

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

July 24, 2018

On Tuesday, July 24, 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
Charles Frasier, Tennessee Society of CPAs
John Cooper, Council Member
Bob Mendes, Council Member

Committee Member Not Present

Talia Lomax-O'dneal, Director of Finance

Others

Mark Swann, Metropolitan Auditor
Theresa Costonis, Department of Law
Dell Crosslin, Crosslin
John Crosslin, Crosslin
David Hunt, Crosslin
Jennifer Manternach, Crosslin
Lindsey Ellis, Crosslin
Phil Carr, Chief Accountant
John Griffey, Chief Information Security Officer
Mike Jameson, Metropolitan Council Executive Director
Elizabeth Waites, Metropolitan Clerk
Innocent Dargbey, Office of Internal Audit
Seth Hatfield, Office of Internal Audit
Bill Walker, Office of Internal Audit
Qian Yuan, Office of Internal Audit

Quorum present? Yes

CALL MEETING TO ORDER

Mr. Brackney Reed called the meeting to order but explained that a quorum would not be present until Mr. Bob Mendes arrived. Mr. Reed stated that the meeting would begin with an informational presentation by Crosslin. The committee members could ask questions to Crosslin, but could not deliberate or call any motions until a quorum was present.

External auditor presentation FY 2018 Financial Audit Communications

Mr. John Crosslin began the presentation by discussing staffing changes as requested previously by the Audit Committee. Mr. John Crosslin will be the Overall Principal In Charge as well as the Principal In Charge for Central Government and the Comprehensive Annual Financial Report. Mr. David Hunt will be the Principal In Charge of the Nashville General Hospital and Water and Sewage, and Jennifer Manternach will be the Director in Charge of Uniform Guidance and State Compliance.

Mr. Crosslin discussed the responsibilities of both Crosslin and management, Crosslin's independence, and the assessment of fraud risk during the audit. Mr. Crosslin presented the steps in their audit methodology and approach which includes audit planning, risk assessment, control evaluation, control testing, substantive testing, and reporting.

The Metropolitan Nashville Government will be considered a high-risk auditee which will require 40 percent audit coverage for federal expenditures under federal programs.

Mr. John Cooper asked whether being a high-risk auditee would be a normal condition for cities. Mr. Crosslin stated that there isn't necessarily a normal for cities. He explained that the Metropolitan Nashville Government is considered a high-risk auditee because the Hospital Authority is a going concern and has a material weakness because management was not sufficiently monitoring transactions, reviewing activity, or reconciling accounts.

Mr. Crosslin summarized significant activity and issues, prior year issues and recommendations, and upcoming GASB statements. He informed the committee that GASB Statement Number 75 would add an approximate \$2.5 to \$2.8 billion liability to the financial statements this year.

Mr. Crosslin stated that all deliverables should be completed by December 31, 2018.

Mr. Cooper asked how long Crosslin, PLLC has been performing external audit work for the Metropolitan Nashville Government, the length of their contract, and how the fee structure was determined. Mr. Dell Crosslin advised the firm has been the external auditors for nine years and are on the second five-year contract. Crosslin has a set fee and creates the budget five years in advance knowing that the budget may be off on some of those years.

Mr. Bob Mendes arrived at 4:18pm. A quorum was then present.

Mr. Cooper asked if there was a performance aspect around the auditing of capital projects. Mr. David Hunt stated that their audit work is objective and is not performance related.

APPROVAL OF MINUTES

A **motion** to approve the April 10, 2018, meeting minutes as presented in the Metropolitan Nashville Audit Committee Workbook for July 24, 2018, was made, seconded, and carried.

NEW BUSINESS

Discussion on Audit of the Information Technology Services – Software Asset Management audit report issued May 2, 2018.

Mr. Innocent Dargbey summarized the objectives, observations, and recommendations for this audit.

Mr. Charles Frasier asked if the recommendations with estimated completion dates of June 30, 2018, have been completed. Mr. John Griffey stated that the recommendation regarding the training of employees on software management policies had been completed, but the recommendation for establishing a software asset management initiative to incorporate license-tracking procedures into business functions will need to be pushed back to the end of August 2018. Mr. Frasier inquired as to whether the controls around software asset management would be considered effective once all four recommendations were implemented. Mr. Dargbey confirmed that the controls would be effective once the recommendations were implemented.

Mr. Cooper asked the make up the Information Security Steering Committee, and it was explained that the committee is interdepartmental and comprised of seven departments. Mr. Swann stated that there was also an Information Security Advisory Committee. The advisory board is comprised of both private citizens and representatives from departments.

Mr. Mendes asked for clarification on whether the recommendation with an estimated completion date of June 30, 2018, would be able to be implemented by the end of August 2018. Mr. Griffey advised that management believes the implementation could be completed by that time. Mr. Mendes requested that the date is officially changed to August 31, 2018, in their management response to reflect that change.

Discussion on Councilmember Fabian Bedne's request for an audit of diversity reporting received May 7, 2018.

Mr. Swann presented Councilmember Fabian Bedne's request to amend the 2018 Annual Internal Audit Plan to include an audit of the quality of diversity reporting. Mr. Swann explained that the audit could examine the accuracy of the diversity reports in which Mr. Bedne had concerns.

Mr. Frasier inquired about the requirements and standards for diversity reporting. Mr. Swann stated that there might be reporting required by the Equal Employment Opportunity Commission, but he believed Mr. Bedne's request was more related to the diversity information in management reports that are released to the public.

Mr. Cooper asked if the recent benchmark study related to procurement diversity had any human resources implications as he is worried this proposed audit may be duplicative.

Mr. Mendes asked Mr. Mike Jameson if he was aware of which reports Mr. Bedne's request was concerning. Mr. Jameson stated that he was not aware of the specific reports, but Mr. Bedne was concerned with the accuracy of reports regarding certain benchmarks being hit and the legitimacy of the numbers being reported.

Action Item: Mr. Mendes asked that Mr. Jameson follow up with Mr. Bedne about his specific concerns with reports and for Mr. Swann to report back if there are any procedures to perform on those reports.

Discussion on Councilmember Karen Johnson's request for an audit of the Register of Deeds Office received on May 23, 2018.

Mr. Swann explained that Council Member Karen Johnson requested that the audit of the Register of Deeds be prioritized on the annual audit plan to be started before the current Register of Deeds leaves office on August 31, 2018.

Mr. Mendes stated that the audit of the Register of Deeds could be made a higher priority if other important work was not slowed down as a result. Mr. Swann said that no other work would be affected.

Metropolitan Auditor's annual performance review.

Ms. Theresa Costonis reviewed the process used for the evaluation. The evaluation form was developed by polling other departments, white papers for best practices, and the charter requirements for the position. Ms. Costonis previously distributed the evaluation form to each committee member, and all but one responded. Responses were consolidated into a group score. This process was approved by the Audit Committee Chairman who also recommended that Mr. Swann complete a self-assessment. Ms. Costonis stated that the group average performance evaluation for Mr. Swann was very high.

Mr. Reed requested a motion that the group average performance evaluation is deemed the official performance evaluation of the Metropolitan Auditor.

A **motion** to accept the group average performance evaluation as the annual Metropolitan Auditor performance review and to make the evaluation available to the public by adding the performance review to the Audit Committee Workbook was made, seconded, and carried.

A compensation review was discussed. Mr. Mendes inquired about the targeted savings for the department and how those savings would be accomplished. Mr. Swann stated that the targeted savings for the Office of Internal Audit was approximately \$40,000 and either staff turnover or a reduction in the consulting budget would be used to meet that target.

Mr. Mendes inquired if staff internal auditors received pay increases. Mr. Swann stated that raises for staff ranged from 1.5 percent to 3 percent and summarized the methodology for determining the percentage increase. Mr. Swann recommended an increase of 1.5 percent but explained that the committee could award him anywhere from 0 to 2.5 percent.

A **motion** for Mr. Swann to receive a merit salary increase of 1.5 percent was made, seconded, and carried.

UNFINISHED BUSINESS

Discussion of proposed scope and objectives for an audit of Metropolitan Nashville Government Collaboration with Nonprofit Entities.

Mr. Swann stated that the proposed scope would include six departments. The audit would examine the relationship between the six departments and nonprofit entities and determine if an agreement is in place and whether facilities, personnel, and services are provided.

Mr. Swann explained that the goal of the audit was to determine if more guidance is needed for relationships between the Metropolitan Nashville Government and nonprofit entities.

Mr. Cooper inquired about whether an inventory of nonprofit entities that work with the Metropolitan Nashville Government exists. Mr. Swann explained that these six departments were chosen because it is known the departments work with a number of nonprofit entities. However, the exact number of nonprofit entities associated with the Metropolitan Nashville Government is not known.

Mr. Cooper inquired about the best practices for avoiding trouble in dealing with nonprofit entities. Mr. Hunt was not aware of any best practices related to relationships with nonprofit entities. Mr. Swann stated that not having an agreement between parties and having a Metropolitan Nashville employee on a nonprofit board should be avoided.

Internal Audit Project Status

Mr. Swann summarized the status of current audit projects in the Office of Internal Audit.

Fraud Waste and Abuse Hotline and Investigation Update

Mr. Swann explained that there had been an uptick in the number of investigations from hotline calls and the hours allocated for investigations has doubled as a result.

Other Administrative Matters

The Office of Internal Audit is currently under budget but must reach a targeted savings of \$44,000 for the current fiscal year.


The next meetings are scheduled for September 11, 2018, and November 27, 2018.

A **motion** to adjourn was made, seconded, and carried.

The public meeting adjourned after approximately 57 minutes.

A **motion** to move into Executive Session was made, seconded, and carried.

Respectfully submitted to the Metropolitan Nashville Audit Committee.

A handwritten signature in blue ink, appearing to read "Mark Swann".

Mark Swann
Secretary, Metropolitan Nashville Audit Committee

Approved by the Metropolitan Nashville Audit Committee on September 11, 2018.