

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

December 9, 2014

On Tuesday, December 9, 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 Finance
Jacobia Dowell, Councilmember
Steve Glover, Councilmember

Others

Carlos Holt, Internal Audit Manager
Lauren Riley, Senior Auditor
Theresa Costonis, Department of Law
Kim McDoniel, Metro Finance
John Crosslin, Crosslin and Associates
David Hunt, Crosslin and Associates
Dell Crosslin, Crosslin and Associates
Tony Neumaier, Metro Water Services

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 October 14, 2014 were approved.

New Business

Overview of Government Auditing Standards 2011 Revision (moved ahead on agenda)

Mr. Holt stated in the previous meeting a presentation on revisions made to the Government Auditing Standards for the 2011 version was requested by Mr. Brannon. Ms. Riley gave a brief presentation on both the performance audit process and the revisions to the Government Auditing Standards. Ms. Riley covered revisions to independence, nonaudit services, and external audit services. Mr. Brannon asked if there were any additional questions. There were no additional questions.

External auditor presentation of fiscal year 2014 Comprehensive Annual Financial Reports (Crosslin & Associates, P.C.)

Mr. Hunt with Crosslin & Associates presented the Comprehensive Annual Financial Reports (CAFR) for Metropolitan Government of Nashville & Davidson County fiscal year 2014. A

workbook was provided to each committee member summarizing the highlights of Mr. Hunt's presentation. Mr. Hunt mentioned the Metro Nashville Single Audit did not qualify as low risk for fiscal 2014 due to the requirement of having two years without a material weakness. Mr. Glover asked what year a low risk assessment would be if there were no additional material weaknesses. Mr. Hunt stated fiscal year 2014 would be the first year, and if no weaknesses were found in 2015, then fiscal 2016 would be the first year Metro Nashville's Single Audit would qualify as low risk.

Mr. Hunt mentioned there was no new debt issued in fiscal 2014. Mr. Glover asked if this was accurate. Mr. Riebeling stated only restructuring of debt occurred. Mr. Hunt noted the Metro Sports Authority's new debt was not a general obligation.

Mr. Hunt discussed upcoming Government Accounting Standards Board (GASB) statements that would affect future CAFRs such as GASB 68, 69, 71. Mr. Hunt noted the pension liability standards GASB 68 would be included in the next CAFR. Mr. Glover asked if this was just the pension liability or both the pension liability and Other Post Employment Benefits (OPEB). Mr. Hunt stated it would only be the pension liability, but discussions by GASB indicate the OPEB would be a required inclusion in the financial statements at some point in the future. A brief discussion occurred about the calculation of the pension liability and OPEB calculations.

Mr. Brannon stated the Committee members would review the CAFR provided and discuss it at subsequent meetings.

Metro Water Services Clean Water Abatement Program Review (Crosslin & Associates, P.C.)

Mr. John Crosslin with Crosslin & Associates discussed the performance audit performed on the overflow abatement program. Mr. Crosslin gave a brief background of the program noting it is an overall \$1.5 billion project over ten years. Mr. Brannon asked where the funding for this program is coming. Mr. Riebeling and Mr. Neumaier both stated the funds are from increased water rates to customers. Mr. Brannon asked if increased rates also covered the water line problems that recently affected parts of Metro Nashville. Mr. Neumaier stated rates cover the replacement of old water lines. Mr. Brannon asked if Water Services would be replacing old lines such as the ones that had problems earlier in the year. Mr. Neumaier stated Water Services replaces old lines as they break since old water lines function well. Mr. Brannon asked if this meant there were unrecorded liabilities for future breaks. Ms. Costonis stated the Law Department has un-asserted claims. Ms. McDoniel stated claims that may be recovered are recorded.

Mr. Crosslin discussed the observations and recommendations for the program thus far.

Mr. Brannon stated no particular actions were needed at this point.

Discussion on proposed supporting internal audit legislation

Mr. Holt noted the Committee had requested Mark Swann draft proposed legislation to enhance Internal Audit support and provide it at the current meeting. Mr. Holt directed the members to the drafted legislation. Mr. Holt stated this was provided to be reviewed and later discussed. Mr. Brannon asked if there were any issues in getting requested documentation currently. Mr. Holt stated there have been minor issues recently. Mr. Glover asked the process for getting this legislation approved. Ms. Costonis stated if the Audit Committee agreed with the legislation, a vote by the Metro Council would be required. The legislation would be approved as an ordinance. Mr. Brannon stated the Councilmembers of the Committee would be the sponsors of the ordinance.

Mr. Brannon stated the Committee would review the drafted legislation and discuss at a later meeting.

Discussion on Audit of Justice Integration Services Active Directory audit report issued October 22, 2014

Mr. Holt stated the audit of the Justice Integration Services Active Directory was completed. Mr. Holt noted the results are confidential. Mr. Brannon asked why the results are confidential. Mr. Holt and Ms. Costonis discussed the risks of allowing the public to know weaknesses in servers and systems. Ms. Costonis added the Tennessee Bureau of Investigation has regulations around Justice Integration Systems.

Discussion on Community Education Commission audit report issued October 31, 2014

Mr. Holt briefly discussed the results of the Community Education Commission audit. Mr. Holt noted there were observations around segregation of duties, cash handling, and policies and procedures. Mr. Brannon asked what the Community Education Commission's response to the audit was. Mr. Holt noted the Commission was receptive and agreed with all recommendations except one surrounding new hire documentation.

Discussion on Sheriff's Office Firearms and Equipment Inventory audit report issued November 6, 2014

Mr. Holt stated the audit of the Sheriff's Office firearms and equipment inventory went very smoothly. The department had a sufficient level of controls in place with minor issues in segregation of duties and custody of assets. Mr. Holt noted the one area of concern was the tracking of expired equipment through its use and disposal. Mr. Holt noted no procedures were in place to document the disposal of items or who the items went to.

Discussion on Permitting and Licensing System Upgrade Interim Report II audit report issued November 11, 2014

Mr. Holt stated this audit was the second interim report issued for the upgrade. Mr. Holt stated Mark Swann and Qian Yuan have been monitoring the upgrade since it began. Mr. Holt noted only a few issues were found such as the upgrade being behind schedule.

Overview of Metropolitan Nashville self-insurance and claims fund balance monitoring

Mr. Holt stated at the previous meeting questions were raised regarding the Department of Law's Claims Process and adequacy of current funding levels to handle current and future claims. Mr. Holt directed members to the letter included in the workbook by Mark Swann. Mr. Brannon asked if there was a positive balance for funding. Mr. Holt stated at the time of the audit there was a positive balance and there were only two recent years where the balance went negative. Mr. Holt noted the balance was increased by the Department of Law.

Old Business

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

Mr. Holt noted there was a phone conference on December 4, 2014 with MNPS regarding the draft report. Mr. Holt stated the auditors have requested all changes desired be made on

tracking sheets. This has caused some confusion about report changes as the tracking sheets may refer to changes that have or have not already been made to reports provided. Mr. Holt stated once MNPS representatives had determined the changes and responses, the draft report would be provided to the School Board for their response to observations related to them.

Mr. Glover asked when this report would be done. Mr. Holt stated no clear date has been set; however, it is currently looking to be issued in January 2015. Mr. Glover stated this date is unacceptable as the report has taken significantly more time than expected. Mr. Glover asked what the options for remedy were. Mr. Holt stated contractual changes would be a question for Jeff Gossage in procurement. Ms. Costonis stated the contract has clauses in it for termination and default. However, these are nuclear remedies and would result in no report being provided. Mr. Holt noted the contractors would arguably be able to state the report issuance is being held up by the MNPS review.

Ms. Dowell asked if the contractors had exceeded the contract amount. Mr. Holt stated the contractors have not used all of the funding, and approximately \$20,000 to \$30,000 was still available. Ms. Dowell stated she was under the impression the report would be issued in time to use for budgeting reasons. Mr. Riebeling noted it could be used for fiscal year 2016 budgeting. Mr. Holt stated the report should be ready for budgeting decisions.

Mr. Reed asked if a presentation for the audit would be made along with the report. Mr. Holt stated a presentation would be made. The presentation was agreed upon in the contract terms.

(Ms. Dowell left the meeting at 5:17 PM.)

Follow-up on the FY 2013 Single Audit and Management Letter

Mr. Brannon stated progress was being made on the Single Audit as noted by Crosslin & Associates.

Mr. Glover requested that all further items be moved to the next meeting as Committee members needed to leave to attend another event. Mr. Brannon agreed.

Meeting adjourned after 80 minutes.

Approved by the Metropolitan Nashville Audit Committee at the February 10, 2015, meeting.