

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

September 11, 2018

On Tuesday, September 11, 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:

<u>Committee Members</u>	<u>Others</u>
Brackney Reed, Chamber of Commerce	Mark Swann, Metropolitan Auditor
Charles Frasier, Tennessee Society of CPAs	Theresa Costonis, Department of Law
John Cooper, Council Member	Dell Cosslin, Crosslin
Bob Mendes, Council Member	John Crosslin, Crosslin
Talia Lomax-O'dneal, Director of Finance	Lindsey Ellis, Crosslin
	Dawn Clark, Assistant Director, Information Technology Services
	Jeff Gossage, Director of Procurement Department, Metropolitan Nashville Public Schools
<u>Others</u>	Brian Hull, Director of Resource Strategy, Metropolitan Nashville Public Schools
David Tucker, Assistant Director, Metro Water Services	Joseph Webb, Chief Executive Officer, Nashville General Hospital
Brent Freeman, Engineer 3, Metro Water Services	Bruce Naremore, Chief Financial Officer, Nashville General Hospital
Gilbert Nave, Metro Water Services	Marc Overlock, General Counsel, Nashville General Hospital
Mary Cole, Office of Internal Audit	Michelle Hernandez-Lane, Chief Procurement Officer
Seth Hatfield, Office of Internal Audit	Fabian Bedne, Council Member
Bill Walker, Office of Internal Audit	Judge Melissa Blackburn, Presiding Judge, General Sessions Court
	Warner Hassell, Court Administrator, General Sessions Court

Quorum present? Yes

CALL MEETING TO ORDER

Mr. Brackney Reed called the meeting to order.

APPROVAL OF MINUTES

A **motion** to approve the July 24, 2018, meeting minutes as presented in the Metropolitan Nashville Audit Committee Workbook for September 11, 2018, was made, seconded, and carried.

UNFINISHED BUSINESS

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

Mr. Swann stated Councilman Bedne requested an audit to obtain assurance over the integrity of information provided in the EEO-4 report (local government diversity reporting) and the diversity reports provided during the annual Metro Nashville Council budget hearings. Councilman Bedne was concerned over the accuracy of information provided in the reports.

Discussion ensued on what standards could be used as criteria in the audit. Mr. Swann stated one challenge is that a key source of information would come from the Human Resources database. Information in this database relevant to ethnicity is a voluntary field for an employee to complete. There may be instances where this field will not be populated.

Councilman Cooper asked Councilman Bedne what the Metro Nashville Government should be doing as it relates to this reporting. Councilman Bedne responded that he has been visiting numerous Metro Nashville Government departments and was surprised by the lack of diversity. Councilman Bedne stated someone told him there were inaccuracies in the numbers being reported. Ms. Lomax-O'dneal stated Metro Nashville Government departments were no longer required to submit ethnicity data during the budget process. Consequently, the proposed audit would be looking at past periods which may not be representative of the current level of diversity.

A **motion** to amend the annual internal audit work plan to include an audit of EEO-4 reporting for the last two periods was made, seconded, and carried.

Acceptance of the Metropolitan Nashville Government Fiscal Year 2017 Letter of Recommendations to Management from Crosslin discussed in the April 10, 2018, Committee meeting.

A **motion** to accept the recommendations in the Metropolitan Nashville Government Fiscal Year 2017 Letter of Recommendations to Management was made, seconded, and carried.

Acceptance 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 discussed in the April 10, 2018, Committee meeting.

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

NEW BUSINESS

Discussion on General Sessions Court Presiding Judge Blackburn's and Court Administrator Warner Hassell's request for an audit of General Sessions Court Traffic School received September 5, 2018.

Mr. Swann stated a request was made for an audit of the General Sessions Court Traffic School with an emphasis on the revenue collection process. Councilman Mendes asked for a summation of recent issues leading up to this request. Mr. Hassell explained there was an employee within the traffic school that fabricated court documents for fee waivers and allegedly

misappropriated funds for several years. A discussion ensued over the scope and objectives of the requested audit.

A **motion** to amend the annual internal audit work plan to include an audit of the General Sessions Court Traffic School was made, seconded, and carried.

Discussion on the audit of the Oracle R12.2 E-Business Suite Implementation issued August 17, 2018.

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

Mr. Swann stated the Oracle R12.2 E-Business Suite \$23 million implementation project is primarily to replace the current J.D. Edwards enterprise resource system and additional human resources functionality for the Metropolitan Nashville Public Schools.

A discussion ensued where project status and milestones were summarized by Ms. Dawn Clark.

Discussion on the audit of the Nashville General Hospital Procurement to Pay Process issued August 28, 2018.

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

Ms. Lomax-O'dneal asked if the scope included a review of contracts. Mr. Hatfield stated contracts were reviewed only to the extent of ensuring contracts were properly executed.

Councilman Cooper asked if any credit card statements were paid late or had finance charges applied. Mr. Hatfield stated none were paid late or had finance charges.

Councilman Mendes asked if a determination could be made whether payments made without proper documentation were actually related to the mission of the Nashville General Hospital. A discussion ensued surrounding the missing receipts. The primary cause of the missing receipts pertains to employee turnover.

Ms. Lomax-O'dneal asked several follow up questions, and a brief discussion ensued.

Action Item: Management of Nashville General Hospital is to prepare an extended audit report response to the recommendation related to credit card expenses. Specifically, to conduct an analysis to ascertain if the expenses appear reasonable based on prior period expenses.

Discussion on the audit of the Metro Water Services Process Control System Security – Public Notice issued August 20, 2018.

Mr. Swann summarized the objectives, observations, and recommendations for this audit. Mr. Swann stated this audit was outsourced to BerryDunn. The audit used the American Water Works Association, Cyber Security Recommended Controls as a benchmark for the audit.

Mr. Swann noted that out of the 82 recommended controls, 42 were found to be fully implemented and 40 were considered to be partially implemented or not implemented, however, several of these controls were of lower risk.

Discussion on the audit of Department of Finance Procurement Division issued August 17, 2018.

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

Mr. Swann stated this audit was requested by the Director of Finance and that the audit was impacted by the voluminous policy and procedures governing procurement.

Mr. Reed asked a question regarding a sole source purchase that did not receive Metropolitan Nashville Council approval. Ms. Lane responded that it was for a pension plan investment consulting contract for the Treasury Department.

Discussion on the audit of the Metropolitan Nashville Public Schools Purchasing Card Program issued August 1, 2018.

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

Councilman Mendes asked if the status was known regarding the completion dates listed by management since two of the dates were in the past. Mr. Gossage responded that the recommendations had been fully implemented. Mr. Gossage explained that the Metro Nashville Board of Education is currently reviewing/modifying purchasing procedures.

Mr. Frasier asked if the vendors listed on the top spend chart in the report offered rebates based on certain levels of use. Mr. Gossage responded that some of the vendors do provide rebates but most are related to cooperative agreements in which the State of Tennessee receives the rebates. Ms. Lomax-O'dneal asked if the purchasing card program itself provided rebates and Mr. Gossage stated that no rebates were provided by the credit card vendor.

Discussion on the audit of the Metropolitan Nashville Public Schools Financial Matters issued August 17, 2018.

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

Ms. Lomax-O'dneal asked if Metropolitan Nashville Public Schools has to prepare a cost allocation plan since some funding comes from the State and Federal governments. Mr. Swann responded that Metropolitan Nashville Public Schools is following the Tennessee Department of Education chart of accounts. Ms. Cole responded that certain indirect costs are allowed, but there was no uniformity so that a definition of central office cost could not be determined.

Mr. Frasier asked if the \$7.5 million shortage listed in the audit report was known at the beginning of the school year, and Ms. Cole explained the timing of events in which specific data (student enrollments numbers, insurance adjustments, etc.) was provided to Metropolitan Nashville Public Schools by the Tennessee Department of Education and internal enrollment figures. Additionally, Mr. Hull provided insight into the timing of events that led to the shortfall.

Councilman Cooper mentioned that Dr. Joseph, Metropolitan Nashville Public Schools Director of Schools, used a central office expense amount in a past meeting and expressed the desire for someone to clarify what central office expense is. Mr. Swann advised the audit used cost allocation definitions based on what was suggested by the Metropolitan Nashville Public Schools Human Resources Department. One of the recommendations in the audit was for the Metropolitan Public Nashville Schools to generate specific criteria and definitions as to how internal cost is to be classified so such information will be consistent in future reporting.

Discussion on the Then-Mayor Megan Barry's Travel and Dignitary Security Detail Extra Time Expense Investigation issued August 22, 2018.

Mr. Swann stated the Committee members were provided this report and asked if there were any questions. Councilman Mendes stated that he regretted the Metropolitan Nashville Council dropping its investigation of this matter. Councilman Mendes believed not having the ability to compel witnesses impeded the Office of Internal Audit's investigation.

Mr. Swann highlighted the pension calculation errors observed during the investigation. The errors resulted in approximately \$100,000 in overpayments or future overpayments from the Metropolitan Nashville General Government Pension Plan to retirees.

Councilman Cooper asked how many employees within the Metropolitan Nashville Government are allowed to supplement their travel from outside sources. Ms. Costonis referred to the Metro Nashville Code of Laws which outline the requirements for employee standards of conduct. From her recollection, the limit is \$25 annually for meals and \$100 annually for entertainment or travel from any one source. Sometimes it will depend on how the gift is being gifted, for example, if the gift is not for an individual but for the Metro Nashville Government. Mr. Swann stated that one of the recommendations from the investigation report is for the Mayor's Office to develop a handbook for employees to help clarify when gifts, travel, and entertainment are acceptable and when they are not acceptable.

Councilman Cooper asked about the circumstances resulting in Chief Andersen being listed as approving travel request when he stated he never saw the travel requests within the Metro Nashville Travel Authorization System. Mr. Swann stated that Metro Nashville Information Technology Services reviewed and tested the code. Metro Nashville Information Technology concluded that the Travel Authorization System had a logic error. This logic error resulted in the Travel Authorization System recording Chief Andersen as approving travel request for the Police Department Security Detail employees when the workflow was not actually routed to Chief Andersen. The Office of Internal Audit also independently reviewed the source code and conducted tests that resulted in the same conclusion as Information Technology Services. Mr. Swann provided a description of the circumstances in the system logic that resulted in this occurring.

Mr. Frasier asked if the Metropolitan Nashville Government employee standards of conduct specifically mentioned relationships between a supervisor and subordinate. Mr. Swann stated it was not mentioned specifically, but the Police Department did have a policy that addressed handling of close relationships.

A **motion** to request all entities involved in the investigation to present a corrective action plan to address the recommendations in the report was made, seconded, and carried.

Audit Recommendation Follow-up Status – August 2018.

Mr. Swann summarized out of the 23 entities needing to respond, 19 entities did provide status updates. Councilman Mendes asked when deadlines are not met, is there a clear reporting mechanism detailing an explanation for the missed deadlines. Mr. Swann responded that there are explanations, but currently, they are not listed in the reports provided to the Committee.

Action Item: Future Audit Recommendation Follow-up reports should include an explanation for the need of a change in a corrective action completion date and a risk rating system to assist with identification of the significance of an issue.

Audit Committee 2018 Self-Assessment

Mr. Swann reported the Committee was doing everything required by their bylaws with one exception. The only exception was no mechanism existed to provide evidence that the posting of meeting agendas were within the required time frame.

A **motion** to accept the 2018 Audit Committee Self-Assessment was made, seconded, and carried.

Other Administrative Matters

Mr. Swann informed the committee that a Principal Auditor resigned.

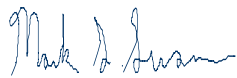
Mr. Swann requested the Committee's concurrence for the use of family paid leave benefit time for the care of his father. A **motion** to approve family paid leave for Mr. Swann was made, seconded, and carried.

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

The public meeting adjourned after approximately 1 hour, 45 minutes.

A **motion** to move into executive session was made, seconded, and carried.

Respectfully submitted to the Metropolitan Nashville Audit Committee.



Mark Swann
Secretary, Metropolitan Nashville Audit Committee

Approved by the Metropolitan Nashville Audit Committee on November 27, 2018.