

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

July 8, 2014

MINUTES

On Tuesday, July 8, 2014, 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 Finance¹
Jacobia Dowell, Councilmember
Steve Glover, Councilmember

Others

Mark Swann, Metropolitan Auditor
Carlos Holt, Internal Audit Manager
Theresa Costonis, Department of Law
Dell Crosslin, Crosslin and Associates
John Crosslin, Crosslin and Associates
David Hunt, Crosslin and Associates
Ben Nichols, Crosslin and Associates
Ronnie Steine, Councilmember² (Budget Chair)
Lynn Stokes – Audit Director, City of Clarksville,
TN

Committee Member Absent

Diane Neighbors, Vice-Mayor

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 February 13, 2014, and April 24, 2014, were approved.

New Business

Discussion on request to amend current Internal Audit Work Plan to include an audit of Historical Commission staffing analysis (moved ahead on agenda)

Mr. Swann noted that a request to Mr. Brannon had been received to add the aforementioned item to the current audit plan. Councilmember Steine stated there is tremendous support for the Historical Commission. As Chairman of the Metropolitan Nashville Council Budget and Finance Committee, he would like additional information in order to make a decision regarding the request for an additional person to be budgeted. Mr. Riebeling stated that there are two primary

¹ Departed at 5:15 after the Metropolitan Nashville Public School audit discussion.

² Departed after Historical Commission agenda item.

responsibilities at the Historical Commission: Historic overlay and zoning issues, and traditional historical issues. He stated that this staffing analysis is something that is important to be performed, whether internally through audit staff or outsourced by providing additional funds, if needed. Further, in two straight budgets there has been a last minute request to add another person. Councilmember Steine stated that rather than just add the additional person as the Council did last time, they really need additional information. A motion was made by Mr. Glover, seconded, and carried.

Discussion of the current Peer Review being conducted of the Office of Internal Audit

Mr. Swann introduced Lynn Stokes – Audit Director at the City of Clarksville, TN who is the team lead for the peer review engagement now being conducted by the Association of Local Government Auditors. This review is required every three years by Government Auditing Standards. Stan Sewell – Audit Director at the City of Chattanooga, TN is also on the team as well as Catrina McCollom from the City of Memphis, TN.

External auditor presentation FY 2014 Audit Communication (Crosslin & Associates, P.C.)

David Hunt from Crosslin and Associates stated that the 2013 fiscal year Management Letter and OMB A-133 Single Audit would be presented as well as the 2014 fiscal year audit plan. John Crosslin and David Hunt described one *internal control deficiency* of the most serious type, material weakness, from the County Register of Deeds. This relates to segregation of duties regarding deposits and custody of funds. He noted this has been a repeat discrepancy for three years and management's response did not indicate it would be fixed this year. The effect is that this single material weakness makes Metropolitan Nashville a high-risk auditee, which causes more federal programs to be audited in the A-133 audit.

Mr. Glover inquired as what could be done to persuade the Register of Deeds to change his corrective action plan. Mr. Swann stated that the Committee could invite the Register of Deeds to attend the next audit committee meeting and explain his position. Mr. Glover motioned for the Register of Deeds to be asked to come into the next meeting. Mr. Riebeling stated that he agreed with the request but prior to the next meeting he would have Kim McDoniel contact him to see if something could be done. The motion was seconded and carried.

Other internal control discrepancies were not as serious but were discussed. Also, it was noted if streets and roads conditions were not maintain at a level of 70 percent fair or better condition the modified approach to fixed assets (no depreciation of certain assets is required) would no longer be allowed. Mr. Hunt noted that Metropolitan Nashville has slipped to 58 percent and should bring it up to 70 percent.

The same segregation of duties matter was also in the A-133 report. Compliance was noted for all federal programs but the opinion was qualified on one program related to a federal grant for "Healthy Marriage Promotion and Responsible Fatherhood". Metropolitan Nashville chose not to request the grant again for the current year.

The external auditor financial audit plan for 2014 was presented. It was similar to the past audit plan except for a new principal to oversee the Nashville General Hospital portion.

Audit of the Planning Department audit report issued February 14, 2014

Mr. Swann briefly described the audit of the Planning Department that was performed with the assistance of a consultant to perform a portion of the audit. Of significance was a

recommendation to work more closely across departments for planning and to obtain a site license for mapping software rather than individual licenses. Also receipting at the counter process could be strengthened.

Audit of Permitting and Licensing System Upgrade (interim)

Mr. Swann explained that Metropolitan Nashville is replacing the KIVA permit and licensing software with another product (City Works) being tailored to Metropolitan Nashville needs. Approximately 25 departments (Planning, Public Works, Water Services, etc.) will be using the system which will have a major impact on daily business and operation functions. Mr. Swann stated that it is better to audit the project throughout the system development process rather than wait until the project is complete and implemented. A recommendation for closer project oversight through a defined project charter was made. The system is now moving into the testing phase and test scripts are being written. Planned completion is January 2015.

Audit of Office of Emergency Management

Mr. Swann discussed that the Office of Emergency Management was audited separately from the Mayor's Office. Recently this function has been become an independent department that works closely with the Nashville Fire Department. Issues with fixed asset recording and leave balances were noted.

Audit of District Energy System

Mr. Swann noted that the District Energy System provides chilled water and steam to downtown buildings (commercial and government). The operation is a \$16 million annual operation. Issues noted with the need to make application for tax free status for purchasing materials and other services performed by the contract monitor, Thermal Engineering, not amended in the contract. The Metropolitan Nashville subsidy has declined over the last few years as the operation has improved over time.

Audit of Criminal Justice Planning

Mr. Swann noted that Criminal Justice Planning was created a number of years ago when Metropolitan Nashville was in a consent decree with the federal government concerning jail overcrowding. This is no longer the case as there is excess capacity and two facilities have been closed since. The audit noted that the requirement for the jail population projection report is not as important as before and that Criminal Justice Planning should seek to enhance its mission for other needed services.

Audit of Property Assessor's Office

Mr. Swann discussed the audit methodology, which utilized a tax consultant for the policies and procedures of the Property Assessor's Office and the Office of Internal Audit performed other audit steps, including a thorough review of the information technology systems. The tax experts from Experis found there were potential issues with the digital mapping function that resides in the Planning Department, not in the Assessor's Office. The need of each group is not necessarily the same and has the potential to cause issues with property boundaries. The Property Assessor expressed concerns about this during the audit.

The information technology review concluded there were some weaknesses in the database security configuration that should be addressed. The transfer of the completed assessment role to the Metropolitan Trustee should be more formalized to ensure all values uploaded to Manatron are complete and equivalent.

A scope limitation existed during the audit because the Office of Internal Audit was denied access to the process for the assessment of business personal property taxes. The Property Assessor outsources this to a contractor. Tennessee Code Annotated § 67-5-402 prevented the Office of Internal Audit access. The Property Assessor is working with the Board of Equalizations to propose an amendment to the statute.

Old Business

Update on the status of the comprehensive performance audit of Metropolitan Nashville Public Schools

Mr. Swann stated that the majority (not complete) of the initial draft report was presented to the Office of Internal Audit for review during June. However, Mr. Swann expressed some concerns that the contractor are addressing. The updated draft should be available for review within two weeks. If Mr. Swann is satisfied that all required areas have been addressed, the draft will be made available to Metropolitan Nashville Public School's management for review.

Follow-up on the FY 2013 CAFR external auditor presentation

Mr. Brannon inquired if anyone still had question about the 2013 CAFR. No items were brought to his attention and the matter was closed by Mr. Brannon.

Hotel Occupancy Tax Audits

Mr. Swann stated that the Hotel Motel tax audits are continuing again this year. There are currently net claims for additional taxes of approximately \$450,000. However, the largest claim was for an establishment (Hallmark Inn) was shut down and padlocked by the Metropolitan Nashville Police Department this morning. Mr. Reed inquired if there was future transition plans to have someone else perform this ongoing function. Mr. Swann agreed this might be a good idea but nothing yet has been proposed.

Metro Hotline Status and Investigation Reports

Mr. Holt stated that one hotline referred to the state is still outstanding waiting on the Metropolitan Nashville Police Department to finish their investigation. One investigation was completed by the Office of Internal Audit for the Metropolitan Nashville Health Department since the last meeting.

The hotline call center and website contract is due to expire in November 2014. Mr. Holt stated that in light of the very small number of calls received that the Office of Internal Audit will be taking quotes for a smaller transaction volume agreement to replace the current contract. The Tennessee Comptroller's Local Government Audit Office advised against just substituting the Tennessee State hotline contact information by Metropolitan Nashville and prefers that Metropolitan Nashville be able to accept its own hotline calls.

Internal Audit Project Status

Mr. Swann noted that the audit plan is being executed as intended and approved by the Audit Committee.

Other Administrative Matters (Mr. Swann – Metropolitan Auditor)

Fiscal Year 2014 Budget Status: Mr. Swann noted that the Office of Internal Audit will be approximately \$90,000 under budget.

There was less than a three percent cut in the budget for fiscal year 2015, resulting in a \$1.2 million budget. There will also be a move to Parkway Towers in the next several months requiring rent payments each month. Mr. Glover inquired in the Metropolitan Nashville Public Schools audit expenses were coming from the Office of Internal Audit budget. Mr. Swann responded that the Metropolitan Nashville Public Schools contract was funded from the post-audit, general fund.

Mr. Swann advised that one of the office's recent personnel additions, auditor Seth Hatfield, along with his wife were involved in a serious automobile accident in Alabama in recent days. Ms. Hatfield remains in critical condition in the hospital. Prayers are encouraged.

Meeting adjourned after 84 minutes.

Mr. Brannon adjourned the meeting and stated the next meeting will be scheduled for October 14, 2014.

Approved by the Metropolitan Nashville Audit Committee at the October 14, 2014, meeting.