not be renewed after it ends next year. Mr. Holt added that the State of Tennessee Comptrollers Office has a new hotline that is web based, easy to use, and Metro could simply link to the state site when the contract runs out. This is ideal since many of the issues must be forwarded to the state anyway. This would save \$12,000 per year.

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 the goal is to complete 17 audit projects. Currently, seven projects are completed, 8 are in the fieldwork or draft report phase. Four audits are in process. Three investigations have been completed that were tasked to us from the state's hotline.

Other Administrative Matters (Mark Swann – Metropolitan Auditor)

FY 2014 Budget

Mr. Swann stated that the Office of Internal Audit's new approved budget will continue to decrease. The ability to contract audits out or use contractors has been greatly reduced in the last few years, with \$64,000 remaining and \$12,000 being used for the hotline. Possibly one audit will be conducted on a contracted basis or the funds used for consultants on audits performed internally.

FY 2013 Budget

Mr. Swann stated that the Office of Internal Audit will again be under budget for the year primarily due to open positions and personnel costs.

Staffing

Mr. Swann noted that the Office of Internal Audit is fully staffed, including two new hires: Seth Hatfield and Kimberly Smith.

Staffing – Metropolitan Auditor 2014 Job Posting

As part of the Charter, the Metropolitan Auditor position has to be reapplied for in 2014. By June 2014, another nominated slate of three potential auditors is needed to go before council to vote. Either Human Resources can assist in the recruitment process or the Audit Committee may choose to take on the task themselves. A motion is needed in the minutes for Human Resources to be involved in the process and begin the recruitment process.

Mr. Reed inquired whether this is something that Metro Council has to do. Mr. Swann replied that in the Charter, the initial term ends on June 30, 2014. The next term is for eight years; however, you can always be removed for cause. Previously, recruitment was handled through Human Resources. Three individuals will have to be interviewed and nominated by the Audit Committee for the position. Mr. Holt read the Hiring Process aloud to the Committee.

Ms. Costonis stated that she understood the policy to read that the process would involve Human Resources going through their usually process of posting the position and providing the Committee with qualified applicants. The Committee would in turn select three qualified candidates to recommend to Council. Mr. Swann specified that last time when he was hired, the committee interviewed three, prioritized the order, and submitted them to Council. Mr. Reed inquired about waiting until the next meeting in September to provide time to clarify the details of the process. Mr. Riebeling requested that a Human Resources representative be present at the next meeting in case the Committee decides to utilize their services. Mr. Reed emphasized that he was pleased with Human Resources' previous services. The use of Human Resources is not required. The Metropolitan Clerk could also post the announcement in the paper and Human Resources may not be needed. Mr. Swann agreed to contact Human Resources about attending the next meeting.

Ms. Dowell pointed out that there seemed to be extra costs associated with the recruitment of a new candidate when one is already established in the position with no issues. Mr. Reed responded that it was required by the charter to follow the process of selecting three qualified candidates that they are comfortable could do the job since Council could choose any of the three.

Mr. Riebeling added that the good thing about using Human Resources is that there is a good process already in place that has been used previously.

Mr. Riebeling asked Mr. Swann would he have to reapply for the job like anyone else. Mr. Swann responded yes and he understood that coming into the position.

Mr. Reed asked waiting to make a motion at the September meeting will allow enough time to begin the process. Mr. Swann replied yes. Mr. Glover added that the previous announcement needs to be updated, posted, and allow 30 days for resumes to be submitted. Hopefully, by the beginning of the year, there will be a list of 20 candidates and the Committee can decide how to proceed.

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

Annual Review of Bylaws

Bylaws are included in the workbook provided for review.

Metropolitan Nashville Audit Committee Annual Self-Assessment

Mr. Swann would like to arrange one-on-one interviews with each Audit Committee member before September to collect feedback. He asked Ms. Costonis if the assessment results could be submitted collectively if conducted individually. She replied yes.

Adjournment

The next meeting is scheduled for Tuesday, September 10, 2013.

Approved by the Metropolitan Nashville Audit Committee on September 10, 2013.