

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

February 10, 2015

FINAL MINUTES

On Tuesday, February 10, 2015, 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
Steve Glover, Councilmember
Richard Riebeling, Director of Finance
Jacobia Dowell, Councilmember

Others

Mark Swann, Metropolitan Auditor
Carlos Holt, Internal Audit Manager
Theresa Costonis, Department of Law
Tony Neumaier, Metro Water Services

Committee Members Absent

Diane Neighbors, Vice-Mayor
Brack Reed, Vice-Chairman

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 9, 2014, were approved.

New Business

Election of Chairman and Vice-Chairman

Mr. Riebeling nominated Mr. Brannon for Chairman. Nomination was seconded and there were no other nominations. Voting carried the nomination. Mr. Riebeling nominated Councilmember Dowell for Vice-Chairman. The nomination was seconded and there were no other nominations. Voting carried the nomination.

Audit of the Metro Water Services Cash Collection

Mr. Swann discussed the audit of the Metro Water Services cash collections. The audit reviewed the \$200 million in cash collections for water services except for storm water collections. Mr. Potter, Director of Metro Water Services, had requested the audit include miscellaneous income, such as cell tower revenue, income from biosolid sales, etc. There were several recommendations to strengthen controls and procedures. Metro Water Services is already taking action.

Audit of the Historical Zoning Commission

Mr. Swann reminded everyone that the audit was requested by the Metropolitan Nashville Council Budget and Finance Committee and the purpose was to ascertain if increased staffing

levels were needed. The audit was performed using contractors from Experis. The simple answer was yes, they could use another staff member as of the next fiscal year. Additionally, there were other opportunities for improvement. The key driver was the increased number of homes in the historic overlays. There were about six percent of the homes in an historic overlay that require a permit or other request each year. When more homes are added to historic overlays, this increases the amount of work required by Historic Zoning Commission employees. Thus, if the Metropolitan Nashville Government wants to be responsive to constituent's needs, we need to provide the resources to take care of their requests.

Audit of the Active Directory Services of the Metropolitan Nashville Police Department

Mr. Swann stated that the audit was part of a continuous series of the five active directory service domains within the Metropolitan Nashville Government. The Office of Internal Audit has now completed audits of three domains. The audit determined that the Metropolitan Nashville Police Department is managing directory services well. The Metropolitan Nashville Police Department domain is unique because it helps protect the regional Criminal Justice Information System portal used by many public safety agencies in Middle Tennessee. There are many user accounts that are not Metropolitan Nashville Government employees. Mr. Brannon inquired as to why the report was confidential. Mr. Swann replied that his staff is required to obtain Criminal Justice Information System clearance to audit public safety related information systems and the same clearance is required to review the content of this confidential audit report.

Presentation for Approval of the Annual Audit Work Plan

Mr. Swann described the process of risk prioritization and scoring each area within the Metropolitan Nashville Government. Two of the key drivers are people and expenditures with the Metropolitan Nashville Police Department and Health Department finishing as the top two audit area priorities. The recommended plan includes eight audit projects currently in progress, eleven new audit projects, and two investigations. Also, the plan allocates resources to complete approximately 15 to 18 hotel occupancy tax audits.

Mr. Swann reviewed the organizational map showing departments and functions which have not been audited in the past seven years, including the Metropolitan Nashville Airport Authority and Nashville Electric Services component units. An audit of Nashville Electric Services was performed by the Tennessee Comptroller's Local Government Audit Division in the past.

The recommended audit plan includes two management requested audit projects. These audit projects are the Metropolitan Nashville Cable Franchise Agreement and General Services Fleet Operations. Information technology related audit projects included the Microsoft Exchange email system and PCI Data Security Standards compliance audits.

Mr. Riebeling brought up a discussion of the Metropolitan Nashville Airport Authority stating they have their own internal audit group. Mr. Riebeling recommended that Mr. Swann assess what the internal audit staff at the Metropolitan Nashville Airport Authority is doing and report back to the Metropolitan Nashville Audit Committee.

The Office of Internal Audit Work Plan with the proposed audit of the Metropolitan Nashville Airport Authority as a last priority was recommended for approval and carried.

Old Business

Proposed Legislation for the Metropolitan Nashville Office of Internal Audit

Ms. Costonis brought up one item asking if there were any periodic training on the confidentiality of information for the Metropolitan Nashville Office of Internal Audit staff. She advised to alter the second paragraph in that section to include the Criminal Justice Information System clearance information and only use "confidential" when describing the information rather than "proprietary and confidential". Further, in the first paragraph, second page, she stated reporting to the Metropolitan Nashville Office of Internal Audit might lead people to believe they have fulfilled the requirement to report fraud to the Tennessee State Comptroller's Office. She recommended clarification of that section so as not to be misleading. She further noted that some description of the sections required slight revisions that she agreed to draft.

Mr. Brannon inquired about periodic training on confidentiality matters for the staff to which Mr. Swann reported that the office did do so periodically.

Ms. Costonis agreed to re-draft the legislation in ordinance form.

Discussion of the Comprehensive Annual Financial Report

Mr. Brannon inquired if everyone had read the Comprehensive Annual Financial Report and stated that this was an item the committee usually kept on the agenda for a few months until he was sure there were no questions of pending items. Ms. Dowell brought up the idea of presenting a short brief overview to the entire Metropolitan Nashville Council on the Comprehensive Annual Financial Report. Ms. Dowell expressed the need to enhance education on this issue with council members. Mr. Glover and Mr. Brannon inquired how many people might show up for a special meeting of this sort. Mr. Brannon stated that for maximum attendance this would have to be presented quickly at a regular council meeting.

Hotel Occupancy Tax Audit Status

Mr. Swann noted that the hotel audits have resulted in approximately \$500,000 in claims and about \$400,000 in collections so far. Hotel owners have increasingly stated they were aware of the audits and have discussed them with fellow owners. Mr. Glover inquired if bed and breakfasts were being audited, to which Mr. Swann stated that a few have already been audited. Others discussed the recent articles on the increase in the number of house and condo rentals.

Office of Internal Audit Annual Report to Metropolitan Nashville Audit Committee

A copy of the Office of Internal Audit 2014 Annual Performance Report was distributed to the committee members. Mr. Swann directed the committee to the letter that would serve as the Metropolitan Nashville Audit Committee's annual report to the Metropolitan Nashville Council along with the distributed Metropolitan Nashville Office of Internal Audit Annual Performance Report highlighting activities and accomplishments of the Metropolitan Nashville Office of Internal Audit. The transmittal letter representing the annual report to the Metropolitan Nashville Council from the Metropolitan Nashville Audit Committee was voted on and carried.

Office of Internal Audit Budget for Fiscal Year 2016

Mr. Swann described the proposed three percent budget cut scenario and that the cut if taken, would have to come out of consulting resources in the amount of \$33,700 leaving approximately

\$10,000. He also recommended an improvement of \$54,600 in order to bring the consulting resources back up to \$100,000.

Comprehensive Performance Audit of Metropolitan Nashville Public Schools

Mr. Swann had previously set up a phone conversation between the contractor McConnell Jones Lanier and Murphy LLP on the Metropolitan Nashville Public Schools audit report. Online were Sharon Murphy, Gilbert Hopkins, and Odysseus Lanier.

Ms. Murphy discussed the initial engagement process and what was reviewed. She noted that there were 129 recommendations which including three outsourcing recommendations. The fiscal impact was \$272,463 net investment requirement over five years. With the outsourcing (child nutrition, transportation, facilities/energy management) included it would be a savings of \$54,129,373 over the same five year period. Mr. Glover inquired with a few questions and believed the biggest savings would be in facilities. Mr. Swann noted that the report was actually ten separate reports that were approximately the same as ten separate audits that would have cost about the same as this project so the cost/value of the audit (\$550,000) was reasonable.

A discussion of having a meeting to review the Metropolitan Nashville Public Schools audit report with members of the Metropolitan Nashville Council members was held. Mr. Glover stated he would take the lead in scheduling this with the Metropolitan Nashville Public Schools Board of Education and the Metropolitan Nashville Council Education Committee. A proposed date of March 5th was discussed. Mr. Swann noted that McConnell Jones Lanier and Murphy LLP was willing to make adjustments as needed to the draft audit report and spend additional time correcting misunderstandings of information communicated to them during the audit process. Also, the Metropolitan Nashville Public Schools staff worked very hard to verify information. Lastly, the Metropolitan Nashville Office of Internal Audit staff worked hard and put in over 1,000 hours of work. Mr. Swann noted that he had communicated to the Metropolitan Nashville Council members that more copies of the report could be ordered for \$59 each.

Proposed Future Meeting Dates of the Audit Committee

Mr. Brannon discussed the need for a special meeting of the committee to discuss the audit of the Metropolitan Nashville Public Schools in late February or early March, such as March 5th. All agreed and adjourned.

Meeting adjourned after 87 minutes.

Approved by the Metropolitan Nashville Audit Committee at the July 28, 2015, meeting.