

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

**October 14, 2014**

**FINAL MINUTES**

On Tuesday, October 14, 2014, at 4:00 p.m., the Metropolitan Nashville Audit Committee met in the Metropolitan Courthouse, 2<sup>nd</sup> Floor, Committee Room 4. The following people attended the meeting:

**Committee Members**

Bob Brannon, Chairman  
Richard Riebeling, Director of Finance<sup>1</sup>  
Jacobia Dowell, Councilmember  
Steve Glover, Councilmember

**Others**

Mark Swann, Metropolitan Auditor  
Carlos Holt, Internal Audit Manager  
Theresa Costonis, Department of Law  
Kim McDoniel, Metro Finance  
John Crosslin, Crosslin and Associates  
David Hunt, Crosslin and Associates  
Bill Garrett, Register of Deeds  
Kim Legate, Register of Deeds  
Charles Snyder, Register of Deeds

**Committee Member Absent**

Diane Neighbors, Vice-Mayor  
Brack Reed, Chamber of Commerce

*Quorum present?* No, first 30 minutes, no voting items presented; Yes, remainder of meeting.

**Old Business** (no quorum)

**Register of Deeds – Material Weakness**

Mark Swann introduced an item of old business dealing with the material weakness finding from Crosslin and Associates at the Register of Deeds. Bill Garrett took the floor and noted he now had a much clearer understanding of the issue and his office had made some changes. Charles Snyder, Chief Deputy of Finance, spoke on the change of procedures including:

- increase in change bank
- change in escrow funds
- change in check cashing procedures
- new tracking of checks
- matching deposit amounts to bank records
- better segregation of duties
- printing checks from *QuickBooks* (pending)

---

<sup>1</sup> Departed at 5:15 after the Metropolitan Nashville Public School audit discussion.

Kim Legate, Chief Deputy of Operations, spoke on the changes also. Both Kim Legate and Charles Snyder noted Crosslin and Associates sub-contractor Lisa Stickle, CPA, had inspected and approved the procedures. Steve Glover asked if this would correct the internal control material weakness for the Register of Deeds. John Crosslin noted it would and that the Register of Deeds had understood and made the required changes. David Hunt noted the primary problem was that the material weakness caused a higher level of audit procedures for grants under the Single Audit Act.

#### Hotel Occupancy Tax

Mark Swann noted he issued a report covering the past fiscal year of hotel audits. However, for the past two years 47 hotel audits have been completed, covering \$246 million in gross room revenue, \$19 million in hotel occupancy taxes which resulted in \$373 thousand in underpayments and \$133 thousand in penalties. Mark Swann noted about 2 percent of taxes were underreported. A brief discussion was held on the amounts owed by the hotel that was shut down. Rich Riebeling asked Mark Swann if he had access to the Smith Travel reports on occupancy rates. Mark Swann noted he did receive a summary of from the Music City Center and was attempting to use the data to better identify which hotels reporting taxes were more likely to have underpayments.

#### Project Status

Mark Swann stated he was progressing through the plan with a goal of having 19 audit projects completed by February and 11 are complete. Mark Swann believes the Office of Internal Audit will make the goal despite a few more than normal disruptions (office move, school audit, Metro Auditor selection process, etc.).

#### Hotline Status

Carlos Holt noted the current provider of hotline services would be ending services as of November 19, 2014, and the new provider would be starting the next day. The old contract cost approximately \$1,000 per month, but the RFQ selection process yielded a new vendor that costs only approximately \$200 per month. Carlos Holt noted Metro had six hotline calls this calendar year and one from the State of Tennessee Comptroller's Office, with no cases still open.

#### Budget

Mark Swann noted the departmental budget expenditure is progressing as expected and there was not expectation of going over budget.

#### Metro Nashville Public Schools Audit

Mark Swann noted the audit has expended almost 90 percent of funds, with about \$38,000 remaining.

Mark Swann noted he sent out an email describing the draft report review process on September 12, 2014. He noted the contractor sent the initial draft of the internal review; Mark Swann recommended some changes and sent the report back to the contractor, who took several weeks for the changes. The contractor then provided the report to Metropolitan Nashville Public Schools in early September. Metropolitan Nashville Public Schools will be meeting with the contractor and Metro Internal Audit at the end of October. After the management response is received, some observations and recommendations will be sent to the

School Board for response since those recommendations apply to them in particular. Steve Glover asked if there could be a short presentation made with the report so that key individuals would be provided some initial information before being able to read the entire 500+ page report. Rich Riebeling inquired if there was an expected date of completion. Mark Swann stated he was not sure of a date. Rich Riebeling commented that to be useful for the budget, the report is needed by the end of the calendar year. (Jacobia Dowell arrived during the discussion.) Mark Swann responded to Steve Glover that a report presentation meeting could be set up with the contractor and other interested parties, and this was included in the contract.

### **Call Meeting to Order** (at 4:38 pm)

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

### **Approval of Minutes**

The minutes of the meeting on July 8, 2014, were approved.

### **New Business**

#### Discussion on request to amend current Internal Audit Work Plan to include an audit of the Medical Examiner's Office

Mark Swann noted a request had been received to audit the Medical Examiner's function that is contracted under the Metro Public Health Department. He had tentatively accepted the engagement and proceeded with the audit pending the Audit Committee approval. Steve Glover moved to amend the audit plan, seconded, and carried.

#### Discussion of the Peer Review completed of the Office of Internal Audit

Mark Swann noted the Peer Review team had finished and concluded the Office was in full compliance and had given three recommendations for improvement. One of the recommendations dealt with non-audit services and having the requesting party assume responsibility for oversight of the service. One such case is the service the Office provides with the annual disclosure forms, and Greg Hinote of the Mayor's Office has assumed responsibility for the program. Mark Swann noted all recommendations would be completed by year end. Bob Brannon noted the Committee should discuss and have a summary of the 2011 changes to generally accepted government auditing standards at the next meeting.

#### Audit of the Metro Parks Sportsplex

Mark Swann briefly described the audit of the Sportsplex and noted members should have also received a complimentary fraud report. He also informed the Committee that the fraud was self-reported by the subject only after the audit began and the director had informed the department an audit had begun. Carlos Holt added, as part of the audit, Senior Auditor Qian Yuan had informed various managers of the audit procedures that likely would have determined missing funds before the subject came forward. Others noted prosecution is ongoing and funds believed to be missing were approximately \$90,000. Other than the fraud, the audit determined reservations for facilities were not reconciled with revenue, and revenue reversals were not fully explained by the department. Also a few emergency planning recommendations and maintenance suggestions were made to the Sportsplex management team.

### Audit of Metro Social Services

Mark Swann explained Social Services had an \$8 million budget for 2014 and the audit primarily looked at the homemaker and nutritional services. The review indicated Metro Social Services could provide more services for the same funds by using other providers. A reduction in homemaker services was accepted by the Board, but the review did not cause the Board to decide to also phase out direct provided nutrition services. For homemaker services, the Board decided to phase out services by attrition over the next several years.

### Audit of Department of Law - Claims Process

Mark Swann noted the audit looked at claims processing, claims related fund balances (\$16.5 million), and distribution of claims. There were nearly \$4 million in claims paid and \$2.5 million in claims received. The biggest report issue was the distribution of checks received by various departments and individuals causing extended delays in the checks from being deposited immediately. Bob Brannon stated he would like to look at the actuarial report that determined the current claims fund balance is acceptable.

### Audit of Unusual Financial Transactions

Mark Swann discussed the audit looked for transactions that may be unusual or a red-flag. The audit determined overall there were no highly unusual areas as a whole; rather, some attention should be paid to duplicate payments (two found not being recovered), payroll overtime mainly in Water Services and Metro Police, and fuel cards for Metro Nashville vehicles. Bob Brannon inquired if this was intentional and if there were any national standards on overtime for police and fire. Rich Riebeling stated much of the police overtime would be due to the Secondary Employment Unit hours, which are reimbursed by the customers, rather than regular hours for Metro with budgeted departmental funds.

### Annual Review of the Bylaws of the Audit Committee and the Office of Internal Audit.

Mark Swann stated he and Theresa Costonis saw no issue requiring immediate attention. Separate motions to re-affirm the bylaws for both were made, seconded, and carried.

### Possible Proposed Legislation

Mark Swann stated although the bylaws state the Office has access to all records, this is not binding on other departments. He further stated this has not been a past issue, but small delays and temporary roadblocks have recently manifested. He desires, if the Committee is supporting, to propose legislation that would require access. Steve Glover advised him to draft the proposed legislation and bring it to them at a future meeting. Theresa Costonis advised that for contractors, there is a standard clause in the contracts, but this can get tricky for software due to proprietary reasons.

The second issue was the definition in the Charter for "other audit services" that it authorizes along with audits. Non-audit services are not addressed or separately authorized in the Charter.

### Confirmation of the Performance of the Audit Committee and Metropolitan Auditor Annual Evaluation

Mark Swann stated this past year there were 14 different meetings for various reasons, and there is no issue validating the performance of the Committee. Audit Committee members expressed no issues with the performance of the Metropolitan Auditor. A motion was made to

endorse and accept the performance of the Audit Committee and the Metropolitan Auditor. It was seconded and carried.

Special Items for the next meeting

Nothing special was proposed for the next meeting to be held on December 9, 2014 where the fiscal year 2014 Comprehensive Annual Financial Report will be discussed. However, Mark Swann noted he would be bringing a generally accepted government auditing standards update, proposed special legislation, and the actuarial report from the claims process for the next meeting.

**Meeting adjourned after 74 minutes.**

Bob Brannon adjourned the meeting and stated the next meeting will be scheduled for December 9, 2014.

Minutes approved at December 9, 2014, Metropolitan Nashville Audit Committee meeting.