

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

July 26, 2016

On Tuesday, July 26, 2016, at 5:00 p.m., the Metropolitan Nashville Audit Committee met in the Metropolitan Courthouse, 2nd Floor, Committee Room 2. The following people attended the meeting:

Committee Members

Brack Reed, Chamber of Commerce
David Briley, Vice-Mayor
John Cooper, At-Large Council Member
Bob Mendes, At-Large Council Member

Others

Mark Swann, Metropolitan Auditor
Seth Hatfield, Office of Internal Audit
Nan Wen, Office of Internal Audit
Bill Walker, Office of Internal Audit
Tara Ladd, Department of Law
Phil Carr, Department of Finance
Doug Reed, The Fairgrounds Nashville
Dell Crosslin, Crosslin & Associates
John Crosslin, Crosslin & Associates
Mark Macy, Public Works
Sharon Wahlstrom, Public Works
Donald Reid, Public Works
William Davis, Public Works
Hank Clay, MNPS Government Relations

Quorum present? Yes

CALL MEETING TO ORDER

Mr. Brack Reed called the meeting to order.

APPROVAL OF MINUTES

A motion to approve the April 12, 2016, meeting minutes was made, seconded, and carried.

NEW BUSINESS

Public Works – Infrastructure Discussion

Mr. Donald Reid with Public Works gave a presentation on the current condition of Metropolitan Nashville Government's roads and bridges infrastructure. Mr. Reid stated it is the policy of the Metropolitan Nashville Government to maintain at least 70 percent of its roads and streets system at a fair, good, or excellent condition. Public Works is responsible for maintaining 5,852 lane miles of roads. This is more than all of the interstate miles maintained by the Tennessee Department of Transportation.

Mr. Reid advised that the original threshold of 70 percent was established in 2004 and was made prior to key events that dramatically affected condition levels. Specifically, increases in crude prices, the 2010 flood, and enormous population growth all caused unanticipated wear and tear on our infrastructure. The Metropolitan Nashville Government has made progress in improving roads and streets in fair or better condition from a low of 52.73 percent after the 2010 flood to 63.4 percent. These percentages are provided by ARA, a pavement condition

inspection company, who ride approximately one-half of the lane miles in Davidson County every year using specialized inspection equipment to determine the condition of roads and streets.

Ms. Sharon Wahlstrom explained that there is more pressure to get a main road fixed when a water main breaks than for other types of roads. Some of the poor condition roads are in a cul-de-sac that is less-traveled and where there is less pressure to repair poor roads.

Mr. Phil Carr stated he believed if the Metropolitan Nashville Government falls under the 70 percent and can continued to show improvement in road conditions the modified approach for reporting infrastructure maintenance could continue to be used for financial reporting.

Mr. Mark Macy stated that there have been years in which the amount appropriated to fund infrastructure improvements were less than the \$15 million requested. Thus, needed repair costs were deferred. To address this, Public Works received \$35 million for the upcoming budget year to help facilitate getting infrastructure back to 70 percent range.

Mr. John Cooper asked why the fiscal year 2015 Comprehensive Annual Financial Report (CAFR), reported the Actual Spent amount is less than the Needs/Budgeted amount. Since 2011 there was a material difference, \$48 million, between the Needs/Budgeted amount and the Amount Spent for roads and streets. Similarly, bridges and underpasses indicate \$90 million is unspent over five years. Ms. Wahlstrom explained that the unspent funds might be tied up in purchase orders on projects not completed. Sometimes projects take three to five years to complete.

Mr. David Briley stated the genesis of this conversation took place due to a change of wording in the CAFR two to three years ago. Specifically, the threshold went from 70 percent of Roads in "Good or Better" condition to 70 percent of Roads in "Fair or Better" condition. There was confusion as to whether this was a function of a change in measure or a change in the standard.

Mr. Carr stated this was initially a mistake in language, and the change was more about terminology instead of standard. There are very few governments that use the modified approach and in terms of wording, there were no real "models" to go by when this approach was first implemented by the Metropolitan Nashville Government. No one can remember why "Good" was used as opposed to "Fair" but, in substance, the recent change was not an attempt to lower the standard but to correct the terminology to criteria the Metropolitan Nashville Government had always been practicing.

In his opinion, Mr. Briley stated the modified approach does not necessarily communicate if the Metropolitan Nashville Government is adequately taking care of its infrastructure. Since the standard can be changed to whatever the Metropolitan Nashville Government wants it to be, the standard could be lowered to divert money away from needed infrastructure spending to other areas. Mr. Briley advised the modified approach may not be the most prudent method.

Mr. Cooper asked about bridge improvements. Mr. William Davis stated the Needed/Budgeted Amounts for bridges is not necessarily the budgeted number but instead what is needed on an annual basis to maintain our bridge infrastructure at 75 percent. The Needs Amount can be an estimate from a professional engineering firm but is not necessarily the amount budgeted. Mr. Carr stated that he will research the footnote explanation in the CAFR. Mr. Cooper explained it will be easier to appropriate additional funding if the CAFR has a clear explanation of funds already encumbered, instead of the encumbered funds appearing available for expenditure.

There was continued discussion on maintaining the modified approach or changing to depreciation for roads and bridges infrastructure financial reporting. The decision to continue with the modified approach or change to a depreciation approach was acknowledged to be a management decision.

Mr. Bob Mendes made a motion that best practices and benchmarking with similar size local governments on the modified approach for accounting for infrastructure be reviewed and reported back to the Committee. The Committee requested the review include the true difference in the charge between depreciation versus the modified approach, a better understanding of why the Metropolitan Nashville Government adopted this approach, determine if anything is understated, and to know the time goal to get back up to the 70 percent. This motion was seconded and carried.

External Auditor Fiscal Year 2016 Financial Audit Communication

Mr. John Crosslin discussed their agenda, listed engagement team members, and areas to be audited. Mr. John Crosslin described the auditor responsibilities and responsibilities of management. He explained the auditor independence professional standards, AICPA guidance on fraud risk, and the strategy to address risk. He then explained the audit methodology and their timeline for the CAFR audit progress which will be from June 2016 through November 2016.

Mr. Mendes inquired if Crosslin & Associates was satisfied with what they were being paid. He also advised he anticipated that Crosslin & Associates would contact the audit committee if there were any significant issues with the audit or management. Mr. Dell Crosslin advised they were satisfied with the current compensation for the annual audit. Mr. Mendes commented many organizations rotate the principal auditor every so often and if that should be considered in the Metropolitan Nashville Government's engagement. The decision was made to not make a change during the middle of the audit process, but Mr. Dell Crossline was agreeable to considering it for future years.

Audit of Comcast Franchise Fees

Mr. Seth Hatfield described the objective, scope, and methodology used for this audit. The Office of Internal audit tested the accuracy and completeness of franchise fees owed to the Metropolitan Nashville Government. Audit results indicated that Comcast had overpaid the Metropolitan Nashville Government by \$42,197 because Comcast had not excluded bad debt expense and included whole house maintenance revenue in the calculated payment amounts to the Metropolitan Nashville Government. In addition, the auditors recommended that Comcast include subscriber information on the statements sent with the franchise fee payments as required by state law. Steps have since been taken to resolve the overpayment with Comcast.

Audit of Finance Department's Credit Card Purchases

Ms. Nan Wen described the objectives of the audit. Ms. Wen stated the audit showed that the Finance Department has controls in place to provide assurance that credit card usage is reasonably in compliance with Metropolitan Nashville Government financial policies. Controls are in place over the issuance of credit cards. However, maintenance of supporting documentation could be improved, and control over eligible types of card purchases could be tightened.

Mr. Mendes asked if the 15 of 173 purchases for which receipts were not available were for more expensive items or less expensive items. He said that 15 of 173 is 9 percent, but is it also 9 percent of the dollars or is weighted toward expensive or less expensive items. Mr. Swann explained that it was not related to specific amounts of purchases, but due to the fact that finance policy did not require a central repository for the documents resulting in misplaced supporting documentation. This procedure has since been corrected.

Mr. Mendes inquired to the number of credit cards issued within the Finance Department. Mr. Swann indicated that only five credit cards have been issued to Finance Department personnel.

Audit of Hotel Occupancy Tax for Fiscal Year 2016

Mr. Swann advised that since the Office of Internal Audit began conducting hotel occupancy tax audits, net underpayments identified totaled to almost \$700,000 after accounting for interest and penalties. Approximately \$500,000 has been collected. Mr. Cooper asked how underpayments would be detected if these audits were not conducted. Mr. Swann advised audits are the only way to detect underpayments. Mr. Swann advised other groups within the Metropolitan Nashville Government could conduct these audits as well. Mr. Swann advised there is no mandate to conduct hotel occupancy tax audits. A future audit was suggested to determine which hotels/vacation rental operators were permitted.

Mr. Swann stated that the Metropolitan Nashville Government was in the process of reviewing a proposal from Airbnb to collect and remit transit taxes on behalf of their host. Mr. Mendes requested that this proposal include a requirement for Airbnb to ensure host are permitted by the Metropolitan Nashville Government.

Request for Audit Metropolitan Public Health Department

On April 14, 2016, Dr. William Paul, Director of Health, Metropolitan Public Health Department, requested a financial compliance audit of all non-grant areas and an operational audit of the Bureau of Administration and Finance within the Metropolitan Public Health Department.

A motion was made to accept the audit into the 2016 Internal Audit Work Plan, and the motion was seconded and carried.

Request for Audit of Credit Card Usage within the Finance Department

On April 19, 2016, Ms. Talia Lomax-O'dneal requested an audit of credit card usage within the Finance Department. This audit would complement the existing review of credit card usage for all Metropolitan Nashville Government departments being performed by the Finance Department Office of Financial Accountability.

A motion was made to accept the audit into the 2016 Internal Audit Work Plan, and the motion was seconded and carried.

UNFINISHED BUSINESS

Update on internal audit legislation

Mr. Cooper stated there was very little to report at this time, but it was hoped to have more information at a future meeting.

The Fairgrounds Nashville Potential Audit Objectives

Mr. Bill Walker described the potential objectives for the audit of The Fairgrounds Nashville. After discussion on the audit objectives, the term “governance structure” was revised to “governance interaction.”

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

OTHER ADMINISTRATIVE MATTERS

Metropolitan Auditor’s Merit Pay Review

A discussion was conducted regarding the merit pay review for the Metropolitan Auditor. A letter included in the July 26, 2016, *Metropolitan Nashville Audit Committee Workbook*, page 48, states the Committee is satisfied with the performance of the Metropolitan Auditor and concurs with his current \$146,525 annual base salary along with a merit increase of 1.5 percent (\$2,198) plus participation in the Office of Internal Audit merit equal share pool (\$813), for a total salary merit increase of \$3,011. After the total salary merit increase, the Metropolitan Auditor’s annual salary will be \$149,536 effective July 1, 2016.

The proposed increase for the current year is on top of the 3.1 percent cost of living increase provided to all Metropolitan Nashville Government employees.

Mr. Swann advised the Committee an annual evaluation of the Metropolitan Auditor performance was completed in the November 2015 Committee meeting.

Mr. Mendes advised it would be prudent to conduct a more extensive evaluation going forward. Specifically, a review that has distinct objectives that can be measured and not over burdensome.

A motion was made based on a favorable review that the Committee concurs with the letter presented, and the motion was seconded and carried.

No action was taken on the remaining Agenda items because Mr. Briley had to leave and thereafter a quorum was not present.

Fraud Waste and Abuse Hotline and Investigation Update

Metropolitan Nashville Public Schools Fleet Matter

There was discussion on the results of the Metropolitan Nashville Public Schools’ Carl Black Chevrolet investigation into billing errors with \$176,828 owed from Carl Black Chevrolet. Carl Black Chevrolet did a review and found that \$124,000 was owed to Metropolitan Nashville Public Schools. The Metropolitan Nashville Public Schools requested the Metropolitan Nashville Office of Internal Audit investigate this billing matter prior to accepting the offer from Carl Black Chevrolet. Mr. Briley posed the question on whether they can pursue a qui tam case (intentional overbilling to a municipality requires payment of three times the amount of damages) based on these incorrect billings.

Discussion led to the need to review the protocol for distribution of investigation reports going forward.

Metro Water Services Stormwater Grates Investigation Update

Mr. Scott Potter reported by email that the result of an inventory of stormwater grates resulted in 4 out of 1,371 storm water grates (0.29 percent of the inventory) billed incorrectly. The 4 storm water grates are being addressed by the contractor, C K Masonry. This was a follow-up to the investigation related to Metro Water Services Storm Water Division not routinely performing post-upgrade stormwater grate inspections prior to invoice payment in 2014 and 2015.

Mr. Mendes commended the honesty of the Metropolitan Nashville Government employees in both of these investigation matters.

Request for Investigation Services Update

Mr. Swann mentioned there are non-audit service requests for pending investigations. The Hospital Authority Board has a pending request to investigate certain matters at Nashville General Hospital. Mr. Swann stated that all 1,000 budgeted hours for investigations have been used, for six investigations. There was some discussion about pending governance changes with the Hospital Authority Board and the on-going review being performed by Kraft CPAs. The Committee preferred to not have multiple assurance groups at Nashville General Hospital at the same time.

The meeting adjourned after approximately 1 hour and 28 minutes.

Respectfully submitted to the Metropolitan Nashville Audit Committee.



Mark Swann
Secretary, Metropolitan Nashville Audit Committee

Approved by the Metropolitan Nashville Audit Committee on September 13, 2016.