

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

February 9, 2016

The regularly scheduled meeting of the Metropolitan Nashville Audit Committee was held on Tuesday, February 9, 2016, at 4:00 p.m., at 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
Kimberly Smith, Office of Internal Audit
Theresa Costonis, Department of Law
Kim McDoniel, Chief Accountant
Gene Nolan, Department of Finance
Dell Crosslin, Crosslin and Associates
David Hunt, Crosslin and Associates
Scott Potter, Director, Metro Water Services
Tom Cross, Department of Law
Ron Taylor, Metro Water Services
Tony Neumaier, Metro Water Services

Quorum present? Yes

Call Meeting to Order

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

Approval of Minutes

A motion to approve December 8, 2015, meeting minutes was made, seconded, and carried.

New Business

Election of Committee Chairman and Vice Chairman

A motion to elect Mr. Robert Brannon, Committee Chairman, and Mr. Brack Reed, Vice Chairman was made, seconded, and carried.

Metro Water Services Clean Water Abatement Program Review

Metro Water Services management and Mr. Cross, Department of Law representative for Metro Water Services, briefed the Committee concerning the Consent Decree program. The program has two components; the first part is the Corrective Action Plan / Engineering Report, which is the plan to address sanitary sewer overflows (SSO). This plan addresses about 70 percent of the program investment. These are public health issues, and Metro Water Services does not believe there is any risk of non-acceptance by the Environmental Protection Agency in conducting sanitary sewer overflows projects. This is because it does good for the public.

The program's second component is the Long-term Control Plan. This plan is to address combined sewer overflows (CSO) into the Cumberland River. This plan is still in negotiations with the Environmental Protection Agency to balance the amount of investment that will provide the greatest benefit in improving water quality. Metro Water Services is not conducting projects under this plan. There are only six combined sewer overflows left. You have to obtain a permit

to complete a combined sewer overflow project; permits are not required for sanitary overflow projects.

Mr. Briley asked how we can know that enough work has been done to satisfy the Environmental Protection Agency to minimize the number of sanitary sewer overflows with having built the Whites Creek pumping station. Metro Water Services management stated that the criteria being used for performance are the same criteria that are accepted by the Environmental Protection Agency in Region 4, and all of the other cities under a consent decree are following the same criteria. Mr. Briley asked if there was any risk that the Environmental Protection Agency would not accept these models. Metro Water Services management replied no.

Mr. Briley asked if there is someone that we are talking to at the Environmental Protection Agency. Metro Water Services management replied yes. However, it has been a year since information regarding water quality has been submitted and no response was received from the Environmental Protection Agency.

Mr. Briley asked if we are continuing to build without hearing a response from the Environmental Protection Agency, are we exposing the city to risks, for example, we built the Whites Creek pumping station using the wrong model, millions of dollars are spent, and the Environmental Protection Agency does not accept the project as constructed. Metro Water Services management replied that there is no risk because there are procedures built into the Consent Decree for getting approvals. Nothing has been undertaken they would not have consent to do. Tennessee Department of Environment and Conservation is also party to the Consent Decree. Metro Water Services has been in constant contact with this group, as recent as a few months ago, and they are well aware of our criteria and what is being done.

Mr. Briley stated that his understanding, as of the last meeting, was that we were not in contact with the Environmental Protection Agency in reference to approvals. Metro Water Services management stated that quarterly updates are submitted to the Environmental Protection Agency, which implies contact.

Mr. Cooper asked about lead in water testing. Metro Water Services stated they conduct lead testing every three years, and the results are good. Metro Water Services described the lead testing process and test results.

Discussion on Adoption or Acceptance or Closing of the FY 2015 Comprehensive Annual Financial Report

Ms. Costonis emphasized that there is nothing that states that the Committee has to approve the Comprehensive Annual Financial Report. Continuing with the past practice of not voting to approve is fine. Mr. Brannon stated that in the past, it has been left open for several meeting just in case something additional arises. Mr. Reed added that he believed it should be documented as a best practice as a group, on an ongoing basis, to accept, or not accept, the audit.

A motion to accept the FY 2015 Comprehensive Annual Financial Report was made, seconded, and carried.

Mr. Mendes asked if the Committee wanted to amend the bylaws at some point to describe the process. The Committee agreed.

Discussion on Executive Sessions for Audit Committees

Ms. Costonis stated items to be discussed in executive session are listed in Tennessee Code Annotated § 9-3-405(d). After speaking with Mr. Swann, the FY 2015 Management Letter and FY 2015 Single Audit is still outstanding, has not been submitted to the Committee, and would be considered pending and ongoing. Conversations should be limited to the FY 2015 Management Letter or FY 2015 Single Audit, as opposed to the FY 2015 Comprehensive Annual Financial Report.

Mr. Briley asked if the Comprehensive Annual Financial Report should be made available to the public before the Committee accepts it. Ms. Costonis stated that the Metropolitan Nashville Charter § 16 states that the Comprehensive Annual Financial Report has to be finalized within four months of the close of the year.

Mr. Mendes stated that with Crosslin and Associates having to roll up the other entities, the Committee would have to commit to having meetings within a ten-day window after all of the other units are rolled up, but before the Comprehensive Annual Financial Report becomes available to the public. In the event of any roadblocks, as it relates to the Comprehensive Annual Financial Report, the Committee should consider a mid-process update executive session in September, followed by an almost-final draft executive session in November. The idea is first to identify any issues with conducting the audit that the Committee should know about and then gain an idea of what the final draft will include before it is received.

A motion to adopt a policy to implement a mid-audit executive session from the external auditor and also in close proximity to the final draft prior to acceptance by the Committee in its final form was made, seconded, and carried.

Discussion on the Audit of the Office of Management and Budget Revenue Forecasting Audit Report issued January 22, 2016

Mr. Swann stated that since the last Committee meeting, the Office of Internal Audit released one audit report on revenue forecasting. The controls and review of the process were examined.

Mr. Mendes asked if the response is stating that the Office of Management and Budget would implement the recommendations to the extent reasonable. Ms. Lomax-O'dneal replied yes. Ms. Lomax-O'dneal stated that the Department of Finance was presented with options on how to better approach revenue projections. The recommendations were on track with the direction the Department of Finance is headed in terms of projecting estimates with the new budgeting process. The Department of Finance will try the new methods over the next few years to see if there are any improvements. Budget projections have been very close to actuals over the past few years.

Discussion of the Office of Internal Audit Recommended 2016 Annual Work Plan

Mr. Swann presented the recommended Metropolitan Nashville Office of Internal Audit 2016 Annual Work Plan. Mr. Mendes stated that the risks appeared to be heavier in places that collect cash. Mr. Mendes was interested in hearing what it would take to adopt an enterprise risk management approach and big picture thinking perspective. Mr. Briley stated that approaches from other big cities should be examined. Mr. Swann stated that he had also discussed this matter with Ms. Lomax-O'dneal. Government auditing standards do not require a risk assessment process. However, the Institute of Internal Auditors standards does require an enterprise risk assessment process be considered when developing an internal audit work plan.

Mr. Mendes stated that when Nashville Electric Services adopted the enterprise risk management approach, it dramatically changed the focus of internal audit. Mr. Swann replied that the sponsorship of risk management should not come from the Office of Internal Audit, but from Metro Nashville Government management. Internal audit's role is to assess the risk management process.

Mr. Reed stated that the Office of Internal Audit Recommended 2016 Annual Work Plan seems to include a lot of financial audits, but performance audits should be included as well, which historically have been expensive like the audit of Metropolitan Nashville Public Schools. He inquired about including more performance type audits in the plan. Mr. Swann replied that usually there is a performance element included in each of the audits. Subject-matter experts are also brought in as needed.

Ms. Lomax-O'dneal asked Mr. Swann to explain the scope of the safety program included in the audit plan. Mr. Swann replied that the audit would be Metro-wide from the operational aspect as it relates to employee safety. Metro-wide would include the general government. A subject matter expert would likely be hired for this project.

A motion to approve the recommended Metropolitan Nashville Office of Internal Audit 2016 Internal Audit Work Plan was made, seconded, and carried.

Discussion on request from the Metropolitan Nashville Board of Education for the Office of Internal Audit to conduct an independent review of End of Course and other grading practices in Metropolitan Nashville Public Schools

Mr. Swann stated that a request was received from the Board of Education to review the end of course grading practices. The Office of Internal Audit has limited resources and would likely need to hire someone with expertise in education, service delivery, and grading practices to assist in this investigation. Ms. Mendes stated that there were four things he wanted to know before moving forward, such as more details regarding the scope of what "examine the situation" entails, whose budget is this coming from, a description of the scope of their existing internal review, and the scope and status of any other audits. Ms. Lomax-O'dneal added that we also need to know what they anticipate our role to be, as well as the role of any consultant that may be engaged. Mr. Briley asked about McConnell, Jones Lanier & Murphy's familiarity with this district. Mr. Swann replied that they did performance audits of school districts across the country. Also, the Committee selected this group out of five potential firms that specialize in school district audits to conduct the audit of Metropolitan Nashville Public Schools.

A motion to delay a decision for the Office of Internal Audit to conduct an independent review of End of Course and other grading practices in Metropolitan Nashville Public Schools until more information is received was made, seconded, and carried.

Unfinished Business

Discussion on proposed supporting internal audit legislation

Ms. Costonis stated some additional suggested comments were added to the draft legislation for the Committee's consideration. A few Tennessee Code Annotated sections already speak generally to these sections. Paragraph H Subsection 1 - Access to Records is similar to Tennessee Code Annotated § 9-3-206. Subsection 1 was added to Section I - Other Audit Services, which mirrors Tennessee Code Annotated § 9-3-406. "Investigation and disposition of reported incidents of fraud as contemplated above in subsection I of this section" was added to

Section L - Scope of Services in an effort to make it clearer. Another addition, "and any public entity whose existence is created or authorized by the Metropolitan Charter or the Metropolitan County Council", that effectively excludes entities created pursuant to State law but designated by that law to be a Metro agency or instrumentality. Ms. Lomax-O'dneal stated that not all employees referenced are Metro employees and should be replaced with "employees of these entities."

Mr. Mendes highlighted the language "To the fullest extent allowed by the Charter" in Section H Subsection 1 - Access to Records and Section L – Scope of Services was the results of his meeting with Mr. Swann. Mr. Briley believed this language might limit Metro Nashville Government's authority to audit its entities.

Ms. Lomax-O'dneal asked if any other edits would be made to the ordinance after today. Ms. Costonis stated that Section I, Subsection 2 would be edited to state "No employees of these entities," along with the Section L "investigation and disposition of reported incidents of fraud as contemplated above in subsection I of this section." Also, Mr. Briley's suggestion, instances of "To the fullest extent allow by the Charter" should be removed. Mr. Briley stated that we should assume we have authority unless they tell us otherwise.

A motion to adopt the changes to the proposed supporting internal audit legislation was made, seconded, and carried with a vote of five members in favor and one member, Mr. Mendes, not in favor.

Mr. Swann stated that although there were additional items on the agenda, the Committee should skip to the executive session.

A motion to adjourn the public meeting was made, seconded, and carried.

Adjournment of Public Meeting

Public Meeting adjourned after 90 minutes.

A motion to conduct an executive session was made, seconded, and carried. The Audit Committee went into executive session with the external auditors to discuss the ongoing audit of the FY 2015 Management Letter and Single Audit. Attending the executive session were Mr. Brannon, Mr. Briley, Mr. Cooper, Ms. Lomax-O'dneal, Mr. Mendes, Mr. Reed, all members of the Metropolitan Nashville Audit Committee, Ms. Costonis, Metro Nashville Department of Law, and Crossline and Associates representatives, Mr. Dell Crosslin and Mr. David Hunt.

The executive session adjourned after 15 minutes.

Respectfully submitted to the Metropolitan Nashville Audit Committee members:



Mark Swann
Secretary, Metropolitan Nashville Audit Committee

Approved by the Metropolitan Nashville Audit Committee on April 12, 2016.