

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

**March 14, 2017**

On Tuesday, March 14, 2017, at 4:00 p.m., the Metropolitan Nashville Audit Committee met in the Metropolitan Courthouse, 2<sup>nd</sup> Floor, Committee Room 2. The following people attended the meeting:

Committee Members

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

Others

Theresa Costonis, Department of Law  
Jim Shulman, Council Member  
Kim McDonial, Deputy Finance Director  
Chris Taylor, Captain, Parks Police  
Ted Ciuba, Office of Internal Audit  
James Carson, Office of Internal Audit

Committee Member Not Present

Talia Lomax-O'dneal, Director of Finance

*Quorum present? Yes*

**CALL MEETING TO ORDER**

Mr. Bob Brannon called the meeting to order.

**APPROVAL OF MINUTES**

A motion to approve the December 13, 2017, meeting minutes was made, seconded, and carried.

**NEW BUSINESS**

Discussion on Audit of Park Police

Mr. James Carson summarized the scope, observations, and recommendations of the audit. Questions concerning the Park Police's progress towards implementing the audit recommendations were asked. Mr. Mark Swann stated progress is being made in implementing the recommendations, though some audit recommendation corrective action completion dates are "ongoing."

Mr. Bob Mendes requested if the Office of Internal Audit performs followed up on the achievement of audit report recommendations' corrective action plans based upon proposed completion dates. Mr. Swann replied that the Office of Internal Audit follows-up on open recommendations annually. Mr. Bob Mendes suggested that this should be done semi-annually.

Mr. Mendes requested a formal audit recommendation implementation reporting system be developed for the Committee's benefit. It is suggested that such a system could take the form of an excel spreadsheet that tracks prior audit recommendations, proposed completion dates, and progress towards achieving said recommendations. Also, Mr. Mendes recommended that the term "ongoing" be phased out and replaced with a specific proposed completion/implementation date. Mr. Swann replied a high-level report on the status of recommendations is in the Office of Internal Audit 2016 Performance Report provided to the Committee at the start of the meeting.

The Office of Internal Audit does have a follow-up system, and a report of all outstanding items is available if the Committee wants to review the report.

**A motion** that a formal audit recommendation implementation status report is provided to the Committee was made, seconded, and carried.

Discussion on request from the Metropolitan Nashville Council Members Jim Shulman, Nick Leonardo, and Scott Davis for the Office of Internal Audit to conduct a performance and financial audit of matters stemming from the lease and purchase agreement with Autumn Assisted Living Partners, Inc. and the purchase agreement with Vision Real Estate Investment Corporation

Mr. Swann indicated that there was a lack of internal financial controls; resulting in, among other things, management making cash payments for goods and services, in some instances, due to an inability to obtain financial credit. Mr. Swann states that due to an overall lack of basic financial documentation, an audit would be difficult to conduct. Therefore, to move the process forward, it is suggested that the proposed engagement be classified as an agreed-upon procedures engagement.

**A motion** to amend the Office of Internal Audit Annual Work Plan to include an agreed-upon procedure audit engagement related to the lease and purchase agreement with Autumn Assisted Living Partners, Inc. and the purchase agreement with Vision Real Estate Investment Corporation was made, seconded, and carried.

Mr. Jim Shulman had concerns on how meaningful the engagement results can be when the expected documentation is not available. In addition, he was interested in how the Office of Internal Audit is coordinating with the Finance Department's Office of Financial Accountability. Mr. Swann stated that the Office of Internal Audit did coordinate with the Finance Department and they have limited their efforts to immediate cash flow requirements to provide care and safety to the residents at the facility.

Discussion ensued on how poor financial accounting control practices have been enabled to exist, with the theme being how the taxpayers can have confidence that their money is being spent where management claims. It is proposed that in the likely event that the Office of Internal Audit is unable to account for every spent dollar, then the engagement focus on if traceable expenditures generally meet expectations. Emphasis will be placed upon determining whether expected expenses are greater than revenue plus Hospital Authority subsidies.

Mr. Swann stated the Office of Internal Audit is receiving cooperation from various banks, vendors, employees, and service providers towards piecing together a paper trail.

Questions were raised regarding how to prevent such situations from occurring in the future, including the pros and cons of privatization; whether the Finance Department can structure subsequent contracts in certain ways to mitigate such risks in the future; and, in general, how to create a climate of greater accountability.

Ms. Kim McDonald stated the process for privatization in this instance was unusual, in part, due to a condition that the entity was to be purchased within two years; which explains, in part, why outcomes that are more desirable were not achieved.

Mr. Swann suggested continuing with the agreed-upon procedures audit engagement, with the council members making the audit request as the client.

#### Discussion of the Office of Internal Audit Recommended 2017 Work Plan

Mr. Swann referenced the recommended 2017 Internal Audit Work Plan on Committee Workbook pages 19 and 20 for the Committee's consideration for approval.

Mr. Mendes asked if a formal enterprise risk management process within the Metropolitan Nashville Government was implemented as discussed last year. Mr. Swann stated \$50,000 was appropriated in the fiscal year 2017 Department of Law budget to pilot an enterprise risk management initiative. However, the funds were redirected to help pay for the Hospital Authority Board governance review to address risks within that entity. Mr. Mendes requested Ms. Theresa Costonis communicate to the Department of Law Director, Mr. Jon Cooper, that this initiative was discussed at the Audit Committee meeting.

Mr. David Briley asked if the Committee can look into instances where private sector costs are paid by the public sector, as such cases where a private contractor excavates a portion of a road or right-of-way, for whatever reason, and then does a substandard job repairing the excavation, thus depreciating the value of the public infrastructure. Mr. John Cooper suggested a review could inspect the quality of the repair work to determine if net damage exists and if so, make recommendations for how the Metropolitan Nashville Government can protect itself. Ms. Costonis offered that current franchise fees, wherein larger telecommunication companies pay five percentage of gross revenue are intended to defray some of this cost impairment.

Mr. Briley requested a written assessment concerning the limits to auditing the General Sessions Courts. Mr. Swann stated that his understanding is that the executive branch has the authority to audit the judicial branch if Metropolitan Nashville Government funds the staff or program within the judicial branch. Mr. Swann further offers that a previous Tennessee State attorney General opinion held that so long as the audit engagement is advisory and not prescriptive, an audit is not an infringement upon the "separation of powers."

Mr. Briley noted that there are several opportunities for potential audits. For example, a recent local media story indicates persons within the Clerks' Office have the ability to email the Sheriff's Office and eliminate another person's jail term, "per judge X." Particular areas of concern include 1) informal/non-traceable communication between judges and their parole officers; 2) document tracking, in general; and 3) an overall lack of adequate oversight and accountability.

A request was made for Mr. Swann to research these concerns and how they could be addressed through potential internal audit engagements.

**A motion** to approve the recommended Office of Internal Audit 2017 Annual Work Plan as presented by the Metropolitan Auditor was made, seconded, and carried.

### **UNFINISHED BUSINESS**

#### Discussion on Internal Audit Legislation

Mr. Swann provided the Committee a hand-out that is a recommended amendment to Council Member Shulman's proposed ordinance which is up for a second reading on Tuesday, March 21, 2017. This is an attempt to conflate the proposed ordinances (BL2016-159) introduced by

Mr. John Cooper last year and the proposed ordinance (BL2017-581) introduced by Council Member Shulman.

Discussions involved revisions to the wording of the proposed legislation related to employee reporting of instances of intentional illegal, intentional fraudulent, or intentional improper use of government funds, and the need for access to records, and the scope of audit services.

**A motion** to approve the recommended ordinance amendment as provided to the Committee was made, seconded, and carried.

#### **OTHER ADMINISTRATIVE MATTERS**

**A motion** to approve the Metropolitan Nashville Office of Internal Audit Performance Report for February 1, 2016, through January 31, 2017, along with the accompanying transmittal to the Metropolitan Council was made, seconded, and carried.

Mr. Swann reviewed the proposed Office of Internal Audit budget improvements and stated that all auditor positions are filled with the recent hire of Mr. Ted Ciuba.

Mr. Bob Brannon was formally recognized for 25 years of Committee volunteer service.

The meeting concluded after 90 minutes at 5:30 p.m.

Respectfully submitted to the Metropolitan Nashville Audit Committee.



Mark Swann  
Secretary, Metropolitan Nashville Audit Committee

**Approved by the Metropolitan Nashville Audit Committee on April 11, 2017.**