

**METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON  
COUNTY**



**METROPOLITAN NASHVILLE  
AUDIT COMMITTEE**

**WORKBOOK**

**December 11, 2018**

*"The greatest danger for most of us is not that our aim is too high and we miss it,  
but that it is too low and we reach it."*

*-Michelangelo-*

**Report to the Nations**  
**2018 Global Study on Occupational Fraud and Abuse**  
**Association of Certified Fraud Examiners**

**2,690**  
 real cases of occupational fraud  
 from  
**125** countries  
 in  
**23** industry categories

**\$7 BILLION+**  
 IN TOTAL LOSSES

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**\$130,000**  
 MEDIAN LOSS PER CASE

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**22%**  
 OF CASES CAUSED LOSSES OF  
**\$1 MILLION+**

Median duration of a fraud scheme

**16**  
 MONTHS

**CORRUPTION**  
 was the most common scheme in every global region

**INTERNAL CONTROL WEAKNESSES**  
 WERE RESPONSIBLE FOR NEARLY  
**HALF OF FRAUDS**



**ALL 18 ANTI-FRAUD CONTROLS**  
 ANALYZED WERE ASSOCIATED  
 WITH **LOWER FRAUD LOSSES**  
 AND **QUICKER DETECTION**



Owners/executives accounted for a small percentage of cases

**19%**  
 OF CASES

but caused a median loss of  
**\$850,000**

**LOSSES CAUSED BY MEN WERE 75% LARGER**  
 than losses caused by women

**MEDIAN LOSSES ARE FAR GREATER**  
 when fraudsters collude

1 person: \$74,000  
 2 people: \$150,000  
 3+ people: \$339,000

**ASSET MISAPPROPRIATION SCHEMES**  
 are the most common and least costly

**\$114,000**  
 median loss

**89%**  
 of cases

**\$800,000**  
 median loss

**FINANCIAL STATEMENT FRAUD SCHEMES**  
 are the least common and most costly

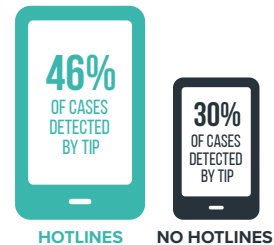
**10%**  
 of cases

**TIPS** are by far the most common initial detection method



**EMPLOYEES** provide over half of tips, and nearly 1/3 come from **OUTSIDE PARTIES**

**ORGANIZATIONS WITH HOTLINES** detect fraud by tips more often



**DATA MONITORING/ANALYSIS** and **SURPRISE AUDITS** were correlated with the largest reductions in fraud loss and duration

**52%** LOWER LOSSES (Data monitoring/analysis)  
**58%** FASTER DETECTION (Data monitoring/analysis)  
**51%** LOWER LOSSES (Surprise audits)  
**54%** FASTER DETECTION (Surprise audits)

Yet only 37% of victim organizations implemented these controls

**85%**  
 OF FRAUDSTERS  
 DISPLAYED AT LEAST ONE BEHAVIORAL  
**RED FLAG OF FRAUD**

**FRAUDSTERS WHO HAD BEEN WITH THEIR COMPANY LONGER STOLE TWICE AS MUCH**

**\$200,000**  
 MEDIAN LOSS (MORE THAN 5 YEARS' TENURE)  
**\$100,000**  
 MEDIAN LOSS (LESS THAN 5 YEARS' TENURE)

**SMALL BUSINESSES LOST ALMOST TWICE AS MUCH PER SCHEME TO FRAUD**

**\$104,000**  
 MEDIAN LOSS (100+ EMPLOYEES)  
**\$200,000**  
 MEDIAN LOSS (<100 EMPLOYEES)

**OVER THE PAST 10 YEARS, OCCUPATIONAL FRAUD REFERRALS TO PROSECUTION DECLINED 16%**

TOP REASON FOR NON-REFERRALS WAS **FEAR OF BAD PUBLICITY** -16%

2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

**ONLY 4%** OF PERPETRATORS HAD A PRIOR **FRAUD CONVICTION**

**A MAJORITY OF THE VICTIMS RECOVERED NOTHING**



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**METROPOLITAN NASHVILLE**  
**METROPOLITAN AUDIT COMMITTEE MEETING AGENDA**  
**December 11, 2018 4:00 p.m.**

**Committee Room 2**  
**205 Metropolitan Courthouse**

- I. Call Meeting to Order (Brackney Reed - Committee Chairman)
- II. Approval of Minutes for November 27, 2018, meeting (Brackney Reed – Committee Chairman)
- III. New Business
  - Presentation by the Division of Local Government Audit, Tennessee Comptroller of the Treasury on external auditor contracting and review of annual financial statements. (David Sturtevant - Division of Local Government Audit, Tennessee Comptroller of the Treasury)
  - Presentation of the Metropolitan Nashville Government Comprehensive Annual Financial Report For the Year Ended June 30, 2018. (External Auditor)
  - Discussion on the audit of the Follow Up on Audit of Human Relations Commission issued December 6, 2018. (Mark Swann-Metropolitan Auditor)
- IV. Other Administrative Matters (Mark Swann – Metropolitan Auditor)
  - 2019 Proposed Meeting Schedule.
- V. Consideration of Items for Future Meetings (Brackney Reed - Committee Chairman)
- VI. Adjournment of Public Meeting – Next Meeting Tuesday, February 12, 2019.
- VII. Call for a motion to enter executive session (Brackney Reed - Committee Chairman)
- VIII. Executive Session Agenda – (Brackney Reed - Committee Chairman)
  - Discussion of the ongoing audit tasks related to the Metropolitan Nashville Government Fiscal Year 2018 Letter of Recommendations to Management, and/or the Metropolitan Nashville Government Fiscal Year 2018 Schedules of Expenditures of Federal and State Awards and Reports Required by the Single Audit Act as Amended and the Uniform Guidance. (External Auditor)
  - Discussion of pending or ongoing audits or investigations. (Mark Swann – Metropolitan Auditor)

**METROPOLITAN NASHVILLE**  
**METROPOLITAN AUDIT COMMITTEE MEETING AGENDA**  
**December 11, 2018 4:00 p.m.**

Note: Upon a majority vote of committee members in attendance for the public portion of the meeting, the Metropolitan Nashville Audit Committee may hold confidential, nonpublic executive sessions to discuss the following items (T.C.A. § 9-3-405<sup>1</sup>):

- Items deemed not subject to public inspection under T.C.A. §§ 10-7-503<sup>2</sup> and 10-7-504<sup>3</sup> and all other matters designated as confidential or privileged under this code;
- Current or pending litigation and pending legal controversies;
- Pending or ongoing audits or audit related investigations;
- Information protected by federal law; and
- Matters involving information under T.C.A. § 9-3-406<sup>4</sup> where the informant has requested anonymity.



To request an accommodation, please contact Mark Swann at (615)862-6158.

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<sup>1</sup> T.C.A. § 9-3-405(d). Establishment of audit committee, Notice requirements, Open meetings, Confidential, nonpublic executive session.

<sup>2</sup> T.C.A. § 10-7-503. Records open to public inspection, Schedule of reasonable charges, Costs.

<sup>3</sup> T.C.A. § 10-7-504. Confidential records.

<sup>4</sup> T.C.A. § 9-3-406. Establishment of process for confidential reporting of suspected illegal, improper, wasteful or fraudulent activity, Retaliatory activities prohibited.



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

**November 27, 2018 - DRAFT**

On Tuesday, November 27, 2018, 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

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

Others

Mark Swann, Metropolitan Auditor  
Theresa Costonis, Attorney, Department of Law  
Dell Cosslin, Crosslin  
Lindsey Ellis, Crosslin  
David Hunt, Crosslin  
John Crosslin, Crosslin  
Mark Sturtevant, Director, Metro Nashville Public Works Department  
Sharon Waltstom, Assistant Director, Metro Nashville Public Works Department  
Monique Odom, Director, Metro Parks and Recreation  
Scott Potter, Director, Metro Water Services  
Phil Carr, Chief Accountant, Metro Department of Finance  
Kim McDaniel, Assistant Director, Department of Finance  
Saul Solomon, Attorney for Collier Engineering Inc.  
Chad Collier, Collier Engineering Inc.  
Angie Henderson, Council Member  
Innocent Dargbey, Office of Internal Audit  
Seth Hatfield, Office of Internal Audit  
Bill Walker, Office of Internal Audit

*Quorum present? Yes*

**CALL MEETING TO ORDER**

Mr. Brackney Reed called the meeting to order.

**APPROVAL OF MINUTES**

A **motion** to approve the September 11, 2018, meeting minutes as presented in the Metropolitan Nashville Audit Committee Workbook for September 11, 2018, was made, seconded, and carried (pages 7-12 of the workbook).

## **NEW BUSINESS**

### Discussion on the audit of the Metro Water Services Fire Hydrant Inspection, Repair and Maintenance Process issued November 19, 2018 (pages 15-20 of the workbook).

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

Talia Lomax-O'dneal inquired if it were customary to have responsibility for private hydrants segregated between a water department and a fire department. Mr. Dargbey replied that the Metropolitan Nashville Code explicitly assigns such responsibility to Metro Water Services. Mr. Darbey stated the relationship between the Nashville Fire Department and Metro Water Services is informal. One recommendation of the audit pertained to establishing formal, verifiable agreement on respective responsibilities and procedures.

Council Member Cooper asked about where inspection fees on private hydrants are allocated too. Mr. Dargbey advised fees are going to Metro Water Services who, in turn, use the funds to pay an outside contractor. The report recommendation would have those fees allocated to the Nashville Fire Department who would do the inspections instead of the private vendor. Council Member Cooper inquired if the Council had the ability to modify the Metropolitan Nashville Code of Laws to enhance the fee. The response was yes.

Charles Fraizer inquired if the 17 percent of hydrants not inspected was a consistent number from year to year. Mr. Darbey advised the 17 percent related to all hydrants in existence as of March 2018. Council Member Cooper asked about the action plan for the 17 percent never inspected. Mr. Potter advised they are in the process of procuring an outside vendor to help catch up. Additional employees are being hired to be assigned exclusively to this process.

Mr. Potter gave a summary of the process for inspecting and maintaining a fire hydrant. Vice-Mayor Shulman asked if the overall status of fire hydrants were safe for the general public. Mr. Potter advised that he is very confident in the overall performance of fire hydrants. Mr. Potter advised he was only aware of one failed hydrant in his years as Director of Metro Water Services.

### Discussion on the Collier Engineering, Inc. Investigation report issued on October 26, 2018 (pages 23-25 of the workbook).

Mark Swann advised an investigative report had been issued concerning allegations related to the Metropolitan Nashville Government's contract with Collier Engineering, Inc. and several Metropolitan Nashville Government employees. Specifically, conflicts of interest, standards of conduct violations, and improper contract service improprieties were asserted.

Council Member Mendes asked if the Metropolitan Nashville Office of Internal Audit had contacted law enforcement or the State of Tennessee Comptroller's Office related to the report. Mr. Swann advised no.

Council Member Mendes stated a series of motions.

A **motion** to have the Metropolitan Nashville Office of Internal Audit staff supplement the investigation report to lay out an analysis of the circumstantial evidence that was collected compared to the preponderance of evidence standard was made, seconded, and carried.

A **motion** to have the Metropolitan Nashville Office of Internal Audit staff add a recommendation to the investigation report that all involved personnel be reassigned so as not to work on Collier Engineering, Inc. related matters to address the appearance of preferential treatment was made, seconded, and carried.

A **motion** to have the Metropolitan Nashville Office of Internal Audit staff supplement the investigation report to point out which specific language in the scope of services with Collier Engineering, Inc. can be considered related to the work performed was made, seconded, and carried.

A discussion ensued over matters concerning Allegation H. Specifically, at what point was it discovered that repair work needed to be completed and who had actually covered the cost of this repair work. Mark Sturtevant advised it was not uncommon for mistakes to be made in construction. Sometimes these mistakes are discovered immediately, and sometimes the discoveries are made later. Mark Sturtevant advised the Metro Nashville Public Works Department has a process for catching these type of errors and that is what happened in this situation.

A **motion** to have the Metropolitan Nashville Office of Internal Audit staff to clarify the investigation report by providing a specific timeline for the events related to Allegation H such as when the Office of Internal Audit became aware of the matter and when the Metro Nashville Public Works Department pursued a remedy to the matter was made, seconded, and carried.

A **motion** to have the Metropolitan Nashville Office of Internal Audit staff to supplement the investigation report to point out the specific language in the Collier Engineering, Inc. contract scope of services related to the Allegation H complaint matters was made, seconded, and carried.

A **motion** to have the Metropolitan Nashville Office of Internal Audit staff request each applicable department head to provide a corrective action plan for the investigation report was made, seconded, and carried.

Vice-Mayor Shulman inquired if corrective action plans were routinely required by the management of Metropolitan Nashville Government entities. Mark Swann advised corrective plans were always requested during normal audits but not investigations. Vice-Mayor Shulman and Talia Lomax-O'dneal advised they believed it to be a good idea to do so. Mark Swann advised it would be done.

Council Member Cooper inquired as to the mechanisms whereby the allegations were brought to the Metropolitan Nashville Office of Internal Audit attention. Mark Swann advised the Mayor's Office advised of all the allegations other than Allegation H.

Council Member Henderson addressed her concern that she believed the scope of additional services provided by Collier Engineering, Inc. did not conform to the nature of the work in the contract.

Talia Lomax-O'dneal requested each applicable department head to be given the opportunity to give a statement about their thoughts on the investigation report.

Scott Potter advised a Metro Water Services employee showed a lapse in judgment. Mr. Potter advised he fully trusts this employee and this was the only lapse in judgment this employee has ever displayed. This employee understands the significant impact of this error and displays remorse. Metro Water Services has executed a policy whereby any employee able to influence a contract must re-read the ethics policy and relay that to their assistant director and then to Mr. Potter. Training is also being provided to Metro Water Services management by the Department of Law.

Monique Odum stated Metro Parks and Recreation had one employee who showed a lapse in judgment. This employee has been with the Metropolitan Nashville Government for a long time and is on the senior leadership staff. This employee is someone she trusts. This employee has been counseled on this matter, and the counseling session is reflected in their personnel file. The Department of Law was utilized to provide training, and the Metropolitan Nashville Government's Standards of Conduct was distributed to all Metro Parks and Recreation employees.

Mark Sturtevant stated the Metro Nashville Public Works Department takes these allegations very seriously and knows the impact between the appearance of a vendor obtaining preferential treatment and actual preferential treatment can be the same in the public's mind. All five employees were met with on more than one occasion, and the serious lapse in judgment was communicated. Mark Sturtevant advised they were good employees and remorseful. An ethics-training program has begun at Metro Nashville Public Works Department with 51 employees having attended the class thus far. The goal is to have all employees receive the training. An internal review was done, and the following corrective steps have been taken:

- 1) All procurement request for proposal activity related to design and engineering services paving, sidewalks, and capital projects have been suspended temporarily.
- 2) During this suspension period, the Metro Nashville Public Works Department, working with the Department of Finance and the Mayor's Office will re-evaluate the methodology used to scope and select work. A focus will be given to ensure that no unnecessary favor is given to vendors the Department has extensively worked with in the past.
- 3) All contracts requiring a 20 percent or more increase will be required to go through a formal amendment process.
- 4) Efforts to reduce Metro Nashville Public Works Department dependency on private vendors will continue. This will require the assistance of the Mayor's Office and Metropolitan Nashville Council to modify the existing operating budget.

Council Member Cooper inquired if there were any rules related to vendors offering gifts to Metropolitan Nashville Government employees. Michelle Lane stated the Procurement Code offers a remedy in the form of debarment in situations of criminal activity, embezzlement, etc. Michelle Lane advised there are opportunities for improvement related to tightening up rules in this area. Council Member Cooper asked the Department of Law and the Purchasing Agent to work together to strengthen the language in the Procurement Code as it relates to this issue.

Vice-Mayor Shulman asked if the suspension of the current request for proposals would have a materially negative impact on the Paving Program. Mark Stearvant advised no. Current contracts are in place to ensure work continues. Vice-Mayor Shulman requested Metro Public Works keeps the Metropolitan Nashville Council informed.

Saul Solomon, attorney representing Collier Engineering, Inc., made a statement asserting Collier Engineering, Inc. management and staff are honest and civic-minded. Collier Engineering, Inc. procured an independent accounting firm to review their records to help ensure nothing inappropriate had occurred. Prior to the allegations, it was discovered that entertaining Metropolitan Nashville Government employees could be an issue even though there was nothing explicitly in the contract prohibiting it. Accordingly, training was conducted for all Collier Engineering, Inc. employees. Saul Solomon advised there was no need for Collier Engineering, Inc. to curry favor to be awarded contracts, as there has been a long-standing positive relationship in place with the Metropolitan Nashville Government. Saul Solomon advised his client was aware of the impact that even the appearance of impropriety and that his client was willing to whatever action was needed to ensure that this appearance matter did not occur in the future.

Council Member Mendes asked if Collier Engineering, Inc. would be willing to provide the independent audit report referenced in the investigation report to the Committee. Saul Solomon advised yes.

Discussion on the Metro Nashville Public Schools Hotline Various Alerts April and May 2018 report issued November 6, 2018.

Mark Swann advised six investigative reports had been issued related to allegations made against the Metro Nashville Public Schools. Mark Swann gave an overview of what the allegations pertained too and advised they were all unsubstantiated.

Council Member Mendes inquired if the recommendations in the report were accepted. Mark Swann advised historic Office of Internal Audit protocol did not typically involve getting management response on investigations, but he would ask for a management response from Metro Nashville Public Schools.

Preliminary discussion on dedicated assurance services for Metro Nashville Public Schools (pages 26-27 of the workbook).

Mark Swann advised the Metropolitan Nashville Board of Education Governance Committee had made a request to the Metropolitan Nashville Office of Internal Audit related to the possibility of having additional audit assurance resources allocated specifically to their entity. A possible scenario would be two additional full-time equivalents being hired by and under the management of the Metropolitan Nashville Office of Internal Audit. If funded and implemented, a memorandum of understanding between the Metropolitan Nashville Nashville Board of Education and the Metropolitan Nashville Audit Committee would need to be established.

Mark Swann advised this request was in the preliminary stages, and the objective of this agenda item is to ascertain if this matter is something the Metropolitan Nashville Audit Committee would like him to continue to pursue with the Metropolitan Nashville Nashville Board of Education Governance Committee.

Talia Lomax-O'dneal asked if the Metropolitan Nashville Public Schools had an internal audit function and how they could possibly play into this. Mark Swann advised the current internal audit shop focuses almost exclusively on activity funds. This group reports to Metro Nashville Public Schools management, not the Metropolitan Nashville Nashville Board of Education, thus diminishing independence.

Mark Swann advised the Office of Internal Audit historically had a presence in the Metro Nashville Public Schools conducting a number of audits; approximately 10 percent of the Office's audit effort over the past ten years. However, the Metropolitan Nashville Public Schools represents almost half of the Metropolitan Nashville Government budget, and additional resources would be beneficial.

The consensus of the Metropolitan Nashville Audit Committee was to continue to explore this initiative with the Metropolitan Nashville Board of Education Governance Committee.

### **Unfinished Business and General Orders**

#### Metropolitan Nashville Audit Committee and Metropolitan Nashville Office of Internal Audit Bylaws annual review (page 31 of the workbook).

Mark Swann advised there were no recommend changes or modifications to the bylaws.

A **motion** to approve the Metropolitan Nashville Audit Committee Bylaws and the Metropolitan Office of Internal Audit Bylaws was made, seconded, and carried.

#### Nashville General Hospital Procurement-to-Pay Credit Card Follow-Up (pages 32-33 of the workbook).

Mark Swann advised Nashville General Hospital was able to locate around half of the missing receipts representing around \$7,200. A form is now being generated to ensure the business purpose of an expense is disclosed and approved.

Council Member Mendes stated Nashville General Hospital still needed to conduct an analysis of credit card expenses in relation to prior periods to assist in ascertaining the appropriateness of the expenses. Mark Swann stated the Office of Internal Audit would continue to follow up on this request with the management of Nashville General Hospital.

#### Then-Mayor Megan Barry's Travel and Dignitary Security Detail Extra Time Expense Investigation Recommendation Corrective Action Plans (pages 34-35 of the workbook).

Mark Swann advised management corrective action plans for the investigation had been received. Council Member Mendes inquired about the recommendation pertaining to the Mayor's Office disclosing to the Metropolitan Nashville Council all trips taken by the Mayor, the costs, and funding sources. Mark Swann advised the Mayor's Office would disclose this additional information in the annual disclosure forms generated each year and submitted to the Metropolitan Nashville Clerk.

Vice-Mayor Shulman stated concern over the disclosure only going directly to the Metropolitan Nashville Clerk's Office. Vice Mayor Shulman also was concerned that there are no explicit requirements requiring the Mayor's Office to do so. Council Member Mendes advised that the Metropolitan Nashville Council could modify the Metropolitan Nashville Code of Laws to make it a requirement.

A discussion ensued over the monitoring of Metro Nashville Police Department overtime expense and parties who, at times, fund travel for the Mayor (Chamber of Commerce, etc.).

Other Administrative Matters

No questions or discussion ensued over administrative matters.

Consideration of Items for Future Meetings

A conversation ensued over tentatively having the next meeting on December 11, 2018.

The public meeting adjourned after approximately 1 hour, 10 minutes.

A **motion** to move into executive session to discuss the ongoing Metropolitan Nashville Government financial audit for the year ended June 30, 2018, with the Metropolitan Nashville Government Department of Finance and Crosslin was made, seconded, and carried.

Respectfully submitted to the Metropolitan Nashville Audit Committee.

Mark Swann  
Secretary, Metropolitan Nashville Audit Committee

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The General Assembly created the Department of Audit in 1937. The authority to audit state, county, municipal and other local governmental entities as well as recipients of grant funds is established in *Tennessee Code Annotated*. The department is required to:

- perform currently a post-audit of all accounts and other financial records of the state . . . in accordance with generally accepted auditing standards and . . . such procedures as may be established by the comptroller . . .
- make annually, and at such other times as the general assembly shall require, a complete report on the post-audit . . .
- certify to the fund balance sheets, operating and other statements, covering the condition of the state's finances, as **prepared** by the department of finance and administration, or by the state treasurer, . . .
- serve as a staff **agency** to the general assembly, or to any of its committees, in making investigations of any phase of the state's finances . . .
- make annually an **audit** of all the records of the several counties of the state . . .
- perform economy **and** efficiency audits, program results audits and program evaluations . . .
- require that audits to be performed by the internal audit staffs of grantees or the internal audit staffs of state departments, boards, commissions, institutions, agencies, authorities or other entities of the state shall be coordinated with the office of the comptroller . . . with standards established by the comptroller . . .
- require that all persons, corporations or other entities receiving grants from or through this state shall cause a timely audit to be performed, in accordance with auditing standards prescribed by the comptroller . . .
- establish minimum standards for the performance of audits by the internal audit staffs of local governments, special taxing districts, utility districts, political subdivisions, state departments, boards, commissions, institutions, agencies, authorities or other entities of the state . . .
- ensure that the audits of municipalities, utility districts, emergency communications districts, internal school funds, charter schools, public housing authorities, human resource agencies, development districts, and other special purpose governments are prepared in accordance with generally accepted governmental auditing standards and the minimum standards as prescribed by the Comptroller of the Treasury.

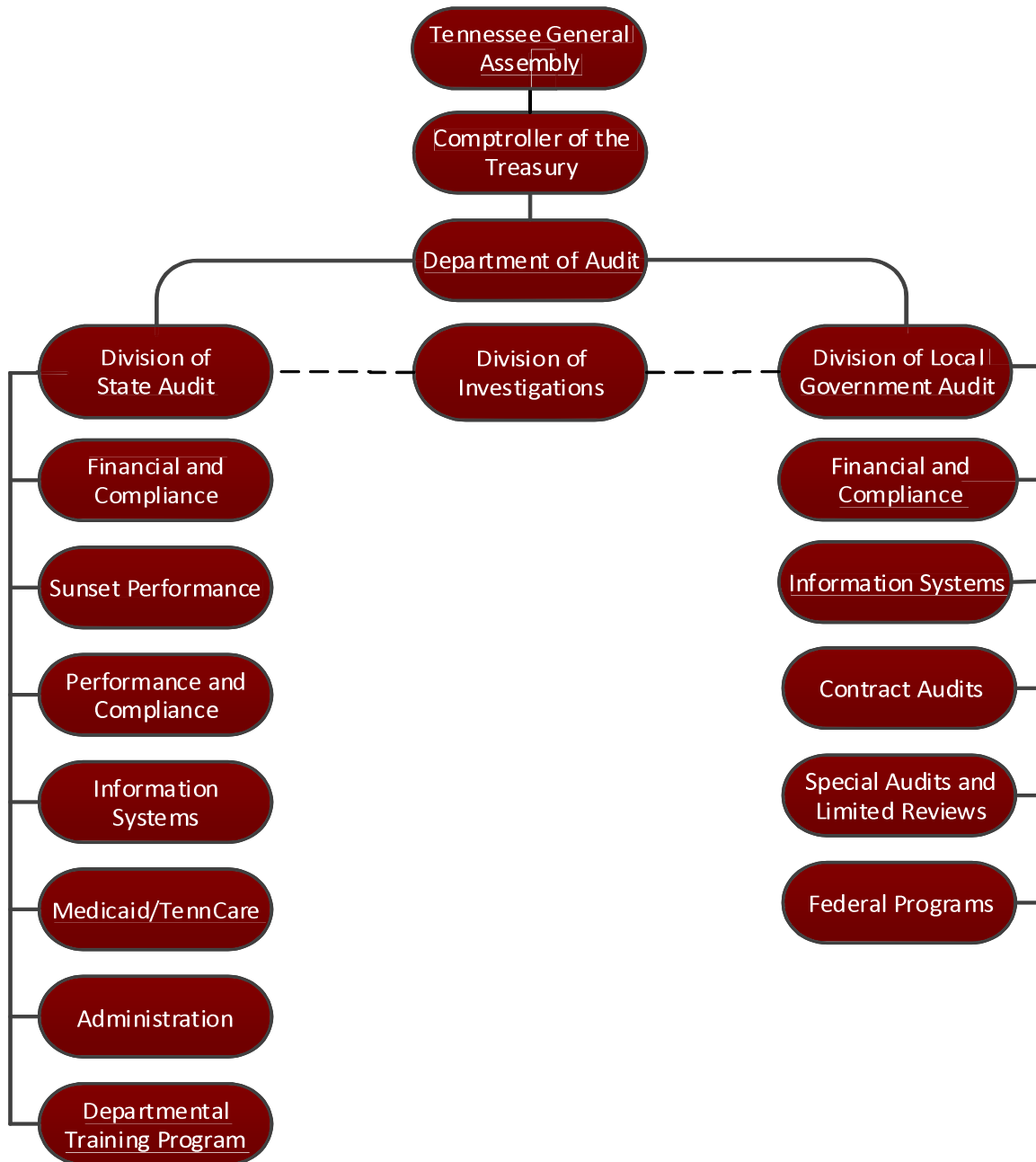
In addition, *Tennessee Code Annotated* authorizes the Department of Audit to conduct investigations. Section 9-3-212(b) states that the Comptroller

may require any audit required of any such agency, or any investigative or review work in addition to such audit which, in the exercise of the comptroller's discretion, the comptroller believes necessary to ascertain or correct errors, irregularities, or defaults in the management and disbursement of funds controlled by such agency, to be conducted by the department of audit.

The Department of Audit comprises two divisions—State Audit and Local Government Audit—and employs approximately 300 people. Each division is administered by a director who is responsible for the audit function and addresses audit concerns and issues in the division.

Both divisions coordinate with the Comptroller's Division of Investigations, which conducts investigations that support the Financial and Compliance Audit and Single Audit report timelines of State Audit and Local Government Audit.

# Department of Audit Organizational Chart

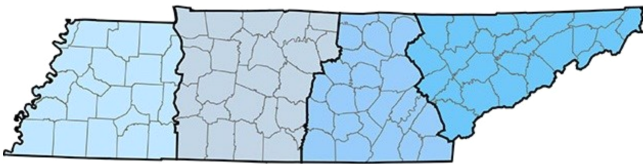


For additional information, go to [www.comptroller.tn.gov](http://www.comptroller.tn.gov).

Through the Division of Local Government Audit, the Department of Audit is responsible for the audits of all local governmental entities with statutory audit requirements as well as certain nonprofit and for profit organizations that are publicly funded. The division may conduct the audit for governmental entities or accept an audit prepared by the certified public accountant provided the audit meets minimum standards established by the Comptroller of the Treasury. The division conducts the annual audits for 89 of the state's 95 counties. Through a contractual process with independent certified public accounting firms, the division ensures the performance of over 1,600 audits for the state's remaining counties, municipalities, public internal school funds, charter schools, utility districts, housing authorities, local government created entities, quasi-governmental organizations, and other government-funded agencies.

## Financial and Compliance Audits

The division presently conducts audits in 89 counties. These audits are assigned to teams that audit the various offices and/or departments and entities of county government. The audit staff is divided into four geographical areas: East, Mideast, Middle, and West. Each area is under the supervision of an audit manager who is responsible for audit planning and supervision.



## The Audit Process

The Division of Local Government Audit performs the following general procedures as part of the financial and compliance audit process:

- evaluates the entity's existing internal controls in the appropriate areas of operation;
- confirms the accountability for receipts by examining, for example, tax rolls, state and federal revenue data, and letters of inquiry;
- determines the appropriateness of disbursements by examining budget authorization, paid invoice files, purchasing files, payroll records, and other financial records;
- determines the authorization for transactions by reviewing the minutes of meetings of county commissions, school boards, highway commissions, and various committees such as budget and finance, and purchasing;

- determines compliance with federal regulations and state and local laws;
- obtains management's representations with respect to the financial statements, as well as the supporting accounting data, and other items of disclosure;
- evaluates financial statement presentation to determine conformity with accounting principles generally accepted in the United States of America; and
- evaluates the validity of all evidence obtained throughout the audit process to formulate an opinion on the financial statements.

## Scope of Activity Post-Audit of County Governments

The Division of Local Government Audit conducted audits in 89 of the state's 95 counties for the 2015-2016 audit year. A minimum of ten offices or departments in each county was audited:

1. County Trustee
2. County Mayor
3. Department of Education
4. Department of Highways
5. County Clerk
6. Circuit Court Clerk
7. General Sessions Court Clerk
8. Chancery Court Clerk and Master
9. Register
10. Sheriff

The audits of all offices were for the fiscal year ended June 30, 2016. The audit field work in each county is conducted by an audit team. The size of the team is determined by the complexity of the assignment.

Approximately ten weeks of field work are required, including audit review and supervision by an auditor 4 and/or audit manager. The draft audit reports are reviewed in the Nashville office and released. The division also performs special audits and reviews as requested or as deemed necessary.

## Results of Audits

Audits of financial transactions for the year ended June 30, 2016, conducted by the Division of Local Government Audit revealed a net increase in cash shortages of \$2,465 and total ending cash shortages of \$633,216. Details of the latest cash shortages report are available on the Comptroller's website at [www.comptroller.tn.gov/la](http://www.comptroller.tn.gov/la).

The Division of Local Government Audit conducted 89 audits for the year ended June 30, 2016, which disclosed a total of 369 audit findings in 77 counties. Twelve counties did not have any audit findings for the year ended June 30, 2016: Bedford, Blount, Greene, Hawkins, Lawrence, Lincoln, Overton, Tipton, Unicoi, Warren, Weakley, and Williamson.

## Information System Reviews

Most county government offices and departments in Tennessee have automated all or a portion of their daily operations. The information system (IS) review section is responsible for evaluating those computer-based accounting and information systems to determine whether an entity's existing procedures and controls provide adequate assurance of data accuracy and financial and operating statement reliability. An assistant director supervises this section's IS audit manager and eight IS auditors, who are assigned to different areas of the state.

General and application controls of a county's computer hardware and computerized accounting and information systems are evaluated. Findings resulting from this evaluation are discussed with the appropriate officials and included in the county's annual financial report.

## Scope of Activity Information System Reviews

As required by the division's annual audit plan, information system related controls were evaluated in 90 counties during the year ended June 30, 2017.

## Contract Audits

The division fulfills its audit responsibility through a contractual process with independent certified public accounting firms who perform the audits for the following Tennessee local governments:

### Counties

- ◆ 5 of the state's 95 counties
- ◆ 280 county-related entities

### Municipalities

- ◆ 342 municipalities
- ◆ 65 municipal-related entities

### Quasi Governments

- ◆ 177 utility districts
- ◆ 85 housing authorities and 4 housing authority-related entities
- ◆ 18 human resource agencies and development districts
- ◆ 104 other quasi-governmental entities

### Schools

- ◆ 148 public internal school funds
- ◆ 59 charter schools and 1 charter school-related entity
- ◆ 15 special school districts

The division further ensures that approximately 262 nonprofit and for-profit organizations are audited as required by state contracts and agreements.

The entities use standard contracts, prepared by the Comptroller of the Treasury, which must be approved by the Comptroller's designees in the Division of Local Government Audit before audit work begins. These audits must be performed in accordance with generally accepted government auditing standards and certain other minimum requirements prescribed by the Comptroller of the Treasury. In addition, the auditor must comply with other federal and state provisions.

For the six counties, the division monitors the contract audits in accordance with a four-year monitoring plan, which includes a review of working papers prepared by certified public accountants.

The Division of Local Government Audit approves the audit contracts of the certified public accountants and reviews each audit report to verify that it adheres to applicable reporting requirements. If a local governmental unit fails or refuses to have an audit, the Comptroller may direct the Division of Local Government Audit, or may appoint a certified public accountant, to perform the

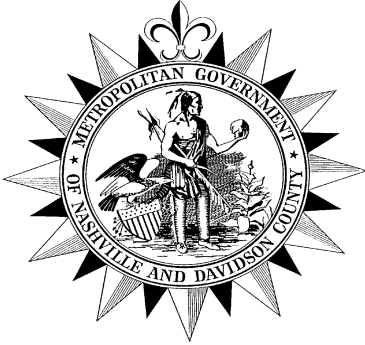
# CROSSLIN

Comprehensive Annual Financial Report  
For the Year Ended June 30, 2018

# Follow-Up on the Audit of Human Relations Commission

## EXECUTIVE SUMMARY

December 6, 2018



### Why We Did This Audit

This follow-up audit was included on the 2018 Annual Internal Audit Work Plan to provide assurance management's implemented corrective action plan remedies the matters identified in the April 5, 2017, internal audit of the Human Relations Commission.

### What We Recommend

There is no recommendation at this time.

## BACKGROUND

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The Office of Internal Audit conducted an audit of the Human Relations Commission in 2017.

The objectives of that audit were to determine if:

- Controls are in place to ensure the financial activities of the Human Relations Commission follow applicable Metropolitan Nashville Government policies.
- Operational activities at the Human Relations Commission conform to its mission stipulated by the Metropolitan Nashville Code of Laws.

The audit report included three recommendations for improving the Human Relations Commission that were accepted by management.

## OBJECTIVES AND SCOPE

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The objective of this follow-up audit is to determine if management's action plans for the prior audit report recommendations are completed.

The audit scope covers the status as of October 31, 2018, for the three accepted recommendations included in the April 5, 2017, *Audit of the Human Relations Commission* report.

## WHAT WE FOUND

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All three recommendations in the last audit are fully implemented. Details of the implementation status can be seen in **Appendix A**.



## APPENDIX A – PRIOR RECOMMENDATIONS AND IMPLEMENTATION STATUS

Recommendations	Proposed Completion Date	Status
<p><b>A.1</b> Either revise its current Rules and Procedures or adopt a separate Office Administrative Policy, for its executive office to comply with all Metropolitan Nashville Government’s fiscal management policies, information security policies, and Civil Service Rules.</p>	<p>September 4, 2017</p>	<p><b>Implemented.</b> An Office Administrative Policy Manual was completed to comply with Metro policies.</p>
<p><b>A.2</b> Establish a procedure to ensure that every new administration of the executive office should acknowledge the Administrative Policy, and its compliance with Metropolitan Nashville Government’s policies.</p>	<p>September 4, 2017</p>	<p><b>Implemented.</b> An Executive Transition Policy was in place to ensure the new administration’s compliance with Metro policies.</p>
<p><b>B.1</b> Consistently record case information required by the Rules and Procedures such as case descriptions and actions taken.</p>	<p>December 4, 2017</p>	<p><b>Implemented.</b> A detailed procedure addresses this in the Office Administrative Policy Manual and correspondent functions were developed and implemented in the Case Management Application.</p>

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**Metropolitan Nashville Office of Internal Audit  
Audit Project Status  
As of December 11, 2018**

Audit Plan Year February 2018 to January 2019	Report Phase					
	Projects	Planning	Fieldwork	Report	Draft	Final
1) Finance Department - Procurement Division				✓		Aug-18
2) MDHA Development Project Financing Process				✓		Mar-18
3) MTA Revenue Collection Process				✓		Mar-18
4) Office of Family Safety				✓		Apr-18
5) ITS Software Asset Management Process				✓		May-18
6) MNPS Procurement Cards				✓		Aug-18
7) Barnes Fund - Affordable Housing				✓	Nov-18	
8) Hospital Authority - Procurement to Pay Process				✓		Aug-18
9) Fire Hydrant Maintenance Process				✓		Nov-18
10) MNPS Expenditures and Budget Issues				✓		Aug-18
11) MWS Infrastructure Computer Systems Security				✓		Aug-18
12) Oracle Enterprise Business System R12 (Interim)				✓		Aug-18
13) Register of Deeds				✓	Nov-18	
15) Parks & Recreation Wave Country				✓	Dec-18	
16) Metro General Government Benefits Administration	✓					
17) Developer Conditions and Infrastructure Incentives	✓					
18) Arts Commission			✓			
19) General Sessions Court - Traffic School				✓	Dec-18	
20) Follow-Up Short-Term Rental				✓	Dec-18	
21) Follow-Up Radio Shop			✓			
22) Follow-Up Metro Human Relations				✓		Dec-18
<b>Metro IntegrityLine Alerts - February 2018 to January 2019</b>				<b>Total</b>	<b>Closed</b>	<b>Pending</b>
Metro Hotline Alerts (Fraud, Waste & Abuse)				21	9	12
*- Mayor's Office and Security Detail Investigation						Aug-18
*- Contractor - Collier						Oct-18
*- MNPS Other Alerts						Nov-18
*- MNPS Purchasing Alerts						

**Note:** Goal to complete 20 audit projects for Plan Year 2018. Currently 12 audit projects are completed, and 5 audit projects are in the draft report phase.

**Metropolitan Nashville Office of Internal Audit  
2018 Approve Work Plan Status As Of November 27, 2018**

<b>*Co-source</b>	<b>CY 2017 Audits In Progress</b>	<b>Hours</b>	<b>Actual</b>
1	Hotel Occupancy Tax Audits – 2017	100	1
2	Metropolitan Development and Housing Agency – Development Incentive Process (Reporting Phase)	40	37
3	Finance – Purchasing Division (Reporting Phase)	60	122
4	Metropolitan Nashville Public Schools – Credit Card Purchases Review (Reporting Phase)	100	272
5	Office of Family Safety (Reporting Phase)	60	111
6	Metropolitan Transit Authority - Revenue Collection Process (Reporting Phase)	20	10
7	Information Technology Services - Software License/Subscription Monitoring (Reporting Phase)	120	114
8	Mayor's Office - Barnes Fund for Affordable Housing (Planning Phase)	800	1012
9	Hospital Authority – General Hospital Purchase to Pay Process (Planning Phase)	800	1014
<b>CY 2018 New Audit Areas</b>			
1	Hotel Occupancy Tax Audits – 2018 (Outsourced 7 Goodlettsville Hotels)	500	33
2	Mayor's Office / Nashville Career Advancement Center Opportunity Now Program	800	
3	Metropolitan Nashville Government Unusual Financial Transactions Review (payables, credit card, fuel card, time entry, top ten travel, etc.)	800	
4	Register of Deeds (Collections, Credit Card, Payroll, Expenses, Application Security, etc.)	800	765
5	Metro Water Services and Fire Department - Fire Hydrant Inspection, Flow Testing, and Maintenance Process	800	1001
6	Metropolitan Nashville Government Collaboration with Nonprofit Entities	800	
7	Planning Commission – Zoning Conditions Enforcement and Coordination with Public Works - Development Infrastructure Incentives	800	167
8	Metro Water Services - Storm Water Billing and Revenue Collection	800	
9	General Government Employee Benefits Management	800	14
10	Public Works Contract Monitoring – Collier Engineering (\$9.3 Million FY 2017)	400	
11	Arts Commission	600	165
12	Parks and Recreation Department - Wave Pool Operations	400	389
13*	Library – Building Security	400	

**Metropolitan Nashville Office of Internal Audit  
2018 Approve Work Plan Status As Of November 27, 2018**

14*	Sports Authority / General Services Department - MLS Soccer Stadium Construction Project	600	
15*	Metropolitan Nashville Public Schools - Capital Project Construction Program	600	
16	General Services Department – Construction Owner Representative Contractors (Capital Project Solutions, etc.)	400	
<b>Information Technology Risk</b>			
17	Oracle R12 E-Business Suite / Taleo Implementation Project	800	544
18	Police Department - Advance Records Management System Application Review	800	
19*	Metropolitan Nashville Public Schools - Information Technology Security Management	600	
20*	Health Department – Information Technology Security Management and Governance	600	
21*	Metro Water Services – Infrastructure Information Security Management	600	85
<b>Audit Recommendation Follow-up</b>			
22	Codes and Building Safety - Short Term Rental Permitting Process Audit Follow-Up	250	152
23	Information Technology Services - Radio Shop Audit Follow-Up	250	100
24	General Services Department - Fleet Management Audit Follow-Up	250	
25	Human Relations Commission Audit Follow-Up	250	26
		<b>16,800</b>	
<b>Revisions to the 2018 Approved Internal Audit Work Plan</b>			
26	MNPS Expenditure and Budget Matters	800	1003
27	General Sessions Court – Traffic School (Contracted to Kraft CPA)	400	89
28	Metro General Government Diversity Regulatory Reporting	400	
			<b>7,226</b>
<b>Summary</b>			
		<b>Budget</b>	<b>Actual</b>
	Audit Services	11,900	7,226
	Investigation Services	1,200	3,731
	Special Projects	400	373
	<b>Total (84% Effort Used To Date)</b>	<b>13,500</b>	<b>11,330</b>

**Metro Nashville Red Flag  
Fraud, Waste, and Abuse Hotline**

**Call 877-270-8334**

**or**

**<https://www.redflagreporting.com/nashville>**



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Office of Internal Audit Budget versus Actual  
 GSD General Fund as of December 10, 2018  
 FY 2019 Approved Budget

		FY 2019 Budget	Actual	Difference	Notes
Total Salaries & Fringe		\$ 1,138,300	\$ 418,018	\$ 720,282	
Other Expenses					
Professional & Purchased Services		248,000	41,810	206,190	
Building Rent Parkway Towers		55,500	23,265	32,235	\$4,580 per month
Other Expenses		71,900	12,288	59,612	
Internal Service Fees		50,000	50,000	-	Information Technology
*Budget Adjustment		(40,200)			
<b>TOTAL EXPENSES</b>		<b>\$ 1,523,500</b>	<b>\$ 545,381</b>	<b>\$ 978,119</b>	<b>36 percent utilization</b>

<b>* Budget Adjustment</b>		\$ 40,200	\$ 38,001	2,199	Open positions and FMLA without pay
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30003 General Fund 4% Reserve	\$ 8,725	\$ -	\$ 8,725	\$8,074 Audit analytic software + \$651 furniture
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Office of Internal Audit Budget History

For the year ending June 30,	Co-sourcing Audit Budget	Total Budget	Co-sourcing Percent of Budget	FTE
2008	\$ 500,000	\$ 1,477,000	34%	10
2009	231,000	1,481,600	16%	13
2010	112,000	1,262,000	9%	12
2011	234,000	1,359,800	17%	11
2012	165,000	1,265,400	13%	10
2013	156,200	1,277,900	12%	10
2014	60,200	1,179,300	5%	10
2015	45,100	1,214,900	4%	10
2016	75,100	1,290,400	6%	10
2017	125,100	1,382,900	9%	10
2018	248,000	1,545,700	16%	10
2019	248,000	1,563,700	16%	10

# Metropolitan Nashville Office of Internal Audit

## Executive Team

**Mark Swann**  
CPA, CIA, CISA, ACDA,  
CMFO  
Metropolitan Auditor  
X26158

## Project and Office Management Leadership

**-OPEN-**  
New Hire Starts  
December 31, 2018  
Principal Auditor

**William (Bill) Walker**  
CPA, CIA  
Principal Auditor  
x26714

Project Quality, Milestone/Project Budget Monitoring, Hotline Support, Training  
Plans, GA GAS Compliance, Office Support, etc

## Audit Talent Pool

**Seth Hatfield**  
Macc, CPA, CIA, CFE  
Senior Auditor  
x79672

**James Carson**  
MBA, CIA, CFE  
Senior Auditor  
X26430

**Mary Cole**  
Macc, CPA, CFE,  
CISA, CGFM  
Senior Auditor  
X26407

**Innocent Dargbey**  
MS-Finance, MBA,  
CPA, CMFO  
Senior Auditor  
x79671

**Laura Henry**  
Macc, CFE  
Auditor II  
x26456

**Nan Wen**  
MS-Info Sys, MS-  
Acctg, CPA  
Auditor II  
x26429

**Ted Ciuba**  
MS-Finance, MBA  
Auditor I  
x26286

**METROPOLITAN NASHVILLE AUDIT COMMITTEE  
2019 MEETING PLAN**

<b>Meeting Date</b>	<b>Proposed Agenda Topics</b>
February 12, 2019 (Tuesday)	<ul style="list-style-type: none"> <li>• Office of Internal Audit Annual Performance Report</li> <li>• Internal Audit Annual Work Plan approval</li> <li>• Internal Audit issued report discussion</li> <li>• Open Audit Recommendations Status</li> </ul>
April 9, 2019 (Tuesday)	<ul style="list-style-type: none"> <li>• Election of Chairman and Vice Chairman</li> <li>• External Audit Single Audit and Management Letter presentation</li> <li>• Information Security Program Update</li> <li>• Internal Audit issued report discussion</li> </ul>
June 25, 2019 (Tuesday)	<ul style="list-style-type: none"> <li>• FY2018 External Audit plan and required communications</li> <li>• Internal Audit issued report discussion</li> <li>• Metropolitan Auditor performance review</li> </ul>
September 10, 2019 (Tuesday)	<ul style="list-style-type: none"> <li>• Metropolitan Audit Committee self-assessment</li> <li>• Bylaws annual review</li> <li>• Internal Audit issued report discussion</li> <li>• Open Audit Recommendations Status</li> <li>• External Audit Comprehensive Annual Financial Report Audit Progress Executive Session</li> </ul>
November 26, 2019 (Tuesday)	<ul style="list-style-type: none"> <li>• Internal Audit issued report discussion</li> <li>• External Audit Comprehensive Annual Financial Report Audit Progress Executive Session</li> </ul>
December 10, 2019 (Tuesday)	<ul style="list-style-type: none"> <li>• External Audit Comprehensive Annual Financial Report</li> <li>• Internal Audit issued report discussion</li> </ul>



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# Metropolitan Audit Committee

Metropolitan Code of Laws Section 2.24.300  
Term-varied  
6 Members

	<u>Date of Appt.</u>	<u>Term Exp.</u>
<b>Mr. John Cooper</b> 3925 Woodlawn Drive Nashville, TN 37205- (615) 969-4444      CooperAtLarge@nashville.gov Representing: Metro Council	<b>10/3/2017</b>	<b>9/30/2019</b>
<b>Mr. Charles C. Frasier</b> <b>VChm</b> One University Park Drive Nashville, TN 37204- (615) 966-5738      charles.frasier@lipscomb.edu Representing: TSCPA, Nashville Chapter	<b>3/21/2017</b>	<b>3/20/2021</b>
<b>Ms. Talia Lomax-O'dneal</b> One Public Square, Suite 106 Nashville, TN 37201- (615) 862-6151      talia.lomaxodneal@nashville.gov Representing: Director of Finance	<b>10/1/2015</b>	
<b>Mr. Bob Mendes</b> One Public Square, Suite 204 Nashville, TN 37201- (615) 756-3533      bob.mendes@nashville.gov Representing: Metro Council	<b>10/3/2017</b>	<b>9/30/2019</b>
<b>Mr. Brack Reed</b> <b>Chm</b> 222 Second Avenue South #1400 Nashville, TN 37201- (615) 770-8100      brack_reed@gspnet.com Representing: Nashville Area Chamber of Commerce	<b>2/20/2015</b>	<b>3/20/2019</b>
<b>Vice Mayor Jim Shulman</b> One Public Square, Suite 204 Nashville, TN 37201- (615) 880-3357      jim.shulman@nashville.gov Representing: Vice Mayor	<b>9/6/2018</b>	<b>8/31/2019</b>

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# Metropolitan Nashville Audit Committee

## Executive Session Checklist

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- The published agenda must disclose the general nature of the items to be discussed in executive session.  
See, T.C.A. §9-3-405(f)
- All business which is public in nature shall be conducted first.  
See, T.C.A. §9-3-405(g)(1)
- During the regular public session committee must vote to go into private executive session. Must obtain a majority to be successful.  
See, T.C.A. §9-3-405(d)
- Chair must announce during the public portion of the meeting that no business other than the matters stated generally on the published agenda shall be considered during the confidential executive session.  
See, T.C.A. §9-3-405(e)
- Adjourn the public portion of the meeting.  
See, T.C.A. §9-3-405(g)(2)
- Only individuals whose presence is reasonably necessary in order for the committee to carry out its executive session responsibilities may attend the portion of the executive session relevant to that person's presence.  
See, T.C.A. §9-3-405(h)

## Permissible Executive Session Subject Matter

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1. Items deemed not subject to public inspection under §§ 10-7-503 and 10-7-54, and all other matters designated as confidential or privileged under this code
2. Current or pending litigation and pending legal controversies
3. Pending or ongoing audits or audit related investigations
4. Information protected by federal law
5. Matters involving information under § 9-3-406 where the informant has requested anonymity  
See, T.C.A. § 9-3-405(d)