

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

September 13, 2016

On Tuesday, September 13, 2016, at 4:00 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

Bob Brannon, Chairman
David Briley, Vice-Mayor
John Cooper, At-Large Council Member
Bob Mendes, At-Large Council Member
Talia Lomax-O'Dneal, Director of Finance

Others

Mark Swann, Metropolitan Auditor
Kim McDoniel, Chief Accountant
Phil Carr, Department of Finance
Sharon Wahlstrom, Public Works
Theresa Costonis, Department of Law
Bill Walker, Office of Internal Audit
Dell Crosslin, Crosslin & Associates
David Hunt, Crosslin & Associates
John Crosslin, Crosslin & Associates
Tasha Kennard, Nashville Farmers Market
Julie Mayer, Crosslin & Associates

Quorum present? Yes

CALL MEETING TO ORDER

Mr. Bob Brannon called the meeting to order.

APPROVAL OF MINUTES

A motion to approve July 26, 2016, meeting minutes was made, seconded, and carried.

NEW BUSINESS

Audit of the Nashville Farmers' Market

Mr. Bill Walker discussed the primary objectives and conclusions of the audit. Mr. Bob Brannon inquired if management had accepted the audit recommendations. Mr. Walker advised all recommendations had been accepted and are in the process of being implemented.

Mr. Mendes asked what the Office of Internal Audit believed are the root causes of the issues related to billings and accounts receivable. Specifically, is it a function of technology, staffing, organization, etc. Mr. Walker stated that the processes at the Farmers' Market are very manual which facilitates errors and things being misplaced or lost. Revenues are recorded in an Excel spreadsheet without an audit trail and with various formatting styles. Variation in the way dates and stall numbers are entered significantly hampered our ability to ascertain if payments are received.

Mr. Mendes asked what function within the Metropolitan Nashville Government provides help with the implementation of sound business practices along with technology internal controls. Ms. Tasha Kennard stated she has reached out to the Information Technology Services Department and received assistance in information security requirements necessary for a future information system solicitation along with project management support. Also, the Information Technology

Services Department has offered to assist with the implementation of any technology solution selected. Furthermore, Ms. Kennard stated she would reach out to the Department of Finance to help with the design of internal controls in revised business processes due to the implementation of a new information system.

Mr. David Briley stated he was glad to hear the audit showed merchants were treated in a consistent and fair manner. He was also complimentary of the Nashville Farmers' Market Board.

Metropolitan Auditor Performance Measures

Mr. Mark Swann presented a list of potential Metropolitan Auditor and Office of Internal Audit strategic goals, performance standards and measures. Ms. Lomax-O'Dneal asked what was the source of the performance measures listed in the Committee meeting workbook. Mr. Swann advised the performance measures are a combination of performance measures from other Metropolitan Nashville Government entities and internal auditing professional association publications. Effectively executing an annual audit plan, conducting a meaningful risk assessment, remaining objective and independent, procuring professional talent, and adhering to government auditing standards are items Mr. Swann believed the Committee would find important attributes.

A discussion ensued over how to implement the performance review of the Metropolitan Auditor. Once the measures are determined, the Metropolitan Auditor is to annually provide a self-assessment regarding actual performance related to the selected performance measures. The self-assessment is to be submitted to the Committee for review at the end of the fiscal year. The self-assessment will be in addition to the annual performance report listing accomplishments of the Office of Internal Audit.

Ms. Lomax-O'Dneal advised she believed the Metro Action Commission has a good process for conducting director performance reviews. Mr. Mendes stated the annual evaluation should be coordinated by the Committee Chair and results reviewed in a public meeting.

The consensus was to have the Committee consider the measures presented at the next meeting to solidify performance standards for the fiscal year.

Review of the Metropolitan Nashville Audit Committee Bylaws and Metropolitan Nashville Office of Internal Audit Bylaws

Recommended changes to the Metropolitan Nashville Audit Committee Bylaws include listing the preference to review the status of the financial audit progress with the external auditor at the project mid-point and near final financial statement draft stages in an executive session. Also, the process of reviewing the annual financial statements is documented for the Committee to "accept" or "not accept" the results of final financial audit reports.

Other changes to the Metropolitan Nashville Audit Committee Bylaws and Metropolitan Nashville Office of Internal Audit Bylaws include adding the term "offices" in the list of entities within the scope of audit activities. This revision aligns with the proposed internal audit legislation.

A discussion ensued over revisions recommended for the Office of Internal Audit Bylaws. Ms. Lomax-O'Dneal asked about the word "individually" in the section referring to Office of Internal Audit personnel being "personally and individually" responsible and accountable for confidential records. Specifically, why was the word individually used and does using this specific word

diminish management's responsibility in handling such records? Mr. Swann advised the wording was used based on recommendations from the Metropolitan Department of Law. Mr. Swann also stated auditors are already individually responsible for confidential information in government auditing standards. Mr. Swann also said the maintenance of confidential information is critical.

Mr. Mendes recommended the first sentence in the "Access to Employees, Records, and Property" section (page 29) be revised to state: "To the fullest extent allowed by applicable laws." Mr. John Cooper advised another level of complexity has arisen on pre-existing contracts that limit the type of information available to outside parties. Contracts with the Sports Authority was cited as an example. Mr. Briley asserted a concern that if an investigation needs to be conducted on an entity such as the Sports Authority, who better to conduct the investigation than the Office of Internal Audit. Mr. Briley stated he wanted to make sure any wording did not prohibit the Office of Internal Audit from going to a place like the Sports Authority to look at information. Mr. Mendes advised the wording change suggested would not enhance or diminish the Office of Internal Audit ability to do so. Mr. Briley concurred.

A motion to approve the Metropolitan Nashville Audit Committee Bylaws and Metropolitan Nashville Office of Internal Audit Bylaws as presented subject to the first sentence "Access to Employees, Records, and Property" (page 29) and the "Scope" (page 24 and page 27) sections stating: "To the fullest extent allowed by applicable laws" was made, seconded, and carried.

UNFINISHED BUSINESS

Follow Up on the Modified Approach to Reporting Infrastructure

Mr. Walker provided an overview of the comparative review of similar government entities use of the modified approach to reporting infrastructure or lack of use of this approach.

A discussion ensued over the modified approach to reporting infrastructure. Ms. Kim McDoniel provided additional background information related to the history of the terms used and design of the financial report footnote related to the modified approach to reporting infrastructure. Mr. Briley expressed concerns on how the standards used for road conditions and the amounts funded is reported in the annual financial reports.

Mr. David Hunt stated Governmental Accounting Standards Board Statement 34's modified infrastructure disclosure requirement is not prescriptive and could be revised.

The Committee recommended the Department of Finance work on rewording the footnotes to the annual financial report to provide additional clarity as to the state of roads and bridges infrastructure and how the Metropolitan Nashville Government is applying resources to maintain roads and bridges.

Discussion of Health Department Immunization Program Audit Recommendations

Mr. Swann discussed the insurance claim processing recommendation that was partially accepted in the audit of the Health Department Immunization Program. Mr. Mendes asked if there are any compensating controls in the Health Department that would address the issue identified. Mr. Swann advised that the Office of Internal Audit is starting an audit of the Health Department this week and would revisit the issue related to insurance claim processing.

Update of Internal Audit Legislation

Mr. Cooper requested the Office of Internal Audit, Department of Finance, and Crosslin and Associates to provide examples of how this legislation would help in performing audit work. He believed concrete examples would assist him in discussions related to this legislation. A discussion ensued over various entities such as the Nashville Electric Service and Sports Authority that had issues with the legislation. Mr. Briley advised that he believed the legislation should be passed and could include the wording Mr. Mendes suggested regarding "To the fullest extent allowed by applicable laws" (see discussion on Metropolitan Nashville Audit Committee Bylaws and Metropolitan Nashville Office of Internal Audit Bylaws above.) Mr. Briley stated that if the Office of Internal Audit has the authority to audit how "the people's" money is being spent, the legislation should be passed. If there are issues that come about, they should be addressed on an individual basis.

Mr. Cooper stated that Nashville Electric Service advised they would be willing to meet with the Committee periodically to field questions. The Committee is willing to meet with Nashville Electric Service to review any wording issues related to this legislation or other concerns.

Mr. Mendes advised that Nashville Electric Service is subject to audits from the State of Tennessee and their own internal audit function. The Metropolitan Nashville Government's Office of Internal Audit function would be a duplication of effort.

A discussion took place regarding coordination of component units with the external financial audit. Ms. McDoniel stated that the Metropolitan Nashville Government Department of Finance receives Nashville Electric Service and other component unit financial statement audit reports for incorporation into the Metropolitan Nashville Government financial statements.

Mr. Swann advised the recommended revisions help clarify the Office of Internal Audit would only have access to records belonging to the Metropolitan Nashville Government, not information belonging exclusively to the entity. Moreover, for contractors, Ms. Lomax-O'Dneal advised every contract has an audit provision.

A motion to revise the wording in accordance with Mr. Mendes recommendations and recirculate the proposed legislation to those entities that are the most concerned about it was made, seconded, and carried.

ON-GOING REVIEW ITEMS

Comprehensive Annual Financial Report for Fiscal Year 2015

Mr. Brannon inquired if anyone wanted to discuss this item. The response was to move forward.

Single Audit and Management Letter

Mr. Brannon inquired if anyone wanted to discuss this item. The response was to move forward.

INTERNAL AUDIT PROJECT STATUS

Mr. Swann gave a status of audit projects and investigations.

FRAUD WASTE AND ABUSE HOTLINE AND INVESTIGATION UPDATE

A discussion ensued over the protocol for reporting fraud, waste, and abuse investigation reports to the Committee. Mr. Swann asked if investigation report topics should be listed in the

Committee's meeting agenda. Mr. Mendes advised he would like to see all investigation reports displayed on the Office of Internal Audit internet website for public transparency. Mr. Briley also suggested ensuring that investigation reports were easily searchable online.

Ms. Lomax-O'Dneal advised she agreed with the posting of investigation reports on the Office of Internal Audit internet website, but her only concern would be cases involving pending litigation. Mr. Briley suggested having a policy whereby all investigation reports are posted and exceptions approved by the Committee. Mr. Swann advised that historically the reason reports are not issued online is because these reports contained individual employee names. Even in situations where a party is exonerated, reputations can still be damaged. The Committee concurred and suggested redacting the names of individuals or referring to people as "Employee A, Employee B" etc.

Ms. Theresa Costonis stated she would review the potential libel concern with posting all investigation reports on the Office of Internal Audit internet website.

OTHER ADMINISTRATIVE MATTERS

Mr. Swann advised the Office of Internal Audit is in the process of generating a request for proposal for a new fraud, waste, and abuse hotline third party provider.

Mr. Swann advised the Office of Internal Audit is in the process of hiring another senior internal auditor.

The public meeting adjourned after approximately 1 hour and 25 minutes.

EXECUTIVE SESSION – ON-GOING AUDIT OF THE METROPOLITAN NASHVILLE GOVERNMENT FINANCIAL REPORTS

Immediately after the public meeting was adjourned a motion to start an executive session of the Metropolitan Nashville Audit Committee for discussing the on-going audit of the Metropolitan Nashville Government's fiscal year 2016 financial reports with the external auditors, Crosslin and Associates, was made, seconded, and carried.

The executive session meeting adjourned after approximately 10 minutes.

Respectfully submitted to the Metropolitan Nashville Audit Committee.



Mark Swann
Secretary, Metropolitan Nashville Audit Committee

Approved by the Metropolitan Nashville Audit Committee on November 17, 2016.