

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

December 8, 2015

On Tuesday, December 8, 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
Talia Lomax-O'dneal, Director of Finance
Bob Mendes, At-Large Council Member
Brack Reed, Chamber of Commerce

Others

Mark Swann, Metropolitan Auditor
Seth Hatfield, Office of Internal Audit
Kim McDoniel, Chief Accountant
Stan Romine, Department of Finance
Dell Crosslin, Crosslin and Associates
John Crosslin, Crosslin and Associates
David Hunt, Crosslin and Associates
Dan Miller, Crosslin and Associates

Quorum present? Yes

Call Meeting to Order

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

Approval of Minutes

A motion to approve the November 10, 2015, meeting minutes was made, seconded, and carried.

New Business

Election of Audit Committee Vice-Chairman

The question was asked whether the audit committee was required to have a vice-chairman. Mr. Swann stated that he did not believe a vice-chairman was required by the bylaws. The committee decided to move ahead without nominating a vice-chairman.

Metro Water Services Clean Water Abatement Program Review

John Crosslin with Crosslin and Associates presented the interim report of the performance audit of the overflow abatement program. Mr. Crosslin gave the new members of audit committee a background on the \$1 to \$1.5 billion dollar project over ten years. The project is in response to a Consent Decree between the United States of America, the State of Tennessee, and the Metropolitan Government of Nashville and Davidson County. The Consent Decree required a Corrective Action Plan/Engineering Report for its sewer system and a Long-term Control Plan for its combined sewer system to achieve the goals of the Clean Water Act. Neither of these plans has been approved by the Environmental Protection Agency as of September 29, 2015.

Mr. Crosslin discussed the two findings and recommendations in the report. Bob Mendes asked about the timeline for implementing the recommendations. Mr. Crosslin stated that the recommendation was for immediate implementation. Mr. Mendes requested that the

management response include a timeline for compliance and stated that the audit bylaws require that as well.

David Briley asked how the Metro Nashville government would know if the unapproved plan will stop Environmental Protection Agency action or if the action under the unapproved plan will be sufficient. Mr. Crosslin stated that all work to this point would have had to be done anyway. He was unaware at what point Metro Water Services would be performing work that would not have been done without the plan, but they were not close to that point in September of this year.

There was a discussion about how to get approval from the Environment Protection Agency quicker and the problems that could arise with proceeding with the project under an unapproved plan.

Talia Lomax-O'dneal asked if the departments are asked to come to the audit committee meetings. Mr. Swann stated that historically if the audit committee had questions, the departments are asked to come to the next meeting. He stated that Water Services is usually at the meeting when the overflow abatement project is discussed, but he neglected to inform them that it was on this agenda. Mr. Swann stated he would invite Water Services management to the next audit committee meeting.

External auditor presentation FY 2015 Comprehensive Annual Financial Report

David Hunt with Crosslin and Associates presented the Comprehensive Annual Financial Report for Metropolitan Government of Nashville and Davidson County for fiscal year 2015. Mr. Hunt provided a workbook to the audit committee for his presentation. Mr. Hunt noted that there were no material weaknesses in fiscal year 2015. This is the second year with no material weaknesses, which means that the Metropolitan Nashville Government will be considered a low-risk auditee for government programs next year.

There were three accounting pronouncements adopted in 2015. The most significant was Government Accounting Standards Board (GASB) Statement No. 68 which required the recording of the net pension liability. Previously this liability was only disclosed in the footnotes. Mr. Hunt explained that the recording of the net pension liability took Metro Nashville from an above-water position to a below water position. There was a discussion about whether this change created a going concern issue. Mr. Hunt stated that it did not create a going concern. The pension is well funded with over \$2 billion, but there is a net liability that is now recorded in the financials.

Mr. Hunt stated that large changes are coming in the next few years with GASB Statement No. 74 and GASB Statement No. 75. GASB 74 will require disclosures regarding Post-employment Benefits other than Pensions (OPEB). GASB 75 will require the recording of the OPEB liability in the financials. The OPEB plan is largely unfunded, and a liability of approximately \$2 billion will hit Metropolitan Nashville Government's net position. Mr. Mendes asked if this will create a going concern. Mr. Hunt stated they would have to evaluate that when the time came, but he guessed it would not. There was a discussion about the consequences if a going concern was created. Mr. Hunt stated that ratings from agencies and the ability to issue debt would be affected. He stated that several governments will be in the same position, and rating agencies will be aware of the change.

Mr. Hunt stated that upcoming GASB Statement No. 76 and No. 77 would not have a significant impact on the financial statements. GASB Statement No. 77 deals with tax abatement

disclosures. Mr. Briley asked if any additional disclosures will be required under the new requirements. Mr. Hunt stated that the current disclosures are most likely sufficient to meet the requirements for GASB Statement No. 77. However, payment in lieu of taxes may need to be disclosed.

Mr. Hunt fielded some questions regarding the Comprehensive Annual Financial Report. Questions were asked regarding how the OPEB liability was calculated, where the going concern letters for the General Hospital and Bordeaux are located, the pros or cons of early adoption of GASB pronouncements, the budget for repairing streets and roads and their current condition, and contributions to the pension fund.

Mr. Briley asked if any action was needed other than to accept the FY2015 Comprehensive Annual Financial Report. Mr. Swann explained that the Comprehensive Annual Financial Report was usually left open for a year and then accepted by the audit committee at the end of the year. Mr. Swann said he would research the exact requirements and report back to the committee.

Mr. Mendes stated he would like to go into executive session with the external auditors before voting to accept the FY2015 Comprehensive Annual Financial Report. Mr. Swann stated that public notice had to be issued before the committee could go into the executive session, but he would arrange for that to happen at the next meeting.

Request to revise 2015 Internal Audit Work Plan to include audit of the Clerk & Master

Mr. Swann explained that a request was made to audit the Clerk & Master, and notice of that request was made to Committee members. He requested approval to add the audit to the work plan.

A motion to revise the 2015 Internal Audit Work Plan to include the audit of the Clerk & Master. was made, seconded, and carried.

Old Business

Administration – Frequency of Audit Committee Meetings

Mr. Swann made the recommendation for the audit committee to meet five times within the next year instead of four.

A motion to accept the five scheduled meeting times was made, seconded, and carried.

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

Mr. Briley made a motion for Mr. Swann to meet with Mr. Mendes or John Cooper to hash out the details of the legislation. He suggested that Mr. Mendes or Mr. Cooper be the sponsors of the legislation since they are on the Committee. Mr. Mendes agreed to discuss it further with Mr. Swann.

A motion for Mr. Swann to meet with Mr. Mendes or Mr. Cooper and report back to the Committee was made, seconded, and carried

Follow-up on FY 2014 CAFR, Single Audit and Management Letter

Mr. Brannon stated that the Committee would vote to accept the FY 2014 Comprehensive Annual Financial Report at the next audit committee meeting.

Meeting adjourned after 87 minutes.

Approved at the February 9, 2016 Metropolitan Nashville Audit Committee meeting.