

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

July 28, 2015

On Tuesday, July 28, 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
Brack Reed, Chamber of Commerce
Richard Riebeling, Director of Finance
Jacobia Dowell, Councilmember
Steve Glover, Councilmember

Others

Mark Swann, Metropolitan Auditor
Theresa Costonis, Department of Law
Kim McDoniel, Metro Finance
David Hunt, Crosslin and Associates
Dan Miller, Crosslin and Associates
Ben Nichols, Crosslin and Associates
Dell Crosslin, Crosslin and Associates

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 10, 2015, were approved, with a few corrections.

New Business

External auditor presentation fiscal year 2014 Single Audit and Management Letter (Crosslin & Associates, P.C.)

David Hunt from Crosslin and Associates began by stating that no material weaknesses or significant deficiencies were found for fiscal year 2014. He noted that if no weaknesses are found in fiscal year 2015 as well, they can drop the A-133 Single Audit from high-risk to low-risk auditing. This will reduce the number of programs that have to be tested. Mr. Hunt then discussed the less serious findings listed in the management letter. The areas they made recommendations were the timeliness of reconciliations, outstanding items more than one year and using a modified approach for infrastructure reporting.

Dan Miller from Crosslin and Associates discussed the A-133 Single Audit compliance requirements. Mr. Miller reminded everyone that there were no material weaknesses in the financial reporting. He also noted there were no material findings with compliance for federal grant programs. This is also the first year for A-133 purposes that there were no findings. The \$57 million decrease in total federal expenditures over the past two years was because mainly the American Recovery and Reinvestment Act programs were discontinued, and the Flood

Recovery money has decreased significantly. About \$100 million, or about 60 percent, of the federal programs, relate to Metropolitan Nashville Public Schools, which is consistent with the past several years.

Mr. Miller then discussed the programs they tested during their audit, which totaled about 55.5 percent of total federal expenditures for the year. Mr. Reed asked if that percentage will drop below 50 percent if Metro moves from high risk to low risk auditing. Mr. Miller stated that the low-risk percentage is currently at 25 percent, but new guidelines will change that low-risk figure to 20 percent in 2016.

External auditor presentation fiscal year 2015 Audit Communication (Crosslin & Associates, P.C.)

Mr. Hunt talked about the audit plan for fiscal year 2015. He noted there will be no changes in team members from fiscal year 2014 to fiscal year 2015, and he gave a brief explanation of the responsibilities of the auditors and management, independence, fraud risk, and audit methodology. He reminded everyone that there were no material weaknesses found for fiscal year 2014, but the other recommendations from the management letter will be looked at again.

Mr. Hunt discussed upcoming Government Accounting Standards Board (GASB) statements, three of which will have to be adopted in fiscal year 2015: GASB Statement No. 68, 69, and 71. *GASB Statement No. 68 - Accounting and Financial Reporting for Pensions* will require the pension obligation to be reported as a liability in the books, and will show a significant effect on equity in the balance sheet. *GASB Statement No. 69 - Government Combinations and Disposals of Government Operations* is not anticipated to show a major effect. *GASB Statement No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date* will be implemented with GASB Statement No. 68 and will not have a separate effect in itself. *GASB Statement No. 75 - Accounting and Financial Reporting for Other Post-Employment Benefits*, which will not be in effect until 2018, is similar to GASB Statement No. 67 and 68, but deals with other post-employment benefits, rather than pension benefits, and will result in a much larger liability being added to the books.

Mr. Hunt discussed the deadlines for the audit and planned to report the results of the audit to the Committee by December 8, 2015.

Presentation on Metropolitan Nashville Airport Authority Internal Audit (Mark Swann – Metropolitan Auditor)

Mr. Swann gave a brief explanation of the request by the Committee to look into the Metropolitan Nashville Airport Authority's internal audit function and report his findings. The Metropolitan Nashville Airport Authority has an audit group consisting of two internal auditors who report to the president and chief executive officer, as well as to their audit committee. They are professional internal auditors, practice continuing education, and follow the Institute of Internal Auditors International Professional Practices Framework standards. A peer review has yet to be completed but is planned for this year. The Metropolitan Nashville Airport Authority's audit plan for 2015 includes audits of technology risks, concession agreements, and passenger fees. All reports are available on the website. Mr. Brannon asked who conducted their external audit. Mr. Hunt answered with Dixon Hughes Goodman LLP. Mr. Reibelung noted that it appears the Metropolitan Nashville Airport Authority's audit group does a thorough job with their audits and Mr. Swann agreed.

Discussion on Audit of Davidson County Clerk's Cash Collection audit report issued March 24, 2015

Mr. Swann discussed the audit of the Davidson County Clerk's Cash Collection process. Approximately 97 percent of the Davidson County Clerk's revenue is motor vehicle related. The audit found that proper controls are in place, and there are written policies and procedures related to cash collection. Recommendations were made for improvement in internal controls, specifically with cash handling segregation of duties and implementing a way to track birth certificate forms inventory.

Discussion on Audit of Medical Examiner's Office audit report issued April 14, 2015

Mr. Swann gave a description of the medical examiner's office, which is outsourced to Forensic Medical Management Services, and discussed the internal audit findings. Recommendations were made for improvements that included creating and executing a contract monitoring plan, and looking at per capita cost associated with the office. The per capita cost for Davidson County is more than three times the state average, and two times the national average. Mr. Glover asked why the cost was so high. Mr. Swann said that it could be due to only one bidder responding when the proposal came out, lack of competition, and previous issues with professionalism in the medical examiner's office. Knox County was outsourced but has since brought it in-house, with estimated savings between \$1 and \$1.5 million per year. Mr. Swann stated that the Metro Public Health Department, on behalf of the Metropolitan Nashville Government, preferred to delay any efforts to review contract terms until the renewal of the existing contract in 2018.

Discussion on Audit of Metro Public Works Parking Management audit report issued June 29, 2015

Mr. Swann briefly explained the scope of the audit, focusing on the collection of parking meters and oversight of downtown garages. The collection of coins seemed to be well controlled. However, the collection of bill currency was not as controlled. Tickets were not being written on rainy days because the tickets would deteriorate. The audit recommended Metro Public Works buy sleeves for the tickets to increase revenue on rainy days. Recommendations were made for handicapped parking abuse with ideas for better controlling who can use the handicapped parking tags for free parking. Ms. Dowell asked if that was the State's responsibility. Mr. Swann stated the audit report recommended Metro Public Works coordinate with the State in reviewing legislation for this issue. There were also a few issues with miscellaneous fees where Metro Public Works was unable to provide documentation for the auditors to ensure completeness, such as not billing any valet parking fees in the past year.

Mr. Swann also mentioned that the Nashville Downtown Partnership showed a few problems where they were not providing detailed documentation for all their checks written for the behalf of Metropolitan Nashville Government owned garages. Mr. Brannon asked who the Downtown Partnership is. Mr. Reibeling explained it is a nonprofit association that oversees certain projects in the downtown area, the city funds them, and they get a share of the parking profits that they use for downtown betterment. Mr. Swann added that they manage two Metropolitan Nashville Government owned garages along with day to day operations for the Central Business Improvement District and the Gulch Improvement District. Mr. Reibeling asked if Mr. Swann has looked into an audit of the Downtown Partnership, and Mr. Swann responded that the Office of Internal Audit has audited the Central Business Improvement District and the Gulch Improvement District within the past few years.

Discussion on Audit of Metropolitan Nashville Police Department Secondary Employment audit report issued July 8, 2015

Mr. Swann stated that Metropolitan Nashville Police Department is performing proper maintenance of files, scheduling officers in a fair manner, and satisfying customers with the provided services. There were a few issues with segregation of duties with collecting money, which was corrected immediately by management when it was brought to their attention. Mr. Swann then informed the Committee that the Chief of Police has yet to respond to the audit report. Mr. Glover asked about the budget and what this group is used for. Mr. Reibeling explained it is outside contracted organizations that need a uniformed officer for different functions, other than general police work.

Discussion on Audit of Hotel Occupancy Taxes Fiscal Year 2015 audit report issued July 9, 2015

Mr. Swann discussed the annual report for hotel occupancy tax audits. He stated that in fiscal year 2015 about \$126,000 was the net audit claim, and \$109,456 of that amount has been collected. The number of hotel audits completed in 2015 was less than in 2014. This is due to trying to identify hotels where the number of rooms rented did not align with the estimated 70 to 80 percent occupancy rate for the hotel property. Mr. Brannon asked how this revenue was used. Mr. Reibeling explained that it went to the convention center, the Metropolitan Nashville Government general fund, and to tourist promotion.

Discussion on Audit of Metropolitan Office of Trustee Cash Collections Process audit report issued July 24, 2015

Mr. Swann discussed the Metropolitan Office of Trustee cash collection process. The audit covered the past three years, with about \$2.5 billion in cash collection during that time. He noted there were good controls around the cash collection process, but there were a few areas such as transferring custody on tills that could be improved. Some problems were found with reversals of tax payments, which will be better controlled with the new TaxMan system that is being implemented. Mr. Glover asked why in fiscal year 2014 only about 95 percent of budgeted property taxes had been collected. Mr. Swann said that they were still working on collecting outstanding property tax balances.

Discussion on Audit of Metropolitan Nashville Fire Department Payroll Process audit report issued July 24, 2015

Mr. Swann mentioned that 63 percent of the Metropolitan Nashville Fire Department's expenditures were payroll related. It was found that the Department had reasonable controls in the payroll process, but they use a scheduling system that uses an Excel spreadsheet to export time records to the EnterpriseOne Payroll system. There were some issues found with this system, including too many employees with administrative privileges, and the risks associated with using an Excel spreadsheet, such as making changes without documentation. Recommendations were made to improve the documentation of changes made to the Excel spreadsheet interface. Mr. Brannon asked if the Metropolitan Nashville Fire Department employees work extra hours, as the police do with secondary employment. Mr. Reibling said that they did not have a secondary employment function like the police. Mr. Glover commented that he believes the Metropolitan Nashville Fire Department scheduling process needs to be reviewed.

Old Business

Follow-up on FY2014 CAFR external auditor presentation (Bob Brannon – Committee Chairman)

Mr. Brannon asked if there were any comments or questions on the CAFR. The Committee members expressed no concerns.

Discussion on proposed supporting internal audit legislation (Mark Swann – Metropolitan Auditor)

Mr. Swann suggested delaying the discussion until the next audit committee meeting, as there may be changes made to the Committee membership, but asked to be made aware of any concerns from the Committee members. Motion to defer was accepted.

Internal Audit Project Status (Mark Swann – Metropolitan Auditor)

Mr. Swann explained that internal audit completed 7 of the 14 planned projects for the year. Three audits are in process, the Radio Shop, Parks and Recreation Maintenance, and the Metropolitan Nashville Government Revenue Forecasting. The Office of Internal Audit is waiting on Comcast to provide requested audit information for the Comcast Franchise Fee audit to start. The draft report for the Metropolitan Nashville Government Fixed Assets Process is pending.

Metro Hotline Status and Investigation Reports (Mark Swann – Metropolitan Auditor)

There was one call to the hotline in calendar year 2015 and one request for investigation that was completed.

Other Administrative Matters (Mark Swann – Metropolitan Auditor)

Mr. Swann mentioned that mainly due to employee turnover, the FY2015 budget for Internal Audit will be \$200,000 under budget for the fiscal year. The FY2016 budget has been approved. Staff changes for Internal Audit were announced.

Mr. Swann thanked the Committee members for their service and support.

Meeting adjourned after 60 minutes.

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