

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

November 10, 2015

On Tuesday, November 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
David Briley, Vice-Mayor
John Cooper, At-Large Council Member
Talia Lomax-O'dneal, Director of Finance
Bob Mendes, At-Large Council Member
Brack Reed, Chamber of Commerce

Others

Mark Swann, Metropolitan Auditor
Theresa Costonis, Department of Law
Kim McDoniel, Chief Accountant
Seth Hatfield, Office of Internal Audit

Quorum present? Yes

Call Meeting to Order

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

Introduction of New Members

Mr. Brannon introduced the new members of the audit committee. John Cooper and Bob Mendes were recently elected at-large council members and appointed to the Committee. David Briley was elected as Vice-Mayor and Talia Lomax-O'dneal was recently appointed the Director of Finance.

Approval of Minutes

The approval of minutes was deferred until the end of the meeting.

Workbook Orientation

Before discussion began on the Cityworks interim report, Mr. Swann briefed the new members on the workbook that is provided at each audit committee meeting. Mr. Cooper stated that his e-mail address is incorrect in the workbook, and it should be cooperatlarge@nashville.gov.

New Business

Discussion of Audit of the Cityworks Interim System Development Report audit report issued August 30, 2015

Mr. Swann explained that this was the third interim audit report on the Cityworks system. This audit report looked at acceptance testing. There was "bug testing" being performed, but there were no scripts for acceptance testing. The project team agreed acceptance testing was needed and stated that end users need more help in designing scripts of common scenarios. The project has faced many delays. The implementation date is still undetermined. Mr. Briley asked if the install is handled by Metro Nashville Information Technology Services. Mr. Swann stated Civil Engineering is the project implementer. Mr. Swann stated that the system was originally supposed to go live before Mayor Karl Dean left office. He explained that the project team realized the system had problems, and it was a good idea to hold off on implementation instead

of rolling the system out and dealing with issues post implementation. There was a discussion about the budget of the project. Mr. Swann stated that \$2.6 million has currently been paid out, the capital budget was \$5 million, and the estimate to implement was \$4 million. Ms. Lomax-O'dneal stated the savings were intended to provide flexibility to help smaller departments such as the Beer Board and Transportation Licensing Commission that do not have systems in place.

Discussion on Audit of the Circuit Court Clerk's Funds Held in Trust audit report issued September 3, 2015

Mr. Swann explained the scope of the audit focused on payments and receivables. One issue was that one cash drawer was used by multiple employees. In 2014, there was a large distribution out of escrow. Mr. Swann stated that was due to one very large distribution over a case regarding a piece of property that was acquired for the Music City Center construction project. Overall, Mr. Swann stated that the Circuit Court Clerk had good controls in place.

Discussion on Audit of Finance General Reserve Funding and Capital Asset Process audit report issued September 4, 2015

Mr. Swann described the four percent funding process and stated that no issues were found. The audit of capital assets was initiated due to issues around capital assets in previous audits. The main issue regarding capital assets was that around 25 percent of fully depreciated assets could not be located. Mr. Swann stated that there is now a commitment that physical inventories will be conducted triennially. There was also a recommendation to raise the capitalization threshold to \$10,000. This would decrease the amount of required accounting work and make the capital asset process more efficient. Department heads would still be responsible for tracking assets under the capitalization threshold.

Bob Mendes made a statement regarding the accounting records being inadequate with 25 percent of the assets being unidentified. Ms. McDoniel explained that the reason has to do with the lack of communication between the departments and the Finance Department regarding disposals. Ms. McDoniel stated that they were following up on the items that could not be identified to get them off the books. She said the Finance Department would consider raising the threshold, and they will be more diligent reminding departments to conduct physical inventories. Mr. Cooper asked if the depreciation schedule depended on the classification of assets. Ms. McDoniel stated that was correct. Mr. Cooper requested a copy of a balance sheet, and Ms. McDoniel stated it would be in the Comprehensive Annual Financial Report (CAFR) that will be available the beginning of December. Mr. Reed made the comment that vehicles and computers should always be able to be located. Mr. Swann stated that all computers and vehicles were tagged and tracked.

Mr. Briley asked if there was still a sense that the four percent process was still a valuable process for the government regarding spending, planning, and accounting. Ms. Lomax-O'dneal stated she believes it still makes sense to have funds set aside for smaller asset purchases, but there is always room to improve the process.

Discussion on Audit of General Services Department Radio Communication Division audit report issued November 2, 2015

Mr. Swann described the radio communication system used in Metro Nashville. The "A" system is used for public safety, and the "B" system is used by other agencies. The audit looked at the accounting side of the radio shop. There was an issue with keeping radio inventory records up

to date. There is also no receivable system, so no information could be provided on agencies that haven't paid. There was a recommendation to improve the receivables process.

Mr. Swann explained that a subject matter expert, John Johnson, was hired for a portion of this audit. Mr. Johnson was commendable of the way the radio shop was managing the radio system. The audit did some evaluation work related to the computer systems supporting the radio system. There were some issues in that area, but those could not be discussed because that information is confidential. Mr. Johnson's report is confidential because it deals with public safety information being transmitted over the radio system.

Mr. Swann explained that the audit committee members could be fingerprinted to receive Criminal Justice Information Systems (CJIS) clearance for confidential reports. There was a discussion of why CJIS clearance was needed and how much information could be divulged to the Committee if they did not have the clearance. Ms. Costonis explained the Tennessee Bureau of Investigation required the clearance for anyone who will have access to law enforcement information. The radio system can be used to transmit public safety information for the Metropolitan Nashville Police Department which is the reason the report was deemed confidential. Mr. Mendes stated that he would like to get fingerprinted for the CJIS clearance.

Mr. Mendes asked if the cost recovery from customer billings was adequate. Mr. Swann said that the difference in expense and revenue could be due to the time the radio shop employees spent on configuring the thousands of radios that went into the field. Ms. Lomax-O'dneal also pointed out that several internal service funds had accumulated significant fund balances and were instructed to adjust some of the rates downward for the purpose of decreasing the positive fund balance over time. Mr. Swann stated that management agreed to the recommendation of doing a more detailed review of what the recovery charge should be.

Discussion on Audit of Parks and Recreation Maintenance Division Audit report issued November 5, 2015

Mr. Swann stated that the Maintenance Division represents approximately a third of the overall Metro Parks and Recreation Department budget. The report stated that the Maintenance Division was doing a good job at maintaining parks, but a recommendation was made to formulate a set of standards in which Metro Nashville parks should be maintained. There was a discussion about park standards. Mr. Reed made the comment that there had been many good directors of the Metro Parks and Recreation Department and their visions should be documented to maintain the high level of parks in Nashville.

Another observation dealt with the work order system not providing management with critical information. Management of the Metro Parks and Recreation Department agreed they would begin researching for a replacement work order system.

Mr. Swann stated that safety training was being done, but recordkeeping of safety training should be improved. He stated the Metro Nashville culture around safety seemed to be lacking. Ms. Lomax-O'dneal asked if Mr. Swann ever considered doing a Metro Nashville-wide safety audit. He said a comprehensive safety audit was being considered for next year's Audit Work Plan.

A motion to accept the presented audit reports was made, seconded, and carried.

Metropolitan Nashville Audit Committee and Metropolitan Nashville Office of Internal Audit
Bylaws annual review

The confirmation of the bylaws was deferred until the next meeting to allow time for the new committee members to review the information.

Annual confirmation of responsibilities outlined in the Metropolitan Nashville Audit Committee
Bylaws

The confirmation of responsibilities was deferred until the next meeting to allow time for the new committee members to review the information.

Annual assessment of Metropolitan Auditor's performance

Mr. Brannon explained that each year, an assessment of the Metropolitan Auditor is drafted in the form of a letter from the Chairman to the Committee, and the Metropolitan Auditor's performance must be approved by the Committee. The letter would be forwarded to Human Resources Department once approved. A motion for the acceptance of the assessment was made, seconded, and carried.

Old Business

Follow-up on CAFR, Single Audit and Management Letter (Bob Brannon – Committee
Chairman)

Mr. Brannon explained to the new Committee members that the CAFR is usually left open to allow discussion if anyone has any additional questions or comments. He stated that the FY2015 CAFR should be available soon. Ms. McDoniel confirmed it would be available the beginning of December. There were no questions regarding the CAFR.

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

Mr. Swann stated that the new legislation was written to provide additional support to the internal audit function for areas the Metropolitan Nashville Charter does not address. The legislation clarifies the Office of Internal Audit has access to records. Mr. Swann explained that third party vendors have been hesitant to provide information to the Office of Internal Audit in the past. The legislation also states that internal auditors are responsible for protecting the confidentiality of the information they receive.

The new legislation would also provide the Office of Internal Audit the authority to initiate investigations. In the past, information obtained from hotline calls is presented to the impacted department, and the director may request the Office of Internal Audit to assist with the investigation. Also, the Local Government Office from the Tennessee Comptroller has asked the Office of Internal Audit to conduct investigations in the past.

There was a discussion from the Committee about why the Metropolitan Auditor could not initiate investigations. Mr. Swann stated that the Department of Law determined that the Office of Internal Audit lacks authority to initiate investigations. Ms. Costonis stated that the Metropolitan Nashville Council could interpret what "Other Audit Services" would entail. The proposed legislation would be added to the existing legislation to allow the Metropolitan Auditor to initiate investigations.

Mr. Mendes suggested that Nashville Electric Service would believe the "Scope of Services" proposed legislation is in conflict with the Metropolitan Nashville Charter. The Metropolitan Nashville Airport Authority was also discussed as an entity that would disagree with the proposed legislation. The Committee considered the reasoning for the proposed legislation for "Scope of Services." The bylaws were updated in the past, but updating the Metropolitan Nashville Code would make the scope of services more prominent.

Mr. Briley stated that it was not the intention of the Metropolitan Nashville Council for the Metropolitan Auditor not to be able to initiate investigations. Mr. Swann explained that was the impression of some other members in the past, and this legislation would clarify it.

Mr. Swann explained that the purpose of this item was to introduce the proposed legislation at this meeting, and it could be discussed more in the December meeting.

(Mr. Briley left the committee meeting at 5:10 PM)

Internal Audit Project Status (Mark Swann – Metropolitan Auditor)

Mr. Swann explained that 12 out of 19 audit reports had been completed with four projects in progress. The goal is to complete 19 audit reports by January 31, 2016.

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

There has been one hotline call this year. Chris Henson with Metropolitan Nashville Public Schools asked if the hotline could be used as part of an internal investigation being conducted relating to recent Channel 5 news stories. In the last few days, around ten hotline calls have come through in regards to that investigation.

Approval of Minutes

The minutes of the July 28, 2015, audit committee meeting were approved.

Other Administrative Matters (Mark Swann – Metropolitan Auditor)

Mr. Swann stated that the Office of Internal Audit is currently under budget and is currently down one employee.

The next audit committee meeting is scheduled for December 8, 2015. Mr. Swann suggested that the Committee determine if they would rather meet monthly or quarterly. That decision will be deferred until the next audit committee meeting.

Mr. Reed pointed out that the Vice-chairman is no longer on the Committee. He suggested that the appointment of a new Vice-chairman be added to the next agenda.

Mr. Swann stated that Jack Henry was recently hired as a Senior Auditor, and he was previously employed by the Office of Internal Audit.

Ms. Lomax-O'dneal asked when the audit plan was prioritized. Mr. Swann said that would be in the February 2016 meeting.

Meeting adjourned after 78 minutes.

Approved by the Metropolitan Nashville Audit Committee at the December 8, 2015, meeting.