

***METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON
COUNTY***



***METROPOLITAN NASHVILLE
AUDIT COMMITTEE***

WORKBOOK

September 8, 2020

*"Do the best you can until you know better.
Then when you know better, do better."
– Maya Angelou –*

METROPOLITAN NASHVILLE
METROPOLITAN AUDIT COMMITTEE MEETING AGENDA
September 8, 2020, 4:00 p.m.

This meeting will take place via teleconference and will be broadcast through the Metro Nashville Network, (MNN), on Nashville’s Comcast Channel 3, AT&T U-Verse Channel 99 and on the MNN Live Stream @stream.nashville.gov

- I. Call Meeting to Order (Brackney Reed – Committee Chairman)
- II. Approval of Minutes (Brackney Reed – Committee Chairman)
 - Approval of Minutes for June 23, 2020, meeting.
- III. New Business
 - Metropolitan Nashville Audit Committee Annual Self-Assessment. (Brackney Reed - Committee Chairman)
 - Metropolitan Nashville Audit Committee and Metropolitan Nashville Office of Internal Audit Bylaws annual review. (Lauren Riley – Metropolitan Auditor)
 - Discussion on the Centennial Sportsplex Cash Shortage Investigation issued July 24, 2020. (Bill Walker – Principal Auditor)
 - Discussion on the Audit of the Metro Parks and Recreation Department’s Relationships with Nonprofits issued August 17, 2020. (Bill Walker – Principal Auditor)
 - Tentative discussion on the Audit of the Finance Department Treasury Collections Office. (Lauren Riley – Metropolitan Auditor)
 - Tentative discussion on the Audit of the Davidson County Election Commission Operations. (Lauren Riley – Metropolitan Auditor)
 - Tentative discussion on the Audit of the Davidson County Election Commission Information Systems. (Kraft CPAs)
 - Tentative discussion on the Audit of the Davidson County Criminal Justice Center Construction Project. (Bill Walker – Principal Auditor)
- IV. Internal Audit Project Status (Lauren Riley – Metropolitan Auditor)
 - On-going projects
 - Recommendation implementation follow-up status
- V. Other Administrative Matters
 - FY2020 budget status (Lauren Riley – Metropolitan Auditor)
- VI. Consideration of Items for Future Meetings (Brackney Reed – Committee Chairman)
- VII. Adjournment of Public Meeting – Next Regular Meeting Tuesday, November 24, 2020.
- VIII. Call for a motion to enter executive session (Brackney Reed – Committee Chairman)

METROPOLITAN NASHVILLE
METROPOLITAN AUDIT COMMITTEE MEETING AGENDA
September 8, 2020, 4:00 p.m.

IX. Executive Session Agenda – (Brackney Reed – Committee Chairman)

- Discussion on the ongoing audit of Metropolitan Nashville FY 2020 Financial Statements audit with Crosslin. (External Auditor)
- Discussion of pending or ongoing audits or investigations. (Lauren Riley – Metropolitan Auditor)

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. § 9-3-405¹):

- Items deemed not subject to public inspection under T.C.A. §§ 10-7-503² and 10-7-504³ 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. § 9-3-406⁴ where the informant has requested anonymity.



To request an accommodation, please contact Lauren Riley at (615) 862-6111.

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

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

³ T.C.A. § 10-7-504. Confidential records.

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

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
AUDIT COMMITTEE MEETING MINUTES
June 23, 2020

On Tuesday, June 23, 2020, at 4:00 p.m., the Metropolitan Nashville Audit Committee met via conference call due to the COVID-19 pandemic. The following people attended the meeting:

Committee Members

Brackney Reed, Chamber of Commerce
Charles Frasier, Tennessee Society of CPAs
Thom Druffel, Council Member
Kevin Crumbo, Director of Finance

Others

Lauren Riley, Metropolitan Auditor
Theresa Costonis, Department of Law
Dell Crosslin, Crosslin
John Crosslin, Crosslin
David Hunt, Crosslin
Katie Farris, Crosslin
Erica Gilmore, Metropolitan Trustee Elect
Phil Carr, Chief Accountant
Susan Drye, Nashville Public Library
Bill Walker, Office of Internal Audit
Nan Wen, Office of Internal Audit

Committee Members Absent

Jim Shulman, Vice-Mayor
Zulfat Suara, Council Member

Quorum present? Yes

CALL MEETING TO ORDER

Mr. Reed called the meeting to order.

A **roll call** was conducted by Mrs. Riley. The following members were in attendance:

- Brackney Reed
- Charles Frasier
- Kevin Crumbo
- Thom Druffel

A **motion** to conduct the meeting using a conference call format because it was necessary to protect the safety and welfare of Tennessean's due to the COVID 19 pandemic and to conform to Governor Bill Lee's Executive Order Number 6 was made, seconded and carried. Specifically, a roll call was conducted with the following votes:

- Brackney Reed - Yes
- Charles Frasier - Yes
- Kevin Crumbo - Yes
- Thom Druffel - Yes

APPROVAL OF MINUTES

A **motion** to approve the April 22, 2020, meeting minutes as presented in the Metropolitan Nashville Audit Committee Workbook for June 23, 2020, was made and seconded. A roll call was conducted with the following votes:

- Brackney Reed - Yes

- Charles Frasier - Yes
- Kevin Crumbo - Yes
- Thom Druffel - Yes

The motion carried.

NEW BUSINESS

Discussion on former Councilmember Erica Gilmore's request for an audit of the Office of the Trustee received June 10, 2020.

Ms. Riley presented a request made by former Councilmember Erica Gilmore to conduct an audit of the Office of the Trustee. Ms. Gilmore will become the Metropolitan Trustee following the August 2020 election in which she is running unopposed. Ms. Gilmore requested an audit to identify any potential areas of improvement and to ascertain if the recommendations from previous audits have been implemented properly.

Councilmember Druffel inquired what the appropriate protocol was for these requests. Ms. Riley advised that the Audit Committee considers the request and will need to make a motion and vote on whether to add the request to the 2020 Audit Plan. Ms. Riley advised that the 2020 Audit Plan included a line item of audit hours designated for unforeseen requests; thus, the additional audit will not impact the Office of Internal Audit's ability to execute the existing plan.

A **motion** to approve adding an audit of the Office of the Trustee to the 2020 Audit Plan was made and seconded. A roll call was conducted with the following votes:

- Brackney Reed - Yes
- Charles Frasier - Yes
- Kevin Crumbo - Yes
- Thom Druffel - Yes

The motion carried.

Presentation of the Metropolitan Nashville Government Fiscal Year 2019 Letter of Recommendations to Management.

Mr. J. Crosslin summarized the results of the Fiscal Year 2019 Letter of Recommendations. Mr. J. Crosslin stated the report identified six deficiencies in internal controls. Mr. J. Crosslin noted that these six deficiencies were not considered material. Mr. J. Crosslin summarized the six internal control weaknesses identified in the report. Mr. J. Crosslin stated management concurred with each recommendation made.

Mr. Frasier inquired if reconciliations were done manually or electronically. Mr. J. Crosslin advised the new R-12 system has enhanced the ability to conduct electronic reconciliations. Mr. J. Crosslin also advised that the implementation of R-12, which occurred in September 2019, initially impacted the ability to conduct the reconciliations. Mr. Frasier asked if employees had the knowledge to perform reconciliations. Mr. J. Crosslin advised they do. Councilmember Druffel inquired if the Metropolitan Nashville Government engaged in internal financial audits. Mr. Crumbo advised the new R-12 system enhances that capability, and such audits are being explored.

A **motion** to approve the Fiscal Year 2019 Letter of Recommendations to Management was made and seconded. A roll call was conducted with the following votes:

- Brackney Reed - Yes

- Charles Frasier - Yes
- Kevin Crumbo - Yes
- Thom Druffel - Yes

The motion carried.

External auditor presentation FY 2020 Financial Audit Communications.

Mr. J. Crosslin summarized the upcoming external audit to be conducted for fiscal year 2020. Mr. J. Crosslin gave an overview on topics such as the engagement team members, the responsibilities of auditors and management, the audit methodology, new GASB statements impacting the audit, the estimated timelines, and deliverables.

Discussion on the Audit of the Nashville Public Library Building Security issued May 29, 2020

Ms. Riley summarized the objectives, observations, and recommendations for the audit. Mr. Frasier inquired if there is a process to track amounts recovered from lost library items. Ms. Drye responded that there is.

Metropolitan Auditor's Annual Performance Review.

Mr. Reed initiated a discussion on the requirement that the Metropolitan Audit Committee perform an annual performance review on the Metropolitan Auditor. Ms. Costonis advised that the Metropolitan Charter does require an evaluation be completed on an annual basis. However, there is no explicit requirement on when this is to be completed. Ms. Costonis suggested that since the current Metropolitan Auditor has only been in the position for two months that an evaluation be conducted at a later date. Ms. Costonis stated the review must be completed before the first anniversary of the Metropolitan Auditor's start date.

INTERNAL AUDIT PROJECT STATUS

On-going Projects

Ms. Riley gave a summary of projects currently in process. No additional questions followed.

Recommendation Implementation Follow-Up Status

Ms. Riley gave a status update of implementation follow-up. The Office of Internal Audit sent process owners a letter, at the Metropolitan Audit Committee's request, in March 2020 regarding the status of outstanding recommendations. A response was received for each outstanding recommendation. The number of outstanding recommendations has dropped from 157 to 66. For each closed recommendation, the Office of Internal Audit reviewed supporting documentation to determine if the recommendation appeared to be adequately addressed. Ms. Riley pointed out that the documentation provided was not audited. The Office of Internal Audit plans to audit a portion of implemented recommendations as part of the 2020 Audit Plan. Ms. Riley stated most of the older outstanding recommendations were a function of budgetary constraints. None of the 66 outstanding recommendations pertained to risk serious enough to raise concern. Moreover, departments are still working towards implementing the recommendations when budgetary constraints are no longer present.

Ms. Riley stated one change to the process will be that follow up will be initiated by specific recommendation implementation dates as opposed to a comprehensive follow up once every six months. This will allow the Audit Committee to be given a listing of outstanding recommendations at each meeting. A discussion ensued over the protocol involving inviting

entities to Audit Committee meetings. Mr. Reed noted this is a new and enhanced process over what has been done in the past.

Action Item: Mr. Reed asked that implementation follow up be an agenda item at each meeting so the committee can be kept up to date.

OTHER ADMINISTRATIVE MATTERS

Ms. Riley provided an update on status for the fiscal year 2020 budget for the Metropolitan Office of Internal Audit. Mr. Frasier inquired if COVID-19 had impacted the Office of Internal Audit. Ms. Riley advised the impact, financially and operationally has been minimal. Ms. Riley gave an update on the impact of the 2021 budget. Mr. Reed inquired if the budget for 2021 would impact operations. Ms. Riley stated she did not anticipate it would impact operations.

The next regularly scheduled meeting is September 8, 2020, at 4:00 p.m.

The public meeting adjourned after approximately 1 hour.

A **motion** was made for the Metropolitan Audit Committee to go into Executive Session and was seconded. A roll call was conducted with the following votes:

- Brackney Reed - Yes
- Charles Frasier - Yes
- Kevin Crumbo - Yes
- Thom Druffel – Yes

The motion carried.

The minutes for the June 23, 2020, Metropolitan Nashville Audit Committee meeting are respectfully submitted.

Lauren Riley, Metropolitan Auditor
Secretary, Metropolitan Nashville Audit Committee

FY 2020 Audit Committee Confirmation of Responsibilities

| | | Meets Expectations | Caution | Needs Improvement | Comments |
|---|--|-----------------------|---------|----------------------|---|
| Financial Statements | 1. While financial statement audit engagement is ongoing meet in executive session with the external auditor near the mid-point of the audit engagement and prior to final issuance of the comprehensive annual financial report to review progress, including any difficulties encountered, and follow-up as appropriate. | ✓ | ✓ | | FY2019 financial audit engagement discussed in executive session with Crosslin on November 26, 2019. FY 2019 financial audit engagement was also discussed in an open session at December 10, 2019 meeting. The Audit Committee did not meet with Crosslin during executive session of the September 10, 2019, meeting, which would have satisfied the mid=point requirement. |
| | 2. Review final reports and accept, or not accept, the audit results. | ✓ | | | FY2019 CAFR accepted on December 10, 2019. Single Audit discussed and accepted on April 22, 2020. Management Letter discussed and accepted on June 23, 2020. |
| | 3. Review with Metro Nashville management and the external auditors all matters requiring communication to the Committee under generally accepted auditing standards. | ✓ | | | FY2019 Crosslin's audit plan presentation on July 10, 2019, and FY2020 Crosslin's audit plan presentation on June 23, 2020. |
| Risk Management and Internal Control | 4. Understand the scope of internal and external auditors' reviews of internal controls over financial reporting and government service activities, and obtain reports on significant observations and recommendations, together with department, board, commission, officer or agency management's responses. | ✓ | | | Crosslin's FY2019 Management Letter discussed June 23, 2020. Office of Internal Audit reports concerning internal control environment routinely discussed during committee meetings. |
| | 5. Engage with Metropolitan Auditor in performing a Metro Nashville entity-wide risk assessment to form an audit work plan. | ✓ | | | Internal Audit Annual Work Plan recommendations and risk prioritization reviewed and approved by the Committee on February 11, 2020. |
| | 6. Meet with auditee after issuance of audit report by Metropolitan Auditor to discuss observations. Monitor corrective actions implemented by auditee. | ✓ | | | Status of audit recommendations implementation follow-up included in the <i>Office of Internal Audit Annual Report February 2019 to January 2020</i> issued to Metropolitan Nashville Council on February 13, 2020. Operational management routinely requested to attend committee meetings and discuss corrective action plans. |

FY 2020 Audit Committee Confirmation of Responsibilities

| | | Meets Expectations | Caution | Needs Improvement | Comments |
|-----------------------|--|-----------------------|---------|----------------------|--|
| Internal Audit | 7. Review and approve the audit plan and all major changes to the plan. | √ | | | Annual Internal Audit Work Plan Approved on February 12, 2019. The Committee amended the 2019 Internal Audit Work Plan one time for new audit projects. |
| | 8. Review and approve the Division of Metropolitan Audit Bylaws annually. | √ | | | Bylaws last reviewed and approved on December 10, 2019. |
| | 9. Assure continued independence of Metropolitan Auditor. Ensure there are no unjustified restrictions or limitations to the discharge of internal audit responsibilities. | √ | | | Confirmation included in the <i>Office of Internal Audit Annual Report February 2019 to January 2020</i> issued to Metropolitan Nashville Council on February 13, 2020. BL 2017-581 approved on April 5, 2017, provides additional clarity on Office of Internal Audit access to records and personnel, and fraud, waste, and abuse investigations. |
| | 10. Review annually the activities, staffing and organizational structure of the internal audit function. | √ | | | Administration of Internal Audit Office reviewed as a standing Audit Committee meeting agenda item. |
| | 11. Review the effectiveness of the internal audit function, including compliance with generally accepted government auditing standards. | √ | | | Last peer review completed April 7, 2017, with an opinion the Metropolitan Nashville Office of Internal Audit quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards. The Office of Internal Audit completed the Peer Review - Self Assessment in June 2019 with no significant findings. The Office of Internal Audit was due for a peer review by June 30, 2020. However, due to the COVID-19 pandemic, all peer reviews were suspended. The next peer review will occur once the GAO removes the suspension and extends the deadline to complete. |
| | 12. Recommend the appointment of the Metropolitan Auditor. | √ | | | Recruitment and interviews conducted from May 2019 through April 2020 with recommendation for a fulfillment of the remaining term ending June 2022 made to Metropolitan Nashville Council on April 21, 2020. |
| | 13. For cause remove the Metropolitan Auditor. | √ | | | Not applicable. |

FY 2020 Audit Committee Confirmation of Responsibilities

| | | Meets Expectations | Caution | Needs Improvement | Comments |
|--|---|-----------------------|---------|----------------------|--|
| | 14. At least once per year, review the performance of the Metropolitan Auditor and concur with the annual compensation and salary adjustment. | √ | | | The Metropolitan Auditor position was filled with an interim throughout 2019. As such, a performance review was never performed. An annual performance review will be performed of the appointed Metropolitan Auditor prior to May 2021. |

FY 2020 Audit Committee Confirmation of Responsibilities

| | | Meets Expectations | Caution | Needs Improvement | Comments |
|------------------|--|-----------------------|---------|----------------------|---|
| Reporting | 15. Issue annual report to the Council and Mayor regarding Committee activities, issues and related recommendations. | √ | | | The <i>Office of Internal Audit Annual Report February 2019 to January 2020</i> issued to Metropolitan Nashville Council on February 13, 2020. |
| | 16. Provide an open avenue of communication between internal audit, the external auditors, and department, board, commission, officer or agency management. | √ | | | Meetings with internal and external auditors. Management corrective action plans included in final internal audit reports and external auditors management letter. Operational management routinely requested to attend committee meetings and discuss corrective action plans. |
| | 17. Review any other government issued reports related to committee responsibilities. | √ | | | Not applicable. |
| Other | 18. Ensure committee members undergo appropriate orientation upon appointment. | √ | | | Orientation was conducted for the three new Audit Committee members in November/December 2019. |
| | 19. Review and assess the adequacy of the Metropolitan Nashville Committee Bylaws annually, requesting approval for proposed changes, and ensuring appropriate disclosure as may be required by law or regulation. | √ | | | Bylaws last reviewed and approved December 10, 2019. |
| | 20. Confirm annually that all responsibilities outlined in these bylaws have been carried out. | √ | | | Last reviewed and confirmed December 10, 2019. |

FY 2020 Audit Committee Confirmation of Responsibilities

| | | Meets Expectations | Caution | Needs Improvement | Comments |
|--------------------|--|-----------------------|---------|----------------------|--|
| Meetings | 21. The Committee will meet at least once per quarter | √ | | | FY 2020 - Seven regular meetings held on: (1) July 10, 2019, (2) September 10, 2019, (3) November 26, 2019, (4) December 10, 2019, (5) February 11, 2020, (6) April 22, 2020, and (7) June 23, 2020. Five special called meetings held on: (1) July 19, 2019, (2) August 12, 2019, (3) August 30, 2019, (4) February 27, 2020, (5) April 14, 2020. |
| | 22. Meeting agendas along with appropriate briefing materials will be prepared and provided in advance to members by the Metropolitan Auditor. | √ | | | Agenda, internal audit reports and other selected material provided by e-mail prior to committee meetings by the Metropolitan Auditor. |
| | 23. Minutes will be prepared by the Metropolitan Auditor. | √ | | | Minutes were prepared and posted on Committee web site after approval. |
| | 24. Meeting agendas and minutes are posted to the Metropolitan Nashville Audit Committee page on Nashville.gov in a searchable electronic format. | √ | | | Meeting agendas, workbooks, and minutes are available in searchable pdf format since February 14, 2012, on the Committee Nashville.gov internet page. |
| | 25. Meeting agendas will be posted six calendar days in advance of the meeting date. Approved meeting minutes will be posted within two workdays of approval by the committee. | √ | | | All agenda's and approved meeting minutes were posted on the committee website. Out of 13 meeting minute postings, 13 were posted between 0 and 3 work days. Of the 12 meeting agendas posted, all 12 were posted at least 6 days before the meeting. |
| Composition | 26. Follow the provisions provided in Metropolitan Code of Laws, Section 2.23.300(E) Division of Metropolitan Audit. | √ | | | Audit Committee membership is consistent with Metropolitan Code of Laws requirements. |

Work Paper Purpose: To document the annual assessment of Metropolitan Nashville Audit Committee Bylaws responsibilities addressed by the Committee.

Committee Purpose: The Metropolitan Nashville Audit Committee is to ensure that the Metropolitan Government of Nashville and Davidson County (Metro Nashville) has effective, efficient, and sustainable internal controls over its major risks.

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

PURPOSE

The Metropolitan Nashville Audit Committee is to ensure that the Metropolitan Government of Nashville and Davidson County (Metropolitan Nashville Government) has effective, efficient, and sustainable internal controls over its major risks.

SCOPE

To the extent permitted by the Metropolitan Charter the Metropolitan Nashville Audit Committee is authorized to conduct financial audits, performance audits, or other audit services including investigation and disposition of reported incidents of fraud concerning any department, board, commission, officer, agency, or office of the Metropolitan Government which receives direct services from or to which funds are appropriated by the Metropolitan Government or which the Metropolitan Government provides a guarantee for long-term indebtedness. Departments, boards, commissions, officers, agencies, and offices of the Metropolitan Government means those entities which encompass all of the governmental and corporate functions previously performed by Davidson County and the City of Nashville existing at the formation of the Metropolitan Government, and any public entity whose existence is created or authorized by the Metropolitan Charter or the Metropolitan Council.

RESPONSIBILITIES

Financial Statements

- While the financial statement audit engagement is ongoing meet in executive session with the external auditor near the mid-point of the audit engagement and prior to final issuance of the comprehensive annual financial report, to review progress, including any difficulties encountered, with the audit engagement and follow-up as appropriate.
- Review final audit reports and accept, or not accept, the audit results.
- Review with Metropolitan Nashville Government management and the external auditors all matters requiring communication to the Committee under generally accepted auditing standards.

Risk Management and Internal Control

- Understand the scope of internal and external auditors' reviews of internal controls over financial reporting and government service activities, and obtain reports on significant observations and recommendations, together with department, board, commission, officer, agency, or office management's responses.
- Engage with the Metropolitan Auditor in performing a Metropolitan Nashville Government entity-wide risk assessment to form an audit work plan.

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- Meet with auditee after issuance of audit report by Metropolitan Auditor to discuss observations. Hold follow-up to monitor corrective actions implemented by auditee.

Internal Audit

- Review and approve the internal audit work plan and all major changes to the plan.
- Review and approve the Division of Metropolitan Audit Bylaws annually.
- Assure continued independence of the Metropolitan Auditor. Ensure there are no unjustified restrictions or limitations to the discharge of internal audit responsibilities.
- Review annually the activities, staffing, and organizational structure of the internal audit function.
- Review the effectiveness of the internal audit function, including compliance with generally accepted government auditing standards.
- Recommend the appointment of the Metropolitan Auditor.
- For cause remove the Metropolitan Auditor.
- At least once per year, review the performance of the Metropolitan Auditor and concur with the annual compensation and salary adjustment.

Reporting Responsibilities

- Issue an annual report to the Metropolitan Nashville Council and Mayor regarding Committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal audit, the external auditors, and department, board, commission, officer, agency, or office management.
- Review any other government issued reports related to committee responsibilities.

Other Responsibilities

- Ensure committee members undergo appropriate orientation upon appointment.
- Review and assess the adequacy of the committee bylaws annually, requesting approval for proposed changes, and ensuring appropriate disclosure as may be required by law or regulation.
- Annually confirm that all responsibilities outlined in these bylaws have been carried out.

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

COMPOSITION

The composition and selection of committee members will follow the provisions provided in Metropolitan Code of Law, Section 2.24.300(E) Division of Metropolitan Audit.

MEETINGS

The Committee will meet at least once per quarter, with authority to convene additional meetings, as circumstances require. The Committee will invite members of department, board, commission, officer, agency, or office management, auditors or others to attend meetings and provide pertinent information as necessary. Meeting agendas along with appropriate briefing materials will be prepared and provided in advance to members by the Metropolitan Auditor. Minutes will be prepared by the Metropolitan Auditor.

Meeting agendas and minutes/proceedings are to be posted directly to the Metropolitan Nashville Audit Committee page on Nashville.gov at: <http://www.nashville.gov/Government/Boards-and-Commissions.aspx>. Meeting agendas and minutes/proceedings postings should be prepared in a searchable electronic format.

Meeting agendas will be posted six calendar days in advance of the meeting date. Approved meeting minutes will be posted within two workdays of approval by the Committee.

**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY
DIVISION OF METROPOLITAN AUDIT BYLAWS**

PURPOSE

The Division of Metropolitan Audit, commonly referred to as the Metropolitan Nashville Office of Internal Audit, is an independent appraisal agency established to ensure and enhance the integrity, equality, accountability, effectiveness, and efficiency of service activities, and to pursue an atmosphere of honesty and mutual trust within the Metropolitan Government of Nashville and Davidson County (Metropolitan Nashville Government.)

SCOPE

To the extent permitted by the Metropolitan Charter the Division of Metropolitan Audit is authorized to conduct financial audits, performance audits, or other audit services including investigation and disposition of reported incidents of fraud concerning any department, board, commission, officer, agency, or office of the Metropolitan Government which receives direct services from or to which funds are appropriated by the Metropolitan Government or which the Metropolitan Government provides a guarantee for long-term indebtedness. Departments, boards, commissions, officers, agencies, and offices of the Metropolitan Government means those entities which encompass all of the governmental and corporate functions previously performed by Davidson County and the City of Nashville existing at the formation of the Metropolitan Government, and any public entity whose existence is created or authorized by the Metropolitan Charter or the Metropolitan Council.

The Metropolitan Auditor shall conduct financial, performance, or other audit services in order to independently and objectively determine whether:

- Risks, including safety, environment, fiscal, information technology, and fraud, are appropriately identified and managed.
- Programs, plans, and objectives are achieved.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Activities and programs are being conducted in compliance with policies, standards, procedures, and applicable local, state, and federal laws or regulations.
- Resources are acquired economically, used efficiently, and protected adequately.
- Quality and continuous improvement are fostered in Metropolitan Nashville Government's control environment.
- Interaction with the various governance groups occurs as needed.
- External auditors' proposed audit scope and approach supplement internal audit efforts.

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- Activities indicate fraud, abuse, or illegal acts which need further investigation.
- Computer-based systems incorporate adequate controls.

The Metropolitan Auditor shall have authority to:

- Review the effectiveness of internal controls for monitoring compliance with laws and regulations.
- Review the observations of any examinations by regulatory agencies, and any auditor observation.
- Review the process for communicating the code of conduct to Metropolitan Nashville Government personnel.
- Obtain regular updates from department, board, commission, officer, agency, or office management regarding compliance matters.

The Metropolitan Auditor shall have authority to accept requests from management to perform special administrative reviews, special projects, and advisory services.

AUDIT SCHEDULE

At the beginning of each calendar year, the Metropolitan Auditor shall submit a twelve-month internal audit work plan to the Metropolitan Nashville Audit Committee for review and approval. The schedule shall include the proposed plan for auditing departments, boards, commissions, officers, agencies, offices, activities, systems, processes, and subcontractors for the subsequent twelve months. This plan may be amended during the period after review with the Metropolitan Nashville Audit Committee. Additionally, the Metropolitan Auditor may independently initiate and conduct any other audit deemed necessary with subsequent approval by the Metropolitan Nashville Audit Committee.

The internal audit work plan will ensure audit activities have been directed toward the highest exposure to risk and toward increasing efficiency, economy, and effectiveness of programs. In the selection of audit areas and audit objectives, the determination of audit scope and the timing of audit work, the auditor will consult, as needed, with federal and state auditors, external auditors, and other Metropolitan Nashville Government monitoring functions so that the desirable audit coverage is provided, and audit effort is properly coordinated.

REPORT OF IRREGULARITIES

If during an audit, the auditor becomes aware of fraud, abuse, or illegal acts, the Metropolitan Auditor shall report the irregularities to the Metropolitan Nashville Audit Committee, Department of Law, Mayor and

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Tennessee Comptroller of the Treasury. If it appears that the irregularity is criminal in nature, the Metropolitan Auditor shall notify the appropriate authority in addition to those officials previously cited.

ACCESS TO EMPLOYEES, RECORDS AND PROPERTY

To the extent permitted by the Metropolitan Charter the Division of Metropolitan Audit, with strict accountability for confidential and safeguarding records and information, shall have access to all Metropolitan Government's records, agreements, information systems, physical properties, and personnel. Such authority shall include but is not limited to, the ability to review, research, and conduct interviews, along with the ability to have access to any and all necessary documentation as described in this subsection. To the extent permitted by the Metropolitan Charter, all Metropolitan Government departments, boards, commissions, officers, agencies, or offices, along with all entities contracting with the Metropolitan Government shall co-operate fully with the Metropolitan Auditor during any such review or request to the fullest extent of applicable law. Any failure to cooperate with the Metropolitan Auditor shall be reported to the Audit Committee, Finance Director, Director of Law, and the Metropolitan Council.

Metropolitan Nashville Office of Internal Audit personnel are individually responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work and complying with any other regulatory requirements necessitated by their being granted such access. Metropolitan Nashville Office of Internal Audit personnel shall not publicly disclose any information received during an audit that is considered confidential in nature by any local, state, or federal law or regulation.

AGENCY RESPONSE

A final draft of the audit report will be forwarded to the audited department, board, commission, officer, agency, or office director or his/her designee for review and comment regarding factual content before it is released to the Metropolitan Nashville Audit Committee. The audit entity must respond in writing, and specify agreement with audit observations and recommendations or reasons for disagreement with observations and/or recommendations, plans for implementing solutions to issues identified, and a timetable to complete such activities. The response must be forwarded to the Metropolitan Auditor within fifteen business days of issuance of the final draft audit report. The Metropolitan Auditor will include the response in the report. If no response is received, the Metropolitan Auditor will note that fact in the transmittal letter and will release the audit report. Any subsequent responses shall be distributed to those who received the audit report.

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AUDIT FOLLOW-UP

The Metropolitan Auditor shall follow-up on audit recommendations as practicable to determine whether corrective action has been implemented. The Metropolitan Auditor will request status reports every six months from audited entities regarding actions taken to address reported audit concerns and recommendations.

REPORTS TO METROPOLITAN AUDIT COMMITTEE

Each audit will result in a written report containing relevant background information and observations and recommendations, and shall communicate results to the Metropolitan Nashville Audit Committee, the Mayor and the audited department, board, commission, officer, agency, or office. Subject to applicable local, state, or federal laws, the report shall also be available for public examination.

The Metropolitan Auditor shall submit each audit report to the Metropolitan Nashville Audit Committee and shall retain a copy as a permanent record. A copy will be posted on the Metropolitan Nashville Office of Internal Audit's internet site.

ANNUAL REPORT

The Metropolitan Auditor shall submit an annual report to the Metropolitan Nashville Audit Committee, during the first quarter of each calendar year, indicating audits completed, major concerns, corrective actions taken, and significant observations that have not been fully addressed by audited department, board, commission, officer, agency, or office management. Additionally, the report will indicate whether there are any unwarranted restrictions on the staffing of the internal audit activity or on access by internal auditors to organization records, agreements, information systems, properties, or personnel.

CONTRACT AUDITORS, CONSULTANTS, AND EXPERTS

Within budget limitations, the Metropolitan Auditor may obtain the services of qualified financial or management consultants, or other professional experts necessary to perform the Metropolitan Auditor's duties. An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the entity under review. The Metropolitan Auditor will coordinate and monitor auditing performed by public accounting or other organizations employed under contract by the Metropolitan Nashville Office of Internal Audit.

INDEPENDENCE

To provide for the independence of the Metropolitan Nashville Office of Internal Audit, its personnel report to the Metropolitan Auditor, who reports administratively and functionally to the Metropolitan Nashville Audit

**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY
DIVISION OF METROPOLITAN AUDIT BYLAWS**

Committee as established in the Metropolitan Nashville Code of Law, Section 2.24.300 Division of Metropolitan Audit.

In all matters relating to audit work, the Metropolitan Nashville Office of Internal Audit and the audit staff should be free from personal, external, and organizational impairments to independence and must avoid the appearance of such impairments of independence. The Metropolitan Auditor and audit staff have neither direct authority over nor responsibility for, any of the activities reviewed.

STANDARDS OF AUDIT PRACTICE

The Metropolitan Auditor shall conduct work in accordance with Government Auditing Standards established by the United States Government Accountability Office.

STANDARDS OF INVESTIGATION PRACTICE

The Metropolitan Auditor shall establish procedures for conducting fraud, waste, and abuse investigations.

FUNDING

The Metropolitan Nashville Office of Internal Audit shall submit budget proposals, in accordance with procedures established by the Metropolitan Nashville Government Director of Finance that are sufficient to carry out the responsibilities and functions established in the Metropolitan Code of Law, Section 2.24.300 Division of Metropolitan Audit.

RECORDS

The Metropolitan Auditor shall retain for ten years (or longer if so directed by statute or ordinance), a complete file of each audit report and each report of other examinations, surveys, and reviews made under legislative authority. The file should include audit working papers and other supportive material directly pertaining to the audit report.

REASSESSMENT

The Division of Metropolitan Audit Bylaws will be reviewed and reassessed annually by the Metropolitan Nashville Audit Committee.



Date: July 24, 2020

To: Lauren Riley, Metropolitan Auditor

From: Seth Hatfield, CFE - Investigator

Regarding: Centennial Sportsplex Cash Shortage

Source of Allegations

The Metropolitan Nashville Office of Internal Audit was notified by the Metropolitan Nashville Finance Department Office of Financial Accountability of a possible misappropriation of funds at the Centennial Sportsplex on June 17, 2020. The shortage of \$300.00 was discovered by Centennial Sportsplex staff during a safe count conducted on the evening of Friday, June 12, 2020.

Investigator Assigned

Seth Hatfield, CPA, CIA, CFE

Bill Walker, CPA, CIA, CFE (Principal Auditor)

Purpose of Investigation

The Metropolitan Nashville Office of Internal Audit conducts internal investigations of potential violation of governance policies established for the Metropolitan Nashville Government or investigations of potential fraud, waste, and abuse. Investigation requests are received from the management of the Metropolitan Nashville Government or tips received from the Metropolitan Nashville Government fraud, waste, and abuse hotline.

Any findings or observations of potential fraud and other criminal acts would be referred to the 20th Judicial District Attorney Office, Metropolitan Nashville Police Department, or other appropriate agency. Any findings related to employee misconduct, waste, abuse, as well as process inefficiencies and deficient internal controls, would be forwarded to the management of the Metropolitan Nashville Government for corrective action.

We conduct investigations and create reports using the Standards of the Association of Certified Fraud Examiners as a guide. The standard of "preponderance of the evidence" is used as a basis for substantiating or not substantiating an allegation. Key definitions used during investigations include:

- Preponderance of Evidence – A certain set of facts "more likely than not" occurred.
- Substantiated – The preponderance of the evidence collected during the investigation indicates that the incident occurred.
- Unsubstantiated - The evidence collected during the investigation indicates there was not a preponderance of the evidence to support the allegation or that the evidence collected during the investigation was conflicting or inconclusive.

The Metropolitan Nashville Office of Internal Audit discovery of evidence is primarily from Metropolitan Nashville Government's personnel testimonial statements, financial and operations records, and information assets (computers, email, mobile phone, and so forth). Personal private information assets and financial and operations records will be reviewed when voluntarily provided by parties involved in an investigation or contractual audit clauses facilitate such reviews.

The purpose of this investigation is to determine if there is a significant deficiency in internal controls around cash handling at the Centennial Sportsplex that would require management action and to determine whether an employee misappropriated \$300.00 from the safe of the Centennial Sportsplex.

Work Performed

Our office received notification from Fred Adom, Director of the Division of Grants and Accountability, of a possible misappropriation of \$300.00 from the Centennial Sportsplex. The e-mail notification included a statement by Nethraja Rajaratnam, Office Support Specialist II regarding the discovery of the \$300.00 shortage, a listing of employees that had access to the safe at the Centennial Sportsplex, a copy of the cash handling procedures at the Centennial Sportsplex, and a copy of the Metropolitan Nashville Police Department Incident Report filed on June 15, 2020.

Our office conducted meetings with management of the Centennial Sportsplex and employees that had access to the safe on Thursday, June 11, 2020, and Friday, June 12, 2020.

Deposit documentation was reconciled between the Recreation Dynamics Point-of-Sale System, the cash handling daily journals, and the bank deposits for June 11, 2020, and June 12, 2020.

On July 1, 2020, a walkthrough of the safe room at the Centennial Sportsplex was conducted.

Facts

- 1) The safe room at the Centennial Sportsplex contains a large safe with a balance of \$1,500.00 and a small safe with a balance of \$1,000.00.
- 2) The safe room does not contain a security camera and does not require badge access.
- 3) The safe room is kept locked. However, twelve employees have a key to the safe room. The employees include management, supervisors, and shift leaders.
- 4) The safe room does not have an isolated alarm. Based on testimonial evidence from Misty Adfield, Superintendent, the safe room alarm is not always set during the day due to the frequency that the room is accessed for the copying machine.
- 5) Based on testimonial evidence provided by Ron Epps, Specialized Skills Instructor, Jonathan Maxwell, Specialized Skills Instructor, and Michael Campeotto, Aquatic Coordinator, a cash shortage of \$300.00 was discovered when doing the final daily cash count for the large safe on June 12, 2020.
- 6) Misty Adfield, Superintendent, was notified on the evening of Friday, June 12, 2020, of the \$300.00 shortage.

- 7) The next business day on Monday, June 15, 2020, Nethraja Rajaratnam and Michael Campeotto confirmed the \$300.00 shortage with the opening safe count. Based on a statement and testimonial evidence from Nethraja Rajaratnam, it is suspected that the missing \$300.00 consisted of three \$100.00 bills that were in the safe since the previous week.
- 8) Cash Handling Procedures for the Centennial Sportsplex require two-person integrity to be maintained when counting drawers, counting the safe, and preparing deposits.
- 9) The Daily Cash Handling Journal for Thursday, June 11, 2020, has the initials of Demetra Lisigakis and Ron Epps as certifying the safe balance as \$2,500.00 during closing.
- 10) Based on testimonial evidence from Demetra Lisigakis and Ron Epps, two-person integrity was **not** maintained when counting the safe on the evening of June 11, 2020. Demetra Lisigakis was the only employee to count the safe on Thursday, June 11, 2020. Ron Epps stated he signed the Daily Cash Handling Journal, but he relied on the safe count performed by Demetra Lisigakis. Ms. Lisigakis confirmed that she was the only employee to count the safe that evening.
- 11) It is estimated that the \$300.00 shortage in the safe occurred between the evening of Thursday, June 11, 2020, and Friday, June 12, 2020.
- 12) A total of \$14.00 was collected on June 11, 2020. This amount was reconciled between the Recreation Dynamics point-of-sale system, the Daily Cash Handling Journal, and the deposit paperwork.
- 13) A total of \$152.00 was collected on June 12, 2020. This amount was reconciled between the Recreation Dynamics point-of-sale system, the Daily Cash Handling Journal, and the deposit paperwork.
- 14) Based on testimonial evidence by Nethraja Rajaratnam, the bank was contacted to confirm no deposits were found to be over by the missing \$300.00. The bank confirmed that no such overage was present.

Discussion and Analysis

Based on a review of cash handling journals for June 11, 2020, and June 12, 2020, and testimonial evidence given by Misty Adfield, Nethraja Rajaratnam, Ron Epps, Demetra Lisigakis, Jonathan Maxwell, and Michael Campeotto, a shortage of \$300.00 occurred between the evening of June 11, 2020, and the evening of June 12, 2020. Two-person integrity was not maintained for the safe count on Thursday, June 11, 2020. The purpose of the two-person integrity is to give the cash counts more validity and protect both employees if funds were to come up short. Additionally, a deposit error is less likely as the bank has not found any deposits to be over by the missing \$300.00.

Conclusion

The Metropolitan Office of Internal Audit concludes that the allegation that \$300.00 was misappropriated from the Centennial Sportsplex safe is **substantiated**. However, a large number of employees have access to the safe room and the money in the safe. There is not a security camera present in the safe room. The safe room does not require badge access to specifically monitor who

comes in and out of the room. These factors make it impossible to determine what happened in the safe room and who entered the safe room on June 11, 2020, and June 12, 2020. Accordingly, the status of what happened to the \$300.00 **cannot be determined**.

Recommendation

Recommendations for management of the Metropolitan Nashville Parks and Recreation department to:

- 1) Reiterate the purpose of two-person integrity to employees with cash handling responsibilities and ensure that two-person integrity is always maintained when performing cash counts.
- 2) Reevaluate preventative and detective controls for the Centennial Sportsplex safe room which could include:
 - a) Reevaluating how many and which employees have access to the safe room and safe combinations.
 - b) Perform a cost-benefit analysis for camera coverage in the safe room.
 - c) Consider implementing badge access on the safe room in order to monitor which employees access the room.

If you have any questions or concerns, please feel free to contact me.

END OF REPORT



**A Report to the
Audit Committee**

Mayor
John Cooper

**Metro Parks and Recreation
Department**
Monique Odom

Audit Committee Members

Kevin Crumbo
Thom Druffel
Charles Frasier
Brackney Reed
Jim Shulman
Zulfat Suara

Audit of the Metro Parks and Recreation Department's Relationships with Nonprofits

August 17, 2020

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

August 17, 2020



Why We Did This Audit

The audit was conducted to determine the appropriateness of relationships between the Metro Parks and Recreation Department and affiliated partners or nonprofits and to ensure the relationships are beneficial to the Metro Parks and Recreation Department.

What We Recommend

- Ensure compliance with the Metropolitan Board of Parks and Recreation Policy.

Audit of the Metro Parks and Recreation Department's Relationships with Nonprofits

BACKGROUND

The Metro Parks and Recreation Department establishes relationships with nonprofit organizations for the benefit of the citizens of Metropolitan Nashville and Davidson County and its visitors. The nonprofits provide a wide range of resources and services. The Metro Parks and Recreation Department is currently affiliated with 18 nonprofits. The relationships reduce taxpayer costs via contributions and the resulting synergies when coordinating on applicable Metro Parks and Recreation Department activities and infrastructure improvements.

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- The Metro Parks and Recreation Department's relationships with affiliated nonprofits are consistent with the Metropolitan Board of Parks and Recreation Policy.
- Transactions between the Metro Parks and Recreation Department and the various nonprofits conform to applicable agreements, benefit the Metropolitan Nashville Government, and are subject to controls to reduce the possibility of errors or malfeasance.

The scope of this audit is July 1, 2017, to September 30, 2019.

WHAT WE FOUND

The Metro Parks and Recreation Department has generally established controls to adequately monitor their relationships with affiliated nonprofits. Formal policies are in place outlining the responsibilities of the various nonprofits and the Metro Parks and Recreation Department. All donations or projects involving nonprofits must be approved by the Board of Parks and Recreation. Procedures are in place to track the progress and verify completion of each project and to ensure donations are being used for their intended purpose.

Opportunities to improve compliance with the Metropolitan Board of Parks and Recreation Policy exist. Requirements for nonprofits to provide specific documentation to the Metro Parks and Recreation Department was not consistently adhered to or monitored.

GOVERNANCE

The Metro Parks and Recreation Department was established in 1964 with the consolidation with the Metropolitan Nashville Government and functions under the authority of the Metropolitan Charter, Section 11.001. The Metro Parks and Recreation Department is governed by a seven-member Board of Parks and Recreation whose members serve five-year terms. Daily activities are managed by the Metro Parks and Recreation Department Director, who is appointed by the Board.

BACKGROUND

The Metro Parks and Recreation Department partnered with 18 nonprofits during the audit period. Eight nonprofits provided contributions in terms of donations or services to assist in supplementing and complimenting the department's missions and objectives. A listing of nonprofits during the scope period and the applicable award amounts are listed in Exhibit A.

Exhibit A: Nonprofit Partners and Awards from July 2017 to September 2019

| GRANTOR | Total Award |
|---|-----------------------|
| NASHVILLE PARKS FOUNDATION | \$610,160.00 |
| FRIENDS OF WARNER PARKS | \$291,184.53 |
| GREENWAYS FOR NASHVILLE | \$120,000.00 |
| THE CONSERVANCY PARTHENON CENTENNIAL PARK | \$109,323.03 |
| FRIENDS OF GREEN HILLS PARK | \$75,000.00 |
| FRIENDS OF TWO RIVERS MANSION | \$43,795.59 |
| FRIENDS OF SHELBY PARK and BOTTOMS | \$32,780.00 |
| FRIENDS OF METRO DANCE | \$20,000.00 |
| Grand Total: | \$1,302,243.15 |

The nonprofits benefit the Metropolitan Nashville Government by performing a variety of projects or by making donations such as landscaping improvements, fence installation and repair, upgrading kitchen equipment, facilities maintenance and upgrades throughout the park system, greenway expansions, and select staff salaries at Two Rivers Mansion.

All nonprofit organizations affiliated with the Metro Parks and Recreation Department must be approved by the Board of Parks and Recreation. Nonprofits must also apply and be approved to operate as a nonprofit by the Internal Revenue Service. Every subsequent grant, donation, project, etc. must be reviewed and approved the Board of Parks and Recreation and Metropolitan Council prior to initiation. All activity is then assigned to a program manager to monitor from initiation to finalization.

OBJECTIVES AND CONCLUSIONS

1. *Are the Metro Parks and Recreation Department's relationships with affiliated nonprofits consistent with the Metropolitan Board of Parks and Recreation Policy, Section 3000.31 (Establishment and Operation of Not for Profit Friends or Support Groups)?*

Generally, yes. The Board of Parks and Recreation reviewed and approved all nonprofits affiliated with the department during the scope period of July 1, 2017, through September 30, 2019. Approval included reviewing all applicable activities associated with nonprofits. However, a significant portion of the policy is not consistently followed. Portions not followed related to requiring nonprofits to submit financial reports, Internal Revenue Service Exception Letters, details of fundraising activities, and membership listings. (See Observation A.)

2. *Are transactions between the Metro Parks and Recreation Department and the various nonprofits conforming to applicable agreements, benefiting the Metropolitan Nashville Government, and subject to controls to reduce the possibility of errors or malfeasance?*

Yes. All the projects and donations tested were approved by both the Board of Parks and Recreation and the Metropolitan Council. Also, project status and completion were monitored by the Metro Parks and Recreation Department. Projects and donations were utilized in the manner and purpose specified by the nonprofits.

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (COSO)*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A – Compliance with the Metropolitan Board of Parks and Recreation Policy

Requirements set forth in the Metropolitan Board of Parks and Recreation Department Policy were not followed in a consistent manner. A review of all 18 nonprofits for the scope July 1, 2017, through September 30, 2019, noted the following instances of noncompliance with the policy:

- A valid Internal Revenue Service exception letter was not on file for 9 nonprofits (50 percent).
- Financial reports (i.e. Internal Revenue Service Form 990 or 990N, balance sheet, and income statement) were not on file or were submitted late for 16 nonprofits (89 percent). Notably, financial reports were not on file for 7 nonprofits (39 percent) for either 2017 or 2018.
- The annual budgets were not on file for any of the nonprofits for either 2017 or 2018.
- Detailed lists of fundraising activities were not on file for any of the 15 nonprofits that raised funds for either 2017 or 2018.
- A list of membership including the names and titles of board members or officers was not on file for 17 nonprofits (94 percent) for either 2017 or 2018.

The required information is utilized to determine if the nonprofits are operating or plan on operating in the best interest of the Metro Parks and Recreation Department. Not having information increases the risk a nonprofit might not be functioning in the best interest of the Metropolitan Nashville Government.

Criteria:

- Metropolitan Board of Parks and Recreation Policy, Section 3000.31.
- *COSO*, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Assessed Risk Rating:

Medium

Recommendations for Management of the Metro Parks and Recreation Department to:

1. Evaluate and determine if the policy needs to be revised if management or the Board of Parks and Recreation determines the requirements are too burdensome or if more stringent requirements are needed.
2. Ensure the required documentation is provided consistently and within the deadlines listed in the policy. Consideration should be given to the development of an initial and annual checklist of the required documents to be completed for new nonprofits and annually for existing nonprofits.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Studied applicable laws, regulations, and Board of Parks and Recreation policies.
- Interviewed key personnel within the Metro Parks and Recreation Department.
- Evaluated internal controls currently in place.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

James Carson, CIA, CFE, In-Charge Auditor

Bill Walker, CPA, CIA, CFE, Principal Auditor

Lauren Riley, CPA, CIA, ACDA, CMFO, Metropolitan Auditor

JOHN COOPER, MAYOR

METROPOLITAN BOARD OF PARKS AND RECREATION

Centennial Park Office
Park Plaza at Omar Street
Nashville, TN 37201



(615) 862-8400
Fax (615) 862-8414
www.nashville.gov/parks

Monique Horton Odom, Director

August 10, 2020

Ms. Lauren Riley, CPA, CIA, ACDA
Director
Metropolitan Nashville Office of Internal Audit
P.O. Box 196300
Nashville, TN 37219-6300

RE: Audit of Metro Parks Non-Profit Engagement

Dear Ms. Riley:

This letter acknowledges Metro Parks receipt of the interim audit report for the above referenced project. We have reviewed your observations and are in the process of implementing your recommendations as indicated in the management response.

Thank you for the thoroughness and methodology used in the audit and we look forward to completing the implementation of your recommendations.

Sincerely,

A handwritten signature in blue ink, which appears to read "Monique Horton Odom".

Monique Horton Odom
Director

MHO:jf

- c: William Walker
Office of Internal Audit
- Chinita White
Assistant Director/Metro Parks

"It is the mission of Metro Parks and Recreation to sustainably and equitably provide everyone in Nashville with an inviting network of parks and greenways that offer health, wellness and quality of life through recreation, conservation and connectivity."



FOR ADA RECOMMENDATIONS, PLEASE CONTACT 615-462-8400

WE ARE AN EQUAL OPPORTUNITY EMPLOYER

APPENDIX A – MANAGEMENT RESPONSE AND ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches and we encourage them to do so when providing their response to our recommendations.

| | Recommendations | Concurrence and Action Plan | Proposed Completion Date |
|--|---|--|--------------------------|
| <i>Recommendations for management of the Metro Parks and Recreation Department to:</i> | | | |
| M | A.1 Evaluate and determine if the policy needs to be revised if management or the Board of Parks and Recreation determines the requirements are too burdensome or if more stringent requirements are needed. | Accept: The Finance Committee of the Parks Board will meet to discuss and review current policy and make recommendations for any changes. | February 15, 2021 |
| M | A.2 Ensure the required documentation is provided consistently and within the deadlines listed in the policy. Consideration should be given to the development of an initial and annual checklist of the required documents to be completed for new nonprofits and annually for existing nonprofits | Accept: The Finance Committee of the Parks Board will meet to discuss recommendations. Implementation of agreed upon recommendations will then proceed. | August 15, 2021 |

APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

| Rating | Financial | Internal Controls | Compliance | Public |
|---------------------------------|--|---|--|---|
| HIGH | Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust | Missing, or inadequate key internal controls | Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies | High probability for negative public trust perception |
| MEDIUM | Moderate financial impact \$25,000 to \$10,000 | Partial controls Not adequate to identify noncompliance or misappropriation timely | Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies | Potential for negative public trust perception |
| LOW/ Emerging Issues | Low financial impact <\$10,000 | Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems | Generally complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist | Low probability for negative public trust perception |
| Efficiency Opportunity | An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient | | | |



**A Report to the
Audit Committee**

Mayor
John Cooper

Finance Director
Kevin Crumbo

Treasurer
Tom Eddlemon

Audit Committee Members

Thom Druffel
Charles Frasier
Brackney Reed
Jim Shulman
Zulfat Suara

Audit of the Department of Finance Treasury Collections Office

September 3, 2020

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

September 3, 2020



Why We Did This Audit

The audit was conducted due to the high volume of transactions and large dollar amounts of taxes and fees collected by the Treasury Collections Office.

What We Recommend

- Replace the Microsoft Access database with a payment software that offers an online payment option and includes strong access and change controls.
- Establish a full population of taxpayers and monitor it regularly to ensure payments are received.
- Document and implement stronger controls around receiving, recording, and tracking payments received.

Audit of the Department of Finance Treasury Collections Office

BACKGROUND

The *Metropolitan Nashville Government Code of Ordinances* No. BL2012-156 designates the Department of Finance as the collection official for tourist accommodation taxes, alcohol privilege taxes, wholesale beer and liquor taxes, and franchise fees. The Treasury Collections Office, within the Office of the Treasurer, has been designated as the collection agent.

Treasury Collections is a three-person office responsible for collecting, recording, and ensuring proper fund disbursement of all designated monies received. Monies collected by Treasury Collections for fiscal years 2017, 2018, and 2019 are presented in Exhibit A.

Exhibit A – Treasury Collections Office Recorded Funds

| | FY 2017 | FY 2018 | FY 2019 |
|--------------------------|-----------------------|-----------------------|-----------------------|
| Total Collections | \$ 116,196,183 | \$ 126,599,149 | \$ 142,291,150 |

Sources: *Metropolitan Nashville Comprehensive Annual Financial Reports* and *Treasury Collections Office Microsoft Access Database (Franchise Fees)*

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Controls are in place and effective to ensure all payments received are recorded accurately and deposited timely.
- Processes are in place to ensure up to date and complete populations for collections.
- Processes are in place to ensure all amounts owed are tracked and collected.

The scope of this audit includes Treasury Collections office tax collections from July 1, 2017, through June 30, 2019.

WHAT WE FOUND

The Collections Office followed uniform procedures to record the collected revenues into the database. The recorded collections were setup to be allocated correctly to the appropriate funds.

However, due in part to a small staff, the audit found a lack of controls around timely deposits, segregation of duties, and logging of receipts to the correct accounts. Additionally, the use of a Microsoft Access database to record payments resulted in a lack of controls around changes to data. No processes were in place to identify full populations of payors or to track receipts to ensure complete collections.

GOVERNANCE

The *Metropolitan Nashville Government Code of Ordinances* No. BL2012-156 designates the Department of Finance as the collection official for tourist accommodation taxes, alcohol privilege taxes, wholesale beer and liquor taxes, and franchise fees. The Treasury Collections Office, within the Office of the Treasurer, has been designated as the collection agent.

BACKGROUND INFORMATION

The Treasury Collections office is composed of three employees who process all collections received. Tourist accommodation taxes, alcohol privilege taxes, wholesale beer and liquor taxes, and franchise fees all have the same manual collection procedures.

Taxpayers are required to self-report each month, and the majority receive no reminder, invoice, or notification of missed payments. For commercial rental vehicles, the Nashville Airport Authority sends a monthly report listing the number of commercial vehicles that exited the airport. Treasury Collections invoices based on the report. For the Alcohol Beverage Retail Sales Consumption on Premises tax, Treasury Collections invoices based on a weekly report from the state Alcoholic Beverage Commission that has the state license expiration dates. All other collections are completely self-reported. Total collections received by category are shown in Exhibit B.

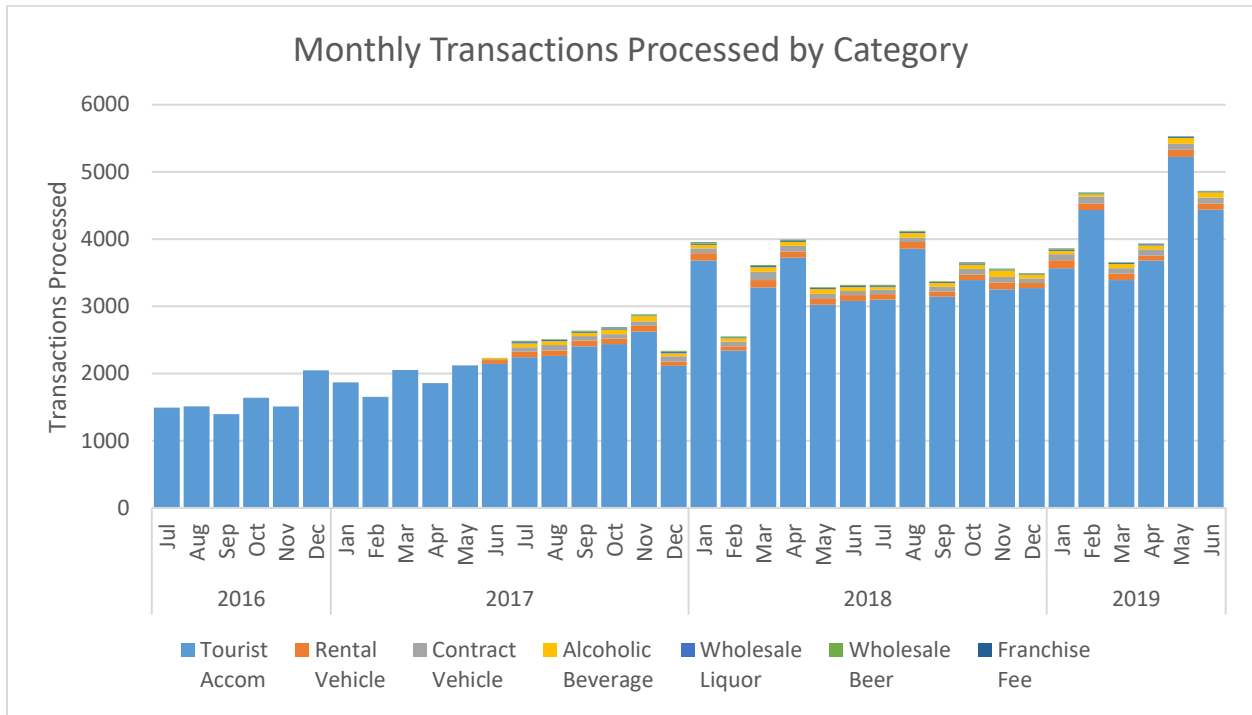
Exhibit B: Total Treasury Collections Office Monies Received by Category

| Category | FY2017 | FY2018 | FY2019 |
|-------------------------------|-----------------------|-----------------------|-----------------------|
| Tourist Accommodations | \$ 85,982,722 | \$ 95,136,962 | \$ 107,552,051 |
| Alcoholic Beverage | 996,839 | 1,418,004 | 2,577,042 |
| Contracted Vehicle | 1,767,234 | 2,117,452 | 3,020,626 |
| Rental Vehicle | 1,580,504 | 1,688,082 | 1,922,977 |
| Wholesale Beer | 19,630,123 | 19,820,617 | 20,206,924 |
| Wholesale Liquor | 6,116,568 | 6,318,746 | 6,927,799 |
| Franchise Fees | 122,193 | 99,286 | 83,731 |
| Total Collected | \$ 116,196,183 | \$ 126,599,149 | \$ 142,291,150 |

Sources: Metropolitan Nashville Comprehensive Annual Financial Reports and Treasury Collections Office Microsoft Access Database (Franchise Fees)

Payments in Treasury Collections are accepted in cash, check, or credit card, either mailed in or paid in person. Taxpayers include printed tax return forms from the Finance Department Collections Office website with their payments. Each payment and details from the related form are entered as a separate transaction within a Microsoft Access Database. The number of transactions processed per month are shown in Exhibit C.

Exhibit C: Monthly Transactions Processed by Collections Category



Source: Department of Finance Collections Office Microsoft Access Database

When the collections process was moved to the Department of Finance in 2012, an Information Technology Systems advisor, in conjunction with the Treasury Collections Office supervisor, created a database for taxpayer accounts. The Microsoft Access database is used to capture the tax amounts paid for each taxpayer account. The allocation of the tax amounts per fund is programmed into the database. The resulting amount to be credited per fund is calculated. Fund amounts must then be manually entered into the general ledger system.

OBJECTIVES AND CONCLUSIONS

1. *Are controls in place and effective to ensure all payments received are recorded accurately and deposited timely?*

Generally, no. Although the Treasury Collections Office staff follows standard procedures, the procedures in place do not ensure all payments received are recorded accurately and deposited timely.

A sample of hotel tax payment confirmations uncovered recording errors. Errors were primarily payments applied to incorrect accounts but were correctly recorded as Metropolitan Nashville revenues. (See Observation A).

The Microsoft Access database used by Treasury Collections lacks the ability to limit user permissions. Sixty accounts had access to the database and the ability to perform all actions. (See Observation B.)

There is not a reconciliation of all payments received to the amount of revenue recorded and amount deposited. Tax payments received were not always recorded into the database promptly nor were they deposited timely. Additionally, the change fund was short of the stated balance. (See Observation C.)

2. *Are processes in place to ensure updated and complete populations for collections?*

No. The taxes are self-reported. The Treasury Collections Office only performs limited procedures to account for all possible taxpayers, such as a third-party electronic search for short term rentals. For the contracted vehicle tax and some alcohol taxes, reports are received, and invoices are sent. Other Metropolitan Nashville Government agencies maintain populations that could be leveraged to determine the completeness of revenue reporting. Although the Treasury Collections Office is not mandated by municipal code to monitor for entities that may owe these taxes, no Metropolitan Nashville department is performing this duty. (See Observation C.)

3. *Are processes in place to ensure all amounts owed are tracked and collected?*

Generally, no. There is no tracking to determine which self-reporting entities paid each month and no follow-up when invoices are sent for other types of taxes. Additionally, hotel confirmations sent uncovered one hotel payment for \$19,009.78 from November 2018 that was fraudulently endorsed and cashed. Receipt of the payment could not be determined due to a lack of controls around payment receipts. The missing payment was not noticed due to a lack of payment tracking. (See Observations A and D.)

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (*COSO*), *Internal Control – Integrated Framework*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observation listed is offered to assist management in fulfilling their internal control responsibilities. See Appendix B for a description of the observation *Assessed Risk Rating*.

Observation A – Tax Payment Accuracy and Monitoring

Monitoring of tax payment accuracy and occurrence could be improved. Testing performed uncovered numerous errors in recording of payments collected by Treasury Collections. All collections received and the related payor information are manually input into the Microsoft Access database. Data accuracy may be hindered by illegible or incorrect information provided or third-party payments that do not properly identify on whose behalf they are paying.

A testing population of 168 open hotels, which had not been audited recently by the Office of Internal Audit, was identified. Confirmations were sent to 30 randomly selected hotels and 2 judgmentally selected hotels. Confirmations included all payments recorded for the audit period and requested the hotel operator respond in agreement or note discrepancies. Responses were received for 31 of the 32 confirmations (97 percent).

Fourteen of the 31 hotels (45 percent) noted at least one inaccuracy in the tax payments recorded. Discrepancies were generally payments credited to an incorrect account or incorrect month. One discrepancy noted was a check fraudulently endorsed and never recorded in the Treasury Collections Office’s database. Exhibit D displays the discrepancies identified within the confirmations.

Exhibit D – Hotel Confirmations Discrepancies

| Discrepancy Description | Number of Hotels Reported | Total Amount |
|--|---------------------------|--------------|
| Payments reported but not recorded | 1 | \$ 19,010 |
| Payments credited to incorrect account | 12 | \$ 277,453 |
| Payments credited to incorrect month | 2 | \$ 73,116 |
| Error in business name, mailing name, or address | 3 | |

Source: Office of Internal Audit Confirmations

Check Fraudulently Endorsed

One hotel owner reported a missing payment of \$19,009.78. A copy of the cancelled check made payable to the Collections Office, dated November 16, 2018, was provided. However, the check was not endorsed with the Treasury Collections endorsement nor was the check deposited into the Metropolitan Nashville bank account. The endorsement on the check was illegible. Due to a lack of controls, there is no way to determine if the check was ever received by the Treasury Collections Office. (See Observation D.)

The Office of the Treasurer notified the Tennessee Comptroller’s Office of the potential fraud. An Affidavit of Forgery was filed by the Office of the Treasurer to the bank on which the check was drawn. The hotel owner was reimbursed by the bank and will pay the taxes owed. The hotel owner is filing a police report with the Metropolitan Nashville Police Department, and the status and results of the investigation will be followed.

Additional Audit Procedures

Due to the potential fraud, additional procedures were performed. From the original population, an additional 12 hotels were judgmentally selected based on having at least one missing payment during the audit period. Confirmations were sent to the selected hotels, and 8 hotels (67 percent) responded. For the remaining four hotels, multiple unsuccessful attempts were made to contact the business and obtain a response.

Four of the eight confirmations returned (50 percent) reported discrepancies. Discrepancies were similar in nature to the initial sample. Exhibit E details the discrepancies reported in the expanded sample.

Exhibit E: Expanded Confirmations Discrepancies

| Discrepancy Description | Number of Hotels Reported | Total Amount |
|--|---------------------------|--------------|
| Payments credited to incorrect account | 5 | \$ 245,211 |
| Payments credited to incorrect month | 1 | \$ 189,497 |

Source: *Office of Internal Audit Confirmations*

In all instances of errors reported, the taxpayer was unaware of misapplied payments or incorrect contact information. Treasury Collections does not monitor for unpaid accounts, and they do not provide receipts for mailed in payments unless requested.

Most discrepancies recorded were due to input errors. The manual procedures of inputting taxpayer information and collected amounts increases the risk of mistakes. Lack of taxpayer ability to pay online and receive a receipt has intensified these risks.

Criteria:

- *Committee of Sponsoring Organizations of the Treadway Commission – Principle 10* – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- *Tennessee Code Annotated §8-4-503 (a) Reporting unlawful conduct – Method of Making Report* – A public official with knowledge based upon available information that reasonably causes the public official to believe that unlawful conduct has occurred shall report the information in a reasonable amount of time to the Office of the Comptroller of the Treasury.

Assessed Risk Rating:

High

Recommendations for management of the Finance Department to:

1. Implement an online taxpayer system that allows taxpayers to set up accounts, input tax form information, pay taxes due, and receive a receipt upon payment.
2. Perform periodic checks of taxpayer account information and payments to ensure they are properly recorded.
3. Implement procedures to ensure numbered receipts are issued to taxpayers for all payments received.

Observation B – Treasury Collections Microsoft Access Database Controls

Controls around the Microsoft Access Database used to record payments could be improved. Payments that enter the Treasury Collections Office are recorded in a Microsoft Access database. When the Treasury Collections Office assumed the collections in 2012, they created the database to record the A revenue.

Information Technology Services controls the assignment of access to the folder housing the Microsoft Access database. The Treasury Collections Office may request users be added or removed. Only the three Treasury Collections Office staff members need daily access to write to the database. Anyone else needing the database information typically requires read only access. However, specific permissions cannot be assigned to Microsoft Access database users. Thus, all users are given the ability to read and write to the database. Sixty accounts had access to the database. Account owners were as shown in Exhibit F.

Exhibit F: Microsoft Access Database User Accounts by Department

| Department | Number of Accounts |
|---------------------------------|--------------------|
| Information Technology Services | 37 |
| Department of Finance | 10 |
| Codes Department | 9 |
| Internal Audit | 4 |

Source: Information Technology Services Department

A review of users that entered transactions showed only authorized Treasury Collections Office staff created transactions.

Transactions entered into the database are sequentially assigned a transaction number. All staff have the ability to delete transactions, but procedures and acceptable reasons for deleting are verbally communicated. Database tables were reviewed for missing transaction numbers. A total of 5,277 transaction numbers were missing during the audit period. Treasury Collections attributed the gaps to system errors or a few requested deletions. However, since there are no audit logs and all accounts have the ability to remove transactions, there is no way to determine the reasons for the missing transactions. The Treasury Collections' daily reconciliations would identify same day deleted transactions, but lost data after a day may not be discovered. .

The lack of controls around the Microsoft Access database increases the risk of not detecting accidental errors or intentional theft. There is also a risk of revenue being deliberately overstated.

Criteria:

Committee of Sponsoring Organizations of the Treadway Commission – Principle 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Assessed Risk Rating:

High

Recommendations for management of the Finance Department to:

1. Implement a collections system that has the capabilities to limit user access, create an audit log, and provide validation checks on data entered.
2. Work with the Information Technology Services department to review the Microsoft Access database user list and remove users that do not need to review or write to the database. Determine read-only users that may request reports and data as needed instead of having direct access.

3. Implement policies and procedures prohibiting the deletion of transactions and requiring a void of any erroneous transactions. Routinely perform checks of transaction numbers and document the reason for any missing transactions.

Observation C – Receiving and Depositing Controls

Processes to ensure payments received are entered timely could be enhanced. Payments are primarily mailed to the Treasury Collections Office. During peak times of the month, Treasury Collections may receive hundreds of mailed in payments daily. Payments are opened and sorted by one staff member. Check and credit card payments are distributed in unlogged piles amongst the Treasury Collections staff. Cash payments are put into the Treasury Collections cash drawer.

Treasury Collections staff enter the payments throughout the day into the Treasury Collections Microsoft Access database. Any payments not entered during the day are left on desks overnight to be entered the next business day. At the end of each day, staff reconcile their own deposits to their own transactions entered. Since there is not a log of payments received, there is no way to determine all payments received by mail are recorded.

On January 3, 2020, a backlog of mailed in payments from, December 27, 2019, and January 2, 2020, was observed in the Treasury Collections Office. Backlogs totaled \$1,048.55 from December 27, 2019, and \$7,237.73 from, January 2, 2020. The December 27, 2019, payments were deposited on January 3, 2020. The January 2, 2020, payments were deposited on January 7, 2020. Treasury Policy #9 requires funds to be deposited into Metropolitan Nashville depository accounts within one business day of receipt.

During a cash count on January 3, 2020, two tax returns with cash payments of \$73 and \$12 were noted. The \$85 in payments was deposited one week later on January 10, 2020. The \$73 was deposited 12 business days late. The \$12 was deposited 10 business days late. These payments were also not recorded timely to the taxpayers' accounts in the Microsoft Access database. The receipts were entered into the database the day they were deposited and not the day they were each received.

Additionally, the change fund contained \$60.60, which is \$39.40 less than its required \$100 balance. The shortage existed since at least February 22, 2019. The Treasury Collections Office Supervisor was aware of the shortage but did not know the reason. The fund was not counted at regular intervals.

Criteria:

- *Committee of Sponsoring Organizations of the Treadway Commission – Principle 10* – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- *Metropolitan Government of Nashville Davidson County, Treasury Policy 9, Cash Deposits, Revision Date July 1, 2016*—Funds collected at agency locations must be deposited into the metropolitan depository bank account within one business day of receipt.

Assessed Risk Rating:

High

Recommendations for management of the Finance Department to:

1. Document and implement procedures to properly segregate the duties of receiving, recording, and depositing payments received.
2. Maintain a daily log of payments received prepared by two staff members opening the mail, stamping it received, and initialing the log.

3. Deposit all payments received within one business day of receipt and record all receipts into the Microsoft Access database daily.
4. Implement procedures for an independent staff member to reconcile the mail log to the daily receipts in the Microsoft Access database.
5. Count the change fund at regular intervals and maintain the complete documentation with signatures of who counted it, the amount, and have an independent person review and sign it.

Observation D –Population Determinations and Monitoring

Measures to ensure complete collection populations could be improved. Treasury Collections does not maintain a full population of entities required to pay related taxes. If a taxpayer does not make a payment, there are limited controls to identify it. If an entity does not request an account number to setup tax payments, Treasury Collections will not be aware of the taxpayer’s existence.

Limited procedures are in place to search third-party sites for short-term rentals, receive notifications from the County Clerk for new hotels, and some notifications are sent from outside agencies for liquor taxes and contracted vehicle taxes. Other Metropolitan Nashville agencies, such as the Beer Board or Planning Department, have registration or permit lists that may be leveraged to ensure complete populations are reporting. However, there is no coordinated effort among different Metropolitan Nashville departments to compare records to ensure all entities have self-reported.

Analytics to review the overall collection amounts over time were performed. Analysis on an entity level basis was not possible due to known recording errors in data. (See Observation A.) Overall analytics showed expected cyclical and increasing collections over time. However, the numbers of reporting entities for most all categories did not follow expectations. There was variation from month to month that indicated either reports were recorded to the wrong entity or entities did not report at all. There was no way to determine the underlying cause as the recording issues within the database are pervasive.

Criteria:

Committee of Sponsoring Organizations of the Treadway Commission – Principle 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Assessed Risk Rating:

High

Recommendations for management of the Finance Department to:

1. Coordinate with other Metropolitan Nashville agencies to obtain population listings for collections. Implement procedures to compare taxpaying entities to the full population listings on a routine basis.
2. Document and implement procedures to monitor account payments and determine procedures for notifying entities of missed payments.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives. We meet the generally accepted government auditing requirements for internal auditors.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the Department of Finance Treasury Collections Office.
- Reviewed Metropolitan Nashville Code of Laws and other applicable laws, regulations, and policies.
- Evaluated internal controls that were significant to our objectives.
- Reviewed the Microsoft Access Database and performed analytics on data it contained.
- Sent confirmations of taxes paid to hotel owners.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

Mary Cole, CPA, CFE, CISA, CGFM, Audit In-Charge

Lauren Riley, CPA, CIA, ACDA, CMFO, Metropolitan Auditor

JOHN COOPER
MAYOR



DIRECTOR OF FINANCE
METROPOLITAN COURTHOUSE
ONE PUBLIC SQUARE, SUITE 106
NASHVILLE, TENNESSEE 37201
(615)862-6151
(615)862-6156 FAX

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

Lauren Riley
Metropolitan Auditor
Office of Internal Audit
Metropolitan Government of Nashville and Davidson County
PO Box 196300
Nashville, TN 37219-6300

Re: Audit of the Finance Department Treasury Collections Office

Dear Ms. Riley,

This letter acknowledges the Finance Department's receipt of the report for the above referenced project. We have reviewed your observations and recommendations and actions will be taken as indicated in the Management Response.

In addition, and as a result of the audit, a thorough review of processes has been undertaken to identify interim solutions until an online tax system is in place. Like so many other organizations, the Metro Finance Department has faced numerous obstacles and disruptions to its workflow, including the health of staff and their loved ones, remote working arrangements, limited functionality and access to normal business tools, and sharply reduced opportunities for in-person interviews and interactions. Even with these obstacles, actions such as manual logs discussed in the audit and use of a bank lockbox process were thoroughly vetted against existing capabilities without producing workable solutions to completely address some of the findings. While understanding the findings are identified as high risk, the following actions have been taken to provide controls that have been implemented in the current environment.

These actions include:

- Mail unable to be processed daily is logged into an online spreadsheet and tracked until complete.
- Enhanced physical security of mail
- Daily log of returned mail
- Providing receipt upon request for all payments

As the audit highlights, the Collections Office has been severely hampered by lack of a comprehensive tax collection system with robust online filing and payment capabilities.

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

JOHN COOPER
MAYOR



DIRECTOR OF FINANCE
METROPOLITAN COURTHOUSE
ONE PUBLIC SQUARE, SUITE 106
NASHVILLE, TENNESSEE 37201
(615)862-6151
(615)862-6156 FAX

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

Many of the findings are directly tied to a manual process using Microsoft Access database to manage thousands of monthly filings. The access database is old software that is no longer supported by Microsoft. As users continue to share the database, processing times increasingly slow down, further impacting productivity. In coordination with Metro ITS, and as part of the R12 implementation, a system with online capabilities is being finalized for rollout. Development in R12 is scheduled to be finished by the end of September. Once completed and training provided, a data conversion from the Access database to R12 and rollout to taxpayers will be scheduled. Current plan is to have a functional online system on or about October 31st.

We appreciate the cooperative effort in developing the report and considering our input during the entire process.

Regards,

Kevin Crumbo

Kevin Crumbo
Director of Finance

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

| | Recommendation | Concurrence and Corrective Action Plan | Proposed Completion Date |
|---|--|--|--------------------------|
| <i>Recommendations for the management of the Finance Department to:</i> | | | |
| H | A.1 – Implement an online taxpayer system that allows taxpayers to set up accounts, input tax form information, pay taxes due, and receive a receipt upon payment. | Concur – An assessment of system needs, and scope of services was provided to the ITS Department. On July 9, 2020 ITS presented a plan for using capabilities of the R-12 system to provide online tax payment processing. Follow-up action items are being addressed with system design completion expected on or about Sep. 30 th and system rollout by Oct 31. | October 31, 2020 |
| H | A.2 – Perform periodic checks of taxpayer account information and payments to ensure they are properly recorded. | Concur – Procedures will be developed and implemented for regular testing of taxpayer filings against recorded information | October 31, 2020 |
| H | A.3 – Implement procedures to ensure numbered receipts are issued to taxpayers for all payments received. | Concur – An assessment of system needs, and scope of services was provided to the ITS Department. On July 9, 2020 ITS presented a plan for using capabilities of the R-12 system to provide online tax payment processing. Follow-up action items are being addressed with system design completion expected on or about Sep. 30 th and system rollout by Oct 31. Receipts are currently provided on request. | October 31, 2020 |
| H | B.1 – Implement a collections system that has the capabilities to limit user access, create an audit log, and provide validation checks on data entered. | Concur – An assessment of system needs, and scope of services was provided to the ITS Department. On July 9, 2020 ITS presented a plan for using capabilities of the R-12 system to provide online tax payment processing. Follow-up action items are being addressed with system design completion expected on or about Sep. 30 th and system rollout by Oct 31. | October 31, 2020 |

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

| | Recommendation | Concurrence and Corrective Action Plan | Proposed Completion Date |
|---|---|--|--|
| H | B.2 – Work with the Information Technology Services department to review the Microsoft Access database user list and remove users that do not need to review or write to the database. Determine read-only users that may request reports and data as needed instead of having direct access. | ITS has updated security to the Access Database to include access for only Collection's office staff, the Treasurer and 1 member of ITS admin. | June 3, 2020 |
| H | B.3 – Implement policies and procedures prohibiting the deletion of transactions and requiring a void of any erroneous transactions. Routinely perform checks of transaction numbers and document the reason for any missing transactions. | Concur – An assessment of system needs, and scope of services was provided to the ITS Department. On July 9, 2020 ITS presented a plan for using capabilities of the R-12 system to provide online tax payment processing. Follow-up action items are being addressed with system design completion expected on or about Sep. 30 th and system rollout by Oct 31. | October 31, 2020 |
| H | C.1 – Document and implement procedures to properly segregate the duties of receiving, recording, and depositing payments received. | Concur – Current procedures were reviewed for improvements. Based on limitations resulting from COVID 19, staffing and mail volume during peak tax filing, a limited number of improvements were implemented. Reduced mail volume once a new comprehensive system is implemented will greatly improve internal control capabilities. | October 31, 2020 Will be fully addressed when staff returns from current workplace restrictions |
| H | C.2. – Maintain a daily log of payments received prepared by two staff members opening the mail, stamping it received, and initialing the log. | Concur – Current procedures were reviewed for improvements. Based on limitations resulting from COVID 19, staffing and mail volume during peak tax filing, a limited number of improvements were implemented. Reduced mail volume once a new comprehensive system is implemented will greatly improve internal control capabilities. | October 31, 2020 Will be fully addressed when staff returns from current workplace restrictions |
| H | C.3 – Deposit all payments received within one business day of receipt and record all receipts into the Microsoft Access database daily. | Concur – Deposits will be made timely. An updated system will improve the payment process and significantly reduce the number of deposits required. | October 31, 2020 Will be fully addressed when staff returns from current workplace restrictions |

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

| | Recommendation | Concurrence and Corrective Action Plan | Proposed Completion Date |
|---|---|--|--|
| H | C.4 – Implement procedures for an independent staff member to reconcile the mail log to the daily receipts in the Microsoft Access database. | Concur – Current procedures were reviewed for improvements. Based on limitations resulting from COVID 19, staffing and mail volume during peak tax filing, a limited number of improvements were implemented. Reduced mail volume once a new comprehensive system is implemented will greatly improve internal control capabilities. | October 31, 2020 Will be fully addressed when staff returns from current workplace restrictions |
| H | C.5 – Count the change fund at regular intervals and maintain the complete documentation with signatures of who counted it, the amount, and have an independent person review and sign it. | Concur – Procedures have been implemented and an independent documented verification process is in place. | April 1, 2020 |
| H | D.1 – Coordinate with other Metropolitan Nashville agencies to obtain population listings for collections. Implement procedures to compare taxpaying entities to the full population listings on a routine basis. | Concur – will expand collaboration with Metro agencies and other entities to help identify potential taxpayer information. | Ongoing |
| H | D.2 – Document and implement procedures to monitor account payments and determine procedures for notifying entities of missed payments. | Concur – An assessment of system needs, and scope of services was provided to the ITS Department. On July 9, 2020 ITS presented a plan for using capabilities of the R-12 system to provide online tax payment processing. Follow-up action items are being addressed with system design completion expected on or about Sep. 30 th and system rollout by Oct 31. | October 31, 2020 |

APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

| Rating | Financial | Internal Controls | Compliance | Public |
|---------------------------------|--|---|---|---|
| HIGH | Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust | Missing, or inadequate key internal controls | Noncompliance with applicable Federal, state, and local laws, or Metropolitan Nashville Government policies | High probability for negative public trust perception |
| MEDIUM | Moderate financial impact \$25,000 to \$10,000 | Partial controls Not adequate to identify noncompliance or misappropriation timely | Inconsistent compliance with Federal, state, and local laws, or Metropolitan Nashville Government policies | Potential for negative public trust perception |
| LOW/ Emerging Issues | Low financial impact <\$10,000 | Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems | Generally complies with Federal, state, and local laws, or Metropolitan Nashville Government policies, but some minor discrepancies exist | Low probability for negative public trust perception |
| Efficiency Opportunity | An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient | | | |

**Metropolitan Nashville Office of Internal Audit
2020 Recommended Work Plan Status
As of September 1, 2020**

| *Co-source | CY 2019 Audits In Progress | Budget | Actual |
|---------------------------------------|---|---------------|---------------|
| 1 | General Services - Downtown Detention Center and the Behavioral Care Center Construction Project | 200 | 703 |
| 2 | Metropolitan Nashville Public Schools - Capital Projects Program (Need, Estimates, Approval, Contracting, Monitoring) | 800 | 1,337 |
| 3* | Election Commission Operations and Information Systems | 800 | 809 |
| 4 | Treasury Department - Collections Office | 300 | 636 |
| 5 | Metropolitan Nashville Government Collaboration with Nonprofit Entities | 600 | 609 |
| 6 | Library – Building Security | 150 | 303 |
| 7 | Davidson County Drug Court | 0 | 9 |
| CY 2020 New Audit Areas | | | |
| 1 | Beer Permit Board | 400 | 409 |
| 2 | Metropolitan Nashville Employee Benefit Board Pension Investments | 800 | |
| 2 | Emergency Communications Center | 600 | 2 |
| 4 | Juvenile Court Clerk Cash Collections and Trust Management | 600 | 565 |
| 5 | Metro Water Services - Storm Water Billing and Revenue Collection | 600 | 9 |
| 6 | Fund Restrictions, Commitments, and Assignments | 800 | |
| 7 | Metro Nashville Police Department Fiscal Management | 800 | |
| 8 | Departmental Fuel Card Management | 600 | 208 |
| 9 | Barnes Fund Operations and Follow-Up | 800 | |
| 10 | Public Works Revenue Collections | 600 | |
| 11 | Office of Internal Audit Peer Review | 100 | |
| 12 | Hotel Occupancy Tax Audits – 2020 | 400 | 122 |
| Information Technology Risk | | | |
| 13* | Enterprise Assessment of Departmental Information Security | 400 | |
| 14* | Health Department – Information Technology Security Management and Governance | 200 | |
| Audit Recommendation Follow-up | | | |
| 15 | Recommendation Implementation Follow-Up Audits | 800 | |
| | Total Audit Services | 11,350 | 5,721 |

| Total Recommended 2020 Audit Services Effort | | Budget | Actual |
|---|---------------------------------------|---------------|---------------|
| | Audit Services | 11,350 | 5,721 |
| | Investigation Services | 1,500 | 676 |
| | Special Projects | 400 | 29 |
| | Unforeseen Requests | 800 | |
| | • Office of the Trustee Audit Request | | 198 |
| | Total | 14,050 | 6,624 |

Implementation Status Update as of September 1, 2020

| Audit Department List | Year | # Accepted | Open Recs As of 6/19/2020 | Implementation Due by 9/1/2020 | Open Recs After Response | Notes |
|---|------|------------|---------------------------|--------------------------------|--------------------------|----------------------------|
| Industrial Development Board | 2013 | 6 | 1 | | 1 | |
| Assessor's Office | 2014 | 14 | 3 | | 3 | |
| Historic Zoning and Historical Commission Work Force | 2015 | 7 | 1 | | 1 | |
| Parks and Recreation Maintenance Division | 2015 | 2.5 | 1 | | 1 | |
| General Government Occupational Safety Program | 2017 | 24 | 23 | | 23 | |
| DCSO Information Technology Security Practices (CONFIDENTIAL) | 2017 | 45 | 2 | | 2 | |
| Finance Department Procurement And Business Assistance Office | 2018 | 13 | 2 | X | 2 | Revised dates of June 2021 |
| ITS Software Asset Management | 2018 | 4 | 1 | | 1 | |
| Nashville General Hospital Procurement-To-Pay | 2018 | 11 | 3 | X | 0 | |
| Metro Water Services Fire Hydrant Inspections | 2018 | 10 | 2 | | 2 | |
| Development Conditions | 2019 | 5 | 5 | | 5 | |
| Metro General Government Benefits | 2019 | 4 | 3 | | 3 | |
| Metro Clerk Lobbyist Disclosures | 2019 | 3 | 2 | | 0 | |
| Fire Marshal's Office | 2019 | 10 | 2 | | 2 | |
| NGH Pharmacy Operations | 2019 | 17 | 3 | X | 1 | Revised date of Oct. 2020 |
| Davidson County Drug Court | 2020 | 16 | 1 | X | 0 | |
| Architectural & Engineering Vendor Audits | 2020 | 11 | 8 | X | 0 | |
| Public Library Security | 2020 | 4 | 4 | | 4 | |
| Metro Parks and Recreation Relationships with Nonprofits | 2020 | 3 | 0 | | 3 | |
| | | | 67 | | 54 | |

**Open Recommendations Due During Period
As of September 1, 2020**

| Audit/Investigation Name | Responsible Entity | Observation | Response | Due Date | Risk | Latest Update | Open or Closed |
|---------------------------------|----------------------------|---|---|-----------------|-------------|---|-----------------------|
| Procurement Division Audit | Finance | A.2 Developing staff by establishing a buyer model-training curriculum and encourage certification programs for staff. Several government procurement associations offer certifications such as a certified professional public buyer or certified public procurement officer. | ACCEPT - An educational roadmap has already been launched. Staff educational attainment is being reviewed in comparison with required courses necessary for each buying staff member to be certified as a Certified Professional Public Buyer (CPPB) by the National Institute of Government Purchasing (NIGP). Full implementation of this recommendation is subject to funding availability. | 06/30/2019 | Low | In progress--The Procurement Division has assessed the requirements of staff certification and has put together a strategy pending future fiscal year budgetary approvals. The certification efforts have been hindered by employee turnovers Revised Estimated Date: 6/30/2021 | Open |
| Procurement Division Audit | Finance | A.3 Seeking accreditation from a national professional procurement organization. | ACCEPT - The Procurement Division is reviewing the criteria necessary to achieve The National Institute of Government Purchasing (NIGP) OA4 Accreditation. This accreditation recognizes agencies that lead the public procurement profession through the implementation of best practices. Agencies meeting the minimum requirements are OA4-accredited for three years. The Accreditation includes a review of 11 core areas including Mission and Strategies, Organizational Structure, Authority and Responsibility, Planning and Scheduling, Standards and Specifications, Personnel and Professional Development, Best Practices, Audit and Evaluation, Cooperative Procurement, Property Management, and Procurement Technology. A milestone date of May 30, 2019, has been established to review achievement of the criteria with the hope of achieving accreditation by the end of 2019. Full implementation of this recommendation is subject to funding availability. | 11/30/2019 | Low | Update: In progress--The Procurement Division has done all preliminary work necessary to seek accreditation and will submit the accreditation application in FY20-FY21. Revised Estimated Date: 6/30/2021 | Open |
| NGH Procurement to Pay Process | Nashville General Hospital | A.1 Add cost thresholds for bidding to the updated Metropolitan Hospital Authority Purchasing Policy. Ensure that bidding requirements are communicated to and followed by hospital departments. | Accept - We will establish a policy to bid out supplies and equipment that are not otherwise covered by our GPO or City contract, and we will establish bid processes, communications and recordkeeping to meet the highest standards of accountability. | 11/5/2018 | High | Policy updated 7/30/20, All contracts for service require bids submitted with contract for verification and is housed in contract management system. | Closed |
| NGH Procurement to Pay Process | Nashville General Hospital | A.2 Establish a retention schedule and maintain bidding documentation for the specified period. | Accept - see above - as part of the new bidding requirements, we will retain records for 5 years from date of award. | 11/5/2018 | High | Began retention schedule on March 13, 2020. Policy officially updated 7/30/2020. | Closed |
| NGH Procurement to Pay Process | Nashville General Hospital | A.3 Develop procedures for the competitive sealed bidding process at the Nashville General Hospital. | Accept - See A.1 | 11/5/2018 | High | Policy updated 7/30/20, All contracts for service require bids submitted with contract for verification and is housed in contract management system. | Closed |
| NGH Pharmacy Operations | Nashville General Hospital | Develop policies and procedures for the 340B Drug Discount Program within the Nashville General Hospital. | Accept - The NGH Compliance Department in conjunction with the Pharmacy Department will establish policies and procedures to ensure appropriate oversight and compliance with the Department of Health and Human Services. | 2/29/2020 | High | Policy manual was established on June 4, 2020. | Closed |
| NGH Pharmacy Operations | Nashville General Hospital | Develop a methodology for reconciling the third-party reimbursement checks from insurance carriers to claims processed in the WinRx Pharmacy Management Software to ensure accuracy and completeness. | Accept - The Compliance Department is working with the Pharmacy Department to develop a method to reconcile third party reimbursement checks from third party payors. | 12/31/2019 | High | Not Complete at this time, in process due to staffing constraints and modified processes due to COVID19. Revised Estimated Date: October 1, 2020 | Open |

**Open Recommendations Due During Period
As of September 1, 2020**

| Audit/Investigation Name | Responsible Entity | Observation | Response | Due Date | Risk | Latest Update | Open or Closed |
|--------------------------------------|----------------------------|--|--|---|-------------|---|-----------------------|
| NGH Pharmacy Operations | Nashville General Hospital | Formally document the process for investigating possible drug diversion events identified in RxAuditor reports and reporting the conclusions of the investigations in a formal policy and procedure. | Accept – The Medication Diversion Prevention Committee has been created and will report up to the hospital Compliance Committee. The committee meets monthly where all drug diversion reports/investigations will be reviewed. | 1/31/2020 | High | Policy established on May 19, 2020. | Closed |
| Lobbyist Registration and Disclosure | Metro Clerk | Work with the Metropolitan Department of Law and the Metropolitan Nashville Council to clarify roles and responsibilities on enforcement and investigation of violations of the Metropolitan Code of Ordinances. | Accept | 8/15/2020 | Medium | Satisfied by the adoption of BL2020-147. | Closed |
| Lobbyist Registration and Disclosure | Metro Clerk | Develop written procedures for each critical process and task related to the lobbyist administration process and other core requirements. These procedures should be periodically reviewed and updated. | Accept | 3/31/2020 | Medium | Satisfied by the adoption of BL2020-147. | Closed |
| A&E Vendor Audits | Finance | A.1 We recommend that management revisit responses to the 2018 internal audit, review management responses, and develop a timeline to implement the responses to audit findings. | Accept – A timeline for the implementation of the Internal Audit recommendations is in place and has been shared with the Audit Committee. Implementation of the recommendations is ongoing and consistent with the established implementation timeline reported to Internal Audit | Outlined in <i>Finance Department Procurement Division Audit Report</i> | N/A | Completed - All recommendations from the Procurement Division report have been implemented. | Closed |
| A&E Vendor Audits | Metro Water Services | C.1 We recommend Metro Water Services should consider reducing the number of reviewers on an invoice by having the invoices reviewed by key project stakeholders and one MWS Finance Officer. Thresholds could be set to establish dollar amounts that require further approvals. All approvals should be documented electronically with the use of the approval workflow within EBS. Metro Payment Services can be removed from the process by having MWS Finance Department staff scan the invoice into EBS. One system should be established as the sole source for all invoicing processing and payment procedures. | Accept - Each review of invoices is purposeful and serves a different purpose checking previous work. The project managers are reviewing for contract task completion and general compliance, while the finance officers will provide quality assurance, reviewing rates, escalation, and other such allowable items. It is MWS' opinion that this creates less likelihood for error and/or noncompliance. Invoices are entered into two systems. The Unifer System tracks invoices at the project level, allows for cash flow assessment, and assists in our budget management. Presently, EBS does not have that capability. The tracking between the two systems is linked via PO and invoice number so that errors can easily be identified. MWS welcomes the ability to scan documents into EBS. This would reduce much effort and room for error on the part of both departments. To our knowledge, Metro Payment Services has traditionally housed all invoice processing for all Metro Departments. Finance Comment: All scanned documents load to the same system; Metro Finance supports MWS' offer to scan directly to the "Scanned Docs". | 12/31/2019 | N/A | Response to Finance: MWS could scan all docs at MWS as opposed to sending them to central finance for scanning. R12 approval processes would need to be more flexible to allow the review we require for approval. We are open to exploring further. MWS enjoys the two system process allowing for reconciliation. | Closed |

**Open Recommendations Due During Period
As of September 1, 2020**

| Audit/Investigation Name | Responsible Entity | Observation | Response | Due Date | Risk | Latest Update | Open or Closed |
|--------------------------|--------------------|---|--|------------|------|--|----------------|
| A&E Vendor Audits | Finance | C.2 We recommend all Metro Nashville Departments should record all approvals electronically, from both project managers and finance, in one system. | Partially Accept - As noted in the audit observation, all Metro invoices are entered into a central financial management system for final approval and payment. Note that Metro has recently implemented a new financial management system (R12) in September 2019. The final approvals in R12 includes the appropriate departmental representatives. | 12/31/2019 | N/A | Completed with the completion of new financial managing system (R12) | Closed |
| A&E Vendor Audits | Finance | C.3 We recommend document formalized policies and procedures on an efficient and consistent invoicing process. Policies should detail appropriate approvers, a system for all invoice data entry, and the use of Metro Payment Services in the invoicing process. Procedures should establish a step-by-step process on how to review invoices, enter the invoices in a designated system, and submit the invoice for approval and payment. | Accept - As noted above, the system of record is EBS (soon to be upgraded to R12) and that is the only system through which Metro can make payments. All departmental personnel responsible for processing and approving invoices are trained by Finance. | 12/31/2019 | N/A | Completed with the completion of new financial managing system (R12) | Closed |
| A&E Vendor Audits | Finance | C.4 We recommend Metro include language in each contract that specifies a reasonable time frame for vendor billing to avoid payment for labor hours that occurred a long time ago and are thus unverifiable. | Accept: Current Metro contracts includes language that states the specific timeframe for vendor invoicing. | 12/31/2019 | N/A | This is already in play for applicable contracts; completed. | Closed |

**Open Recommendations Due During Period
As of September 1, 2020**

| Audit/Investigation Name | Responsible Entity | Observation | Response | Due Date | Risk | Latest Update | Open or Closed |
|--------------------------|----------------------|--|--|------------|------|--|----------------|
| A&E Vendor Audits | General Services | C.4 We recommend Metro include language in each contract that specifies a reasonable time frame for vendor billing to avoid payment for labor hours that occurred a long time ago and are thus unverifiable. | General Services: General Services has made a request to our Vendors to use a template provided by us to submit their invoices for payment. Information in the template is included based on our approved SOW/PO. Also included are rates and budget category from contract so Vendor can only list the date of work, task completed, and number of hours. The sheet populates automatically based on the formula provided. Once the invoice is submitted for payment, our contract specialist reviews for compliance with contract terms and rates. If it is not correct, it is returned to the Vendor for correction. If it is correct, our contract specialist signs attached template and submits to project manager to confirm work has been completed as described in invoice. Once approval has been received from project manager, invoice is submitted to payment services for processing and payment. | 12/31/2019 | N/A | General Services implemented several steps to ensure proper compliance with procurement regulations and satisfy audit requirement: <u>1- billing period</u> : All METRO General Services A& E contracts have language that sets a specific time frame for vendors to submit invoices (CONTRACTOR shall invoice METRO no more frequently than once a month or for the satisfactorily and accurately delivered/performed products and/or services, whichever is less frequent. Invoices shall detail this Contract Number accompanied by any necessary supporting documentation. CONTRACTOR shall submit all invoices no later than ninety (90) days after the products and/or services have been delivered/performed (Please refer to attachment # 1 - CN# 398848 Provision 4.5.) . <u>2-</u> : Selection of vendors if multiple awards : GS allows equal opportunities for vendors to participate in each project (Please refer to attachment # 1 Provision 2.1. duties and responsibilities). <u>3-</u> GS allows fair and equal opportunity to A&E contractors to participate in each project (Please refer to attachment #2 RfQ sent out to all HAZMAT awarded vendors). <u>4-</u> Invoicing - All A&E contractors received the attached policy/instructions as guidance for invoice requirements (Please refer to attachment # 3- instructions for A&E contractors to submit their invoices). <u>4-</u> Invoices approval - GS adapted an internal audit system to ensure compliance with procurement regulations and contract terms in addition to verifying that job has been performed (please refer to attachment #4 example of an A& E | Closed |
| A&E Vendor Audits | Parks and Recreation | C.4 We recommend Metro include language in each contract that specifies a reasonable time frame for vendor billing to avoid payment for labor hours that occurred a long time ago and are thus unverifiable. | Parks: I support the recommendation. | 12/31/2019 | N/A | The Parks Department supports this recommendation, and defers to the Metro Finance Department's Division of Procurement for implementation. | Closed |
| A&E Vendor Audits | Public Works | C.4 We recommend Metro include language in each contract that specifies a reasonable time frame for vendor billing to avoid payment for labor hours that occurred a long time ago and are thus unverifiable. | Public Works: Public Works Management agrees with this recommendation and will begin a process of periodic random reviews. | 12/31/2019 | N/A | Periodic reviews are ongoing. | Closed |
| A&E Vendor Audits | Metro Water Services | C.4 We recommend Metro include language in each contract that specifies a reasonable time frame for vendor billing to avoid payment for labor hours that occurred a long time ago and are thus unverifiable. | Water: Water Services Management agrees that timesheets should be checked for accuracy and consistency with work performed. MWS presently requires project managers to review invoices and verify accuracy of work performed and then send it to business and finance where the invoice is reviewed for contract compliance and general accuracy. Vendors also complete the prescribed Excel worksheet so that time is crosschecked with timesheets coming from Vendor systems. | 12/31/2019 | N/A | This is completed and a matter of standard operating procedures. | Closed |

**Open Recommendations Due During Period
As of September 1, 2020**

| Audit/Investigation Name | Responsible Entity | Observation | Response | Due Date | Risk | Latest Update | Open or Closed |
|--------------------------|--------------------|---|--|------------|------|--|----------------|
| A&E Vendor Audits | Finance | <p>C.5 We recommend Metro implement a process where invoices and their corresponding vendor timesheets are spot checked occasionally for accuracy. This will help ensure that hours billed on invoices are accurate based on what was actually performed by the vendor. We recommend that a random sample is pulled periodically and timesheets are requested from the vendor so a complete analysis can be performed.</p> | <p>Partially Accept: Currently there is review by engineers and other technical staff that manage the various projects to check the accuracy of the billing at the department level prior to the invoices being sent to Metro Payment Services. Metro has hired a Procurement Accountability auditor that will periodically sample and test A&E invoices randomly.</p> | 12/31/2019 | N/A | <p>Completed with the completion of new financial managing system (R12). A newly hired auditor is periodically sampling and testing A&E invoices, randomly.</p> | Closed |
| A&E Vendor Audits | Finance | <p>D.1 We recommend Metro Nashville Purchasing and Contract should perform a review of the Metro Nashville Procurement Code to identify sections of the code that are out of date and develop updates to the code.</p> | <p>Accept - At its last regularly scheduled meeting on May 30, 2019, the Procurement Standards Board approved staff action to present a modification to R4.08.080.01.B specific to the selection process outlined for Architects and Engineers. The recommended action was to modify the Regulations to mirror current practice. The proposed change to the Procurement Regulations will be presented for consideration and adoption at the next regularly scheduled meeting of the Procurement Standards Board, currently scheduled for February 2020.</p> | 2/29/2020 | N/A | <p>The first recommendation has been related to 4.08.080; Also, modifications to 4.48.080 have been recommended to reflect best business practices. The Procurement Standards Board adopted modifications to the Procurement Regulations on August 13, 2020. Those modifications were to R.4.08.080, R4.12.040.12 and R4.12.040.13. The first deals with the selection process for A&E procurements. R4.12.040.13 deals with the composition of the evaluation committee, specifically, the inclusion of non-employee members of evaluation committees.</p> | Closed |
| A&E Vendor Audits | Finance | <p>D.2 We recommend Metro Nashville Purchasing and Contract should document criteria and selection methodology of the Evaluation Committee.</p> | <p>Accept - At its last regularly scheduled meeting on May 30, 2019, the Procurement Standards Board approved staff action to present a modification to R4.08.080.01.B specific to the selection process outlined for Architects and Engineers. The recommended action was to modify the Regulations to mirror current practice. The proposed change to the Procurement Regulations will be presented for consideration and adoption at the next regularly scheduled meeting of the Procurement Standards Board, currently scheduled for February 2020.</p> | 2/29/2020 | N/A | <p>The last Procurement Standards Board Meeting was cancelled so this item was not heard. It is before the Board on August 13, 2020. Additionally, a modification to 4.12.040.13 will be before the Board on this date as well which further defines the composition of evaluation Committees. The Procurement Standards Board adopted modifications to the Procurement Regulations on August 13, 2020. Those modifications were to R.4.08.080, R4.12.040.12 and R4.12.040.13. The first deals with the selection process for A&E procurements. R4.12.040.13 deals with the composition of the evaluation committee, specifically, the inclusion of non-employee members of evaluation committees.</p> | Closed |

**Office of Internal Audit Budget versus Actual
GSD General Fund as of August 31, 2020
FY 2021 Approved Budget**

| | | FY 2021 Budget | Actual | Difference | Notes |
|-----------------------------------|--|---------------------------|----------------|---------------------|----------------------------------|
| Total Salaries & Fringe | | \$ 1,186,100 | \$ 71,020 | \$ 1,115,080 | |
| | | | | | |
| Other Expenses | | | | | |
| Professional & Purchased Services | | \$ 207,800 | \$ 1,430 | 206,370 | |
| Building Rent Parkway Towers | | \$ 55,500 | \$ 9,342 | 46,158 | |
| Other Expenses | | \$ 65,900 | \$ 19,044 | 46,856 | |
| Internal Service Fees | | \$ 49,800 | \$ - | 49,800 | Information Technology |
| | | | | | |
| TOTAL EXPENSES | | \$ 1,565,100 | 100,836 | \$ 1,464,264 | 6% of budget used to date |

| 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 | 1,566,100 | 16% | 10 |
| 2020 | 248,000 | 1,574,900 | 16% | 10 |
| 2021 | 207,800 | 1,565,100 | 13% | 10 |

Metropolitan Nashville Office of Internal Audit

Executive Team

Lauren Riley

MAcc, CPA, CIA, ACDA, CMFO
Metropolitan Auditor

Project and Office Management Leadership

(Vacant Position)

Principal Auditor

William (Bill) Walker

CPA, CIA, CFE

Principal Auditor

Project Quality, Milestone/Project Budget Monitoring, Hotline Support,
Training Plans, GAGAS Compliance, Office Support, etc.

Audit Talent Pool

Seth Hatfield

MAcc, CPA, CIA, CFE
Senior Auditor

James Carson

MBA, CIA, CFE
Senior Auditor

Mary Cole

MAcc, CPA, CFE, CISA,
CGFM
Senior Auditor

Innocent Dargbey

MS-Finance, MBA,
CPA, CMFO
Senior Auditor

Laura Henry

MAcc, CFE
Auditor II

Nan Wen

MS-Info Sys, MS-
Acctg, CPA
Auditor II

(Vacant Position)

Auditor I

**METROPOLITAN NASHVILLE AUDIT COMMITTEE
2020 MEETING PLAN**

| Meeting Date | Proposed Agenda Topics |
|-----------------------------|---|
| February 11, 2020 (Tuesday) | <ul style="list-style-type: none"> • Office of Internal Audit Annual Performance Report • Internal Audit Annual Work Plan approval • Internal Audit issued report discussion • Open Audit Recommendations Status |
| April 14, 2020 (Tuesday) | <ul style="list-style-type: none"> • Election of Chairman and Vice Chairman • External Audit Single Audit and Management Letter presentation • Information Security Program Update • Internal Audit issued report discussion |
| June 23, 2020 (Tuesday) | <ul style="list-style-type: none"> • FY2019 External Audit plan and required communications • Internal Audit issued report discussion • Metropolitan Auditor performance review |
| September 8, 2020 (Tuesday) | <ul style="list-style-type: none"> • Metropolitan Audit Committee self-assessment • Bylaws annual review • Internal Audit issued report discussion • Open Audit Recommendations Status • External Audit Comprehensive Annual Financial Report Audit Progress Executive Session |
| November 24, 2020 (Tuesday) | <ul style="list-style-type: none"> • Internal Audit issued report discussion • External Audit Comprehensive Annual Financial Report Audit Progress Executive Session |
| December 8, 2020 (Tuesday) | <ul style="list-style-type: none"> • External Audit Comprehensive Annual Financial Report • Internal Audit issued report discussion |

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

Call 877-270-8334

or

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



Metropolitan Nashville Audit Committee

Executive Session Checklist

- 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

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)