

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

April 10, 2018

On Tuesday, April 10, 2018, 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

Brackney Reed, Chamber of Commerce
Talia Lomax-O'dneal, Director of Finance
Charles Frasier, Tennessee Society of CPAs
John Cooper, Council Member
Bob Mendes, Council Member

Others

Mark Swann, Metropolitan Auditor
Theresa Costonis, Department of Law
Dell Crosslin, Crosslin
John Crosslin, Crosslin
David Hunt, Crosslin
Phil Carr, Chief Accountant
Sheri Weiner, Metropolitan Council
James Harbison, Metropolitan Development
and Housing Agency
Ed Oliphant, Metropolitan Transit Authority
Andrew Sullivan, Office of Family Safety
Seth Hatfield, Office of Internal Audit
Laura Henry, Office of Internal Audit
Ted Ciuba, Office of Internal Audit

Committee Member Not Present

David Briley

Quorum present? Yes

CALL MEETING TO ORDER

Mr. Brackney Reed called the meeting to order.

APPROVAL OF MINUTES

A **motion** to approve the February 13, 2018, meeting minutes as presented in the Metropolitan Nashville Audit Committee Workbook for April 10, 2018, was made, seconded, and carried.

NEW BUSINESS

Discussion on Audit of Metropolitan Transit Authority Revenue Collection Process audit report issued March 1, 2018

Mr. Seth Hatfield summarized the objectives, observations, and recommendations for this audit.

Mr. Charles Frasier asked about the decline in revenue from 2015 through 2017. Mr. Ed Oliphant explained the decrease was due to the institution of free transfers.

Mr. John Cooper asked questions pertaining to how passengers are counted. Mr. Oliphant explained that each passenger is counted by the farebox when the fare is paid or fare media is used. A monthly analysis of revenue and ridership is conducted to ensure collections are within

reason. Mr. Cooper asked how many rides constituted free transfers. Mr. Oliphant did not know at the time but offered to get that information to him.

Ms. Talia Lomax-O'dneal asked on which revenue line the EasyRide contracts were included. Mr. Oliphant stated that revenue would be included in the adult fares and that bus contract services were services provided for the Regional Transit Authority. Adult fares from these contracts can be isolated from the total adult fares.

Discussion on Audit of Development Incentives Management by Metropolitan Development and Housing audit report issued March 30, 2018

Mr. Ted Ciuba summarized the objectives, observations, and recommendations for this audit.

Mr. Frasier inquired about developers not obtaining three quotes from lenders. Mr. Ciuba stated that he did not know whether this would be considered a major issue, but a recommendation was made to require developers to obtain three quotes from lenders moving forward, and it was accepted by the department.

Mr. Bob Mendes arrived at 4:17 p.m.

Ms. Lomax-O'dneal asked if this was more of a best practice review because many of the recommendations were already in place when the audit report was issued. Mr. Ciuba explained that some of the observations were for projects that were older and most of the newer projects from 2014 going forward had processes that had improved. Observations were noted because the processes were not consistently performed across all projects.

Mr. Cooper asked if there was a way to determine how much tax increment financing was for the benefit of the public and how much was for the benefit of the landlord. Mr. Ciuba stated there were projects that clearly defined how the financing was used, but there were also projects where the use was unclear. These were questioned, and an observation related to this concern was included in the final audit report.

Mr. Cooper asked if there was a way to find out how many tax increment financing loans have been done in the districts. Mr. James Harbison explained the report that is given to the Metropolitan Nashville Council each year regarding tax increment financing contains this information. Mr. Harbison stated that the report could be modified to include more information on the allocation of the benefits.

Mr. Cooper requested clarification on the rejection of the audit report recommendation that concurrence with individual development projects in excess of \$5,000,000 is obtained by the Metropolitan Nashville Council. Mr. Harbison stated the allocation for the redevelopment district and tax increment financing allocation is approved by the Metropolitan Nashville Council, but he believes the underwriting and approval of individual projects is the role of Metropolitan Development and Housing Agency.

Mr. Cooper inquired about whether there was standard practice for appraisals. Mr. Harbison explained that there is a standard practice in place, but agreed that improvements could be made in determining the fair market value of the property.

Mr. Mendes asked how the best practice or standard was determined for having the Metropolitan Nashville Council approve projects over \$5,000,000. Mr. Mark Swann explained that it was from a control standpoint since there were questions around larger projects, and the thought was to increase transparency by having the Metropolitan Nashville Council take a closer look at those projects.

Discussion on Audit of Office of Family Safety audit report issued April 3, 2018.

Ms. Laura Henry summarized the objectives, observations, and recommendations for this audit.

Ms. Lomax-O'dneal asked whether Kronos was suggested as a timekeeping system for payroll. Mr. Andrew Sullivan stated that while Kronos would solve their problems, the department would not be able to afford the expense. Ms. Lomax-O'dneal explained that there would not be a departmental cost, but the department would need to work with the Metropolitan Nashville Finance department on the implementation.

Ms. Lomax-O'dneal asked if the department complied with the Metropolitan Nashville Donations Policy. Ms. Henry stated that the annual report of donations was produced, but there were no specific procedures on how to handle donations when they are received.

Mr. Mendes commented that the processes and controls around donations are critically important and that donations should be handled robustly.

Action Item: Mr. Mendes requested that the Office of Family Safety accept the recommendation regarding the implementation of a time-keeping system and work with the Metropolitan Nashville Finance Department on the implementation of Kronos. The Office of Family Safety should follow-up with the Office of Internal Audit regarding the request.

Presentation of the Metropolitan Nashville Government Fiscal Year 2017 Letter of Recommendations to Management.

Mr. David Hunt presented the observations and recommendations contained in the Letter of Recommendations to Management. No material weaknesses in internal controls were noted.

Observations discussed included timely reconciliations of bank accounts, timely recording of cash receipts, and segregation of duties on cash receipts.

Action Item: Mr. Mendes requested that Crosslin follow-up on the recommendation regarding the timely recording of cash receipts when the work starts on the upcoming fiscal year 2018 audit.

Presentation of the Metropolitan Nashville Government Fiscal Year 2017 Schedules of Expenditures of Federal and State Awards and Reports Required by the Single Audit Act as Amended and the Uniform Guidance.

Mr. John Crosslin summarized the reports and schedules of expenditures required by the Single Audit Act.

The presentation included the report on internal controls over financial reporting and compliance, the report on compliance with federal programs, and the schedule of state and

federal expenditures included in the Single Audit. Approximately \$73 million of \$175 million federal dollars were audited. No material weaknesses or deficiencies were noted.

Mr. Mendes asked for clarification on why the Metropolitan Nashville Government was not considered a low-risk auditee. Mr. Hunt responded the going concern and material weaknesses of the Nashville General Hospital were why the Metropolitan Nashville Government was not considered a low-risk auditee. The higher risk requires Crosslin to audit 40 percent of federal programs as opposed to 20 percent.

Mr. Mendes inquired about whether the allegations against former Mayor Megan Barry changed the work of the auditors. Mr. Hunt explained that they are required to investigate any allegation reported to the Tennessee Comptroller. Crosslin will review the Office of Internal Audit's work papers and decide whether any additional work should be done before reporting to the Tennessee Comptroller.

Discussion to amend the 2018 Internal Audit Work Plan to include an audit of expenditures by Metro Nashville Public Schools for the current fiscal year and previous fiscal years. This request was received from Metro Public School Board members Ms. Anna Shepard and Ms. Jill Speering.

A **motion** to amend the 2018 Internal Audit Work Plan to include an audit of expenditures by Metro Nashville Public Schools for the current fiscal year and previous fiscal years, was made, seconded, and carried.

Mr. Mendes stated that an e-mail was sent to Ms. Lomax-O'dneal from Councilman Steve Glover requesting an audit of spending by Metro Nashville Public Schools and asked if Mr. Glover's request was the same as the request by the Metro Public School Board members. Mr. Swann explained that they were similar and the audit would be used to determine if there is predication on the more specific allegations related to consulting services and contracting. If there is predication, a separate investigation would be started.

Mr. Cooper asked if Mr. Glover's request had to do with purchases by Metro Nashville Public Schools being unauthorized. Mr. Swann explained that unauthorized purchase requisitions are an internal distinction used for purchases that did not have a formal requisition and purchase order. This does not necessarily mean a purchase was unauthorized, only that the purchase did not meet their internal standard. Mr. Cooper asked if these types of purchases will be included in the audit and Mr. Swann advised that they would be included.

Follow-up on assistance for the Metropolitan Nashville Council Special Committee investigation on travel expenses related to former Mayor Barry's and former Mayor Barry's security detail travel and overtime expenses.

Mr. Swann explained that the Metropolitan Nashville Council Special Committee would be recommending a resolution to disband their efforts, request that the Metropolitan Nashville Audit Committee continues with the investigation, and forward the final report to all members of the Metropolitan Nashville Council. Mr. Swann explained that a motion was needed for him to continue the investigation if the resolution to disband the Metropolitan Nashville Council Special Committee was successfully passed.

Mr. Mendes expressed his support of the Metropolitan Nashville Audit Committee moving forward with the investigation. He stated it was important to know the mechanisms used to commit the fraud and decide what controls should be implemented to prevent this from happening in the future. Mr. Cooper and Mr. Frasier expressed their agreement to move forward with the investigation.

Ms. Lomax-O'dneal stated that she sits on the Pension Committee for the Benefits Board and that the investigation was discussed as one of the resources that could be used in the evaluation of Sergeant Robert Forrest's pension benefits.

Mr. Mendes stated that while he had no doubt that the Metropolitan Nashville Legal Department could provide independent counsel for the investigation, the public perception may be that there is a conflict of interest and that should be considered before seeking legal advice. Mr. Cooper asked if the Office of Internal Audit consulting budget should be used to obtain outside counsel. Mr. Mendes stated that it should be the determination of the Metropolitan Auditor.

Mr. Swann summarized the revised scope presented to the Metropolitan Nashville Council Special Committee. The revised scope included examining the standard of conduct and obtaining testimonial evidence from individuals.

A **motion** to amend the 2018 Internal Audit Work Plan to include the revised scope previously presented to the Metropolitan Nashville Council Special Committee was made, seconded, and carried.

Mr. Mendes stated that the Office of Internal Audit has the full support of the Metropolitan Nashville Audit Committee as the investigation moves forward.

Metropolitan Auditor Annual Performance Review Process.

Mr. Swann explained that the Metropolitan Auditor's annual performance evaluation is approaching at the end of June and the committee would need to provide guidance on how the evaluation should be performed. Mr. Mendes and Ms. Theresa Costonis explained that each member would have a chance to provide feedback and the results would be collected by Ms. Costonis and presented at the next Metropolitan Nashville Audit Committee meeting.

The public meeting adjourned after approximately 89 minutes.

Respectfully submitted to the Metropolitan Nashville Audit Committee.

Mark Swann
Secretary, Metropolitan Nashville Audit Committee

Approved by the Metropolitan Nashville Audit Committee on July 24, 2018.