

METROPOLITAN NASHVILLE OFFICE OF INTERNAL AUDIT



INTERNAL AUDIT PERFORMANCE REPORT
November 1, 2013 through October 31, 2014

Report to Metropolitan Nashville Audit Committee

February 10, 2015

Members of the Metropolitan Nashville Audit Committee
Metropolitan Government of Nashville and Davidson County
Metro Courthouse
Nashville, TN 37201

Members of the Metropolitan Nashville Audit Committee:

The Metropolitan Nashville Office of Internal Audit is pleased to present its performance report highlighting accomplishments and audit work completed between November 1, 2013 and October 31, 2014.

The office completed 18 operational audits, 18 hotel tax audits, and one investigation during this period.

The office continues to help the Metropolitan Nashville Government build better communities by fostering trust through:

- ⇒ Independent assessments of financial and operational safeguards to determine what is working or what is not working.
- ⇒ Perceptive recommendations to improve accountability and delivery of government services.
- ⇒ Objective investigations of fraud, waste and abuse.

The content for these reports can be found at www.nashville.gov/internal_audit. Key objectives are summarized beginning on page 7. Please note the breadth of audit coverage accomplished over the past seven years as shown on page 14. This office along with the members of the Metropolitan Nashville Audit Committee continues to work on defining the audit universe for the Metropolitan Nashville Government and appreciates suggestions for potential functions, processes, or areas needing audit attention.

I hope you enjoy this report and will contact us with any questions or concerns related to the Metropolitan Nashville Office of Internal Audit.

Sincerely,

Mark S. Swann

Mark S. Swann
Metropolitan Auditor

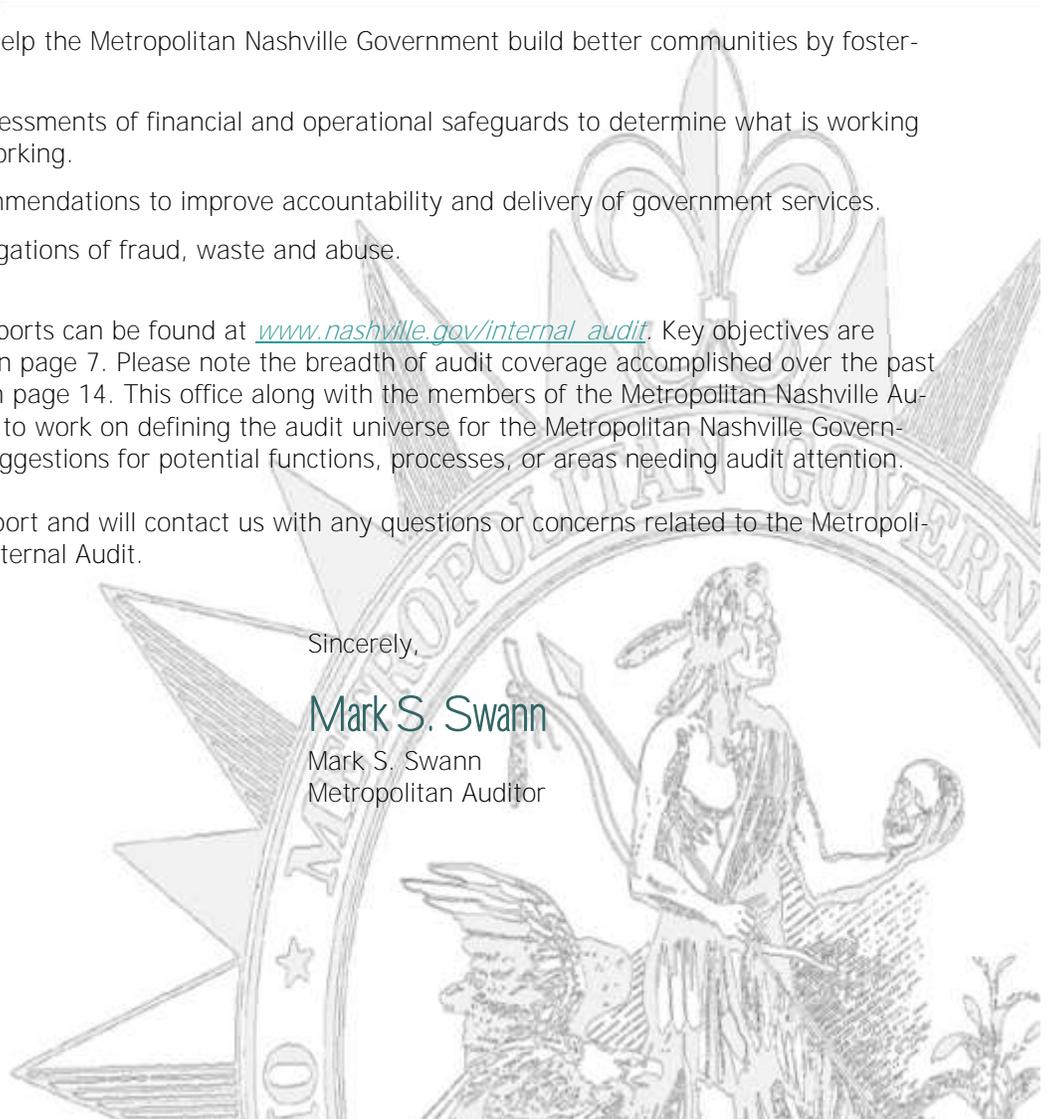




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Our Accomplishments

- Conducted 18 audits where 150 recommendations were identified with a 82 percent acceptance rate.
- Selected 28 hotels representing \$12.6 million in hotel occupancy taxes for audit. Determined from revenue and room night data that over \$215 thousand had been underpaid and was referred to the Metropolitan Treasurer for collection.
- **Provided analysis and recommendations to improve administration of the Metropolitan Assessor’s Office** over \$12.8 billion in property appraisals.
- Completed one requests for investigation of fraud, waste, and abuse issues.
- Accommodated Metropolitan Nashville Council and management requests pertaining to:

Metropolitan Nashville Public Schools	Animal Control
Hotel Occupancy Tax	Historical Zoning and Historic Commission
Metro Water Services Home Buyout	
- Successfully underwent a peer review by the Association of Local Auditors. The review concluded that audits conducted by the Metropolitan Office of Internal Audit were done in accordance with Governmental Auditing Standards.
- Staff members continued to participate in a variety of professional organizations such as the Institute of Internal Auditors, American Institute of Certified Public Accountants, Tennessee Society of Certified Public Accountants, Information Security Systems Association, and Association of Certified Fraud Examiners. Staff members participated on committees and gave presentations related to the auditing profession within some of these organizations.
- Provided a critical analysis of unusual financial transactions pertaining to payroll, procurement cards, fuel purchases, and travel.
- Provided additional assurance services for oversight of processes and controls that pertained to revenues and/or expenditures of:
 - \$636 million in tax-exempt bonds at the Industrial Development Board
 - \$48.2 million in expenditures for the Metro Water Services Home Buyout program
 - \$16.7 million in revenue and \$17.5 million in expenditures at the District Energy System
 - \$16.5 million fund balance for self-insurance and claims in the Law Department
 - \$15 million in expenditures and \$3 million in revenue for Social Services
 - \$12.2 million in expenditures at the Planning Department
 - \$9.8 million in expenditures at the Mayor’s Office of Emergency Management**
 - \$5 million Permitting and Licensing Center software development project
 - \$4.7 million in expenditures at the Mayor’s Office**
 - \$4.4 million in procurement card transactions
 - \$4.2 million in revenues and \$3.5 million in expenditures at the Centennial Sportsplex
 - \$3.9 million in payments and \$2.6 million in receipts related to claims
 - \$1.2 million in expenditures at Criminal Justice Planning
 - \$750 thousand in revenue and expenses at the Community Education Commission



Reporting Structure



Metropolitan Nashville Audit Committee

The Office of Internal Audit reports directly to the Metropolitan Nashville Audit Committee. This reporting structure fully complies with independence standards required by the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and United States Government Accountability Office.

The Office of Internal Audit strives to meet the Committee’s expectations for integrity, objectivity, and independence by applying professional auditing standards to all engagements. This office is committed to functioning professionally and efficiently in all business matters.

The annual report presented to the Metropolitan Nashville Audit Committee is a way for the office to provide highlights and accomplishments of the audit activities that took place during the prior year.

In addition to the annual report, the Metropolitan Auditor meets with the Metropolitan Nashville Audit Committee quarterly to discuss audit reports released during the prior quarter. The committee also approves the annual internal audit work plan. This past year the committee conducted additional meetings to evaluate bid proposals for the Metropolitan Nashville Public Schools performance audit. They also met to complete a competitive search for a proficient local government assurance services leader to be recommended to the Metropolitan Nashville Council to fulfill the role of the Metropolitan Auditor.

Meeting agendas and minutes are posted on the Metropolitan Nashville Audit Committee’s website.



Metropolitan Nashville Audit Committee

- ◇ Diane Neighbors—Vice Mayor
- ◇ Jacobia Dowell—Council Representative
- ◇ Steve Glover—Council Representative
- ◇ Rich Riebeling—Director of Finance
- ◇ Bob Brannon—Nashville Chapter of the Tennessee Society of CPAs
- ◇ Brack Reed—Nashville Area Chamber of Commerce

Risk Guards

The Metropolitan Nashville Audit Committee, along with the Office of Internal Audit and Metropolitan Nashville Government's external auditor, **Crosslin & Associates**, is constantly scanning the horizon for dangerous situations, such as breakdowns in management internal controls that may lead to financial misstatement, fraud, waste, or abuse of government resources.

Other groups helping identify emerging risks include:

- **State of Tennessee Comptroller's Audit Divisions.**
- Office of Financial Accountability within the Metropolitan Nashville Finance Department.
- Metropolitan Nashville Public Schools Internal Audit.
- Metropolitan Nashville Airport Authority Internal Audit.
- Nashville Electric Services Internal Audit.
- State of Tennessee and United States Government grant compliance reviewers.
- Contract audit service from Experis Finance, McConnell Jones Lanier & Murphy, and Crosslin & Associates.



Organizational Impairments

There were no unwarranted restrictions on the staffing of the internal audit activity or on access by internal auditors to organization activities, records, property, and personnel during this period *except for not being able to conduct a review of personal property tax compliance procedures* due to confidentiality restrictions delineated in Tennessee Code Annotated § 67-5-402. This was encountered as part of the audit of the Assessor's Office.



Internal Audit Staff



Mark Swann, CPA, CIA, CISA, ACDA
Metropolitan Auditor
Abilene Christian University,
BBA-Accounting



Carlos L. Holt, CPA, CFF, CIA, CFE,
CGAP, Audit Manager
Columbia College, BA Business / Fi-
nance and BS Accounting; University of
Maryland, MS-Finance & Accounting;
Central Michigan University, MS-
Administration



Bill Walker, CPA, CIA
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Middle Tennessee State University,
BS-Public Administration



Joe McGinley, CISSP, CISA
Senior Auditor
Washington University, BS-Systems and
Data Processing; Saint Louis University,
MBA



Qian Yuan, CISA, ACDA
Senior Auditor
Western Kentucky University, BS-
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Lauren Riley, CPA, ACDA
Senior Auditor
Mississippi State University,
BS-Accounting; University of Alabama,
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Kimberly Smith
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BBA-Business Administration;
University of Tennessee at Martin,
MBA



Seth Hatfield, CPA, CIA
Internal Auditor II
Lipscomb University, BS-Accounting;
Middle Tennessee State University,
MAcc

Former Internal Auditors



Jack Henry, CPA, CGFM
Internal Auditor II
Western Kentucky University
BS-Accounting/Business Administration
Resigned April 2014



Tracy Carter, CFE
Senior Auditor
University of Tennessee at Knoxville,
BS-Accounting and Finance
Resigned October 2014

CPA - Certified Public Accountant

CGAP - Certified Government Auditing Professional

CIA - Certified Internal Auditor

CISA - Certified Information Systems Auditor

CFE - Certified Fraud Examiner

CISSP - Certified Information Systems Security Professional

CMA - Certified Management Accountant

ACDA - ACL Certified Data Analyst

CFF - Certified in Financial Forensics

CGFM - Certified Government Financial Manager

Professional Credentials

The Office of Internal Audit follows the professional standards of the United States Government Accountability Office. Accordingly, the Office of Internal Audit and its individual auditors hold various professional licenses and certifications and are members of many prestigious professional audit and accounting associations.

Our membership and participation in professional associations allows us to be up to date on relevant issues in business and industry with regard to accounting trends and developing best practices.



Professional Organizations



As the internal audit profession's recognized authority, the Institute of Internal Auditors is committed to improving internal audit activities worldwide. Four of our staff members are Certified Internal Auditors.

The Association of Local Government Auditors (ALGA) is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, peer reviews, and training, while upholding the highest standards of professional ethics. Two staff members attended the ALGA 2014 Annual Conference held in Tampa, Florida.



The Association of Certified Fraud Examiners (ACFE) has become the largest anti-fraud organization in the world and is the premier provider of anti-fraud training and education. Two staff members are Certified Fraud Examiners.

The Information Systems Audit and Control Association is a pace-setting, global organization for information governance, control, security, and audit professionals. Three staff members are Certified Information Systems Auditors.



In addition to these organizations, we have staff participating in the American Institute of Certified Public Accountants, Tennessee Society of Certified Public Accountants, Government Financial Officers Association, Association of Government Accountants, Information Systems Security Association, and Nashville ACL User Group. One staff member serves on the Tennessee Society of Certified Public Accountants Government Committee.

Continuing Professional Education

Educational seminars expanded our knowledge in the following disciplines:

- Local government risk and audit issues sponsored by the Association of Local Government Auditors.
- Fraud trends and awareness sponsored by the Middle Tennessee Association of Certified Fraud Examiners
- Persuasive evidence sponsored by the Nashville Chapter of The Institute of Internal Auditors.
- The COSO Framework sponsored by the Nashville Chapter of The Institute of Internal Auditors and presented by Deloitte & Touche, LLP.



2013 COSO Framework on Internal Control Training

In May 2013, the Committee of Sponsoring Organization of the Treadway Commission (COSO) released an updated Internal Control-Integrated Framework. Some significant changes to the original framework were made, including:

- Changing the key fundamental concepts into principles,
- Clarifying design and implementation standards for systems,
- Introducing 17 principles associated with the five components, and
- Presuming that all 17 principles are relevant to all entities and need to be present, functioning, and operating to be effective.

The Office of Internal Audit was able to attend a half day training sponsored by The Institute of Internal Auditors and presented by Deloitte & Touche, LLP. The training focused on the significant changes to the COSO Framework as well as how to apply the 2013 COSO Framework to audited entities. The Office of Internal Audit attempts to apply the 2013 COSO Framework to all of its audits as the COSO Framework is an established and esteemed bar for measurement.



Summary of Performance Audits



Industrial Development Board
(12/16/2013)

The Office of Internal Audit conducted an audit of the Industrial Development Board. The Industrial Development Board approved eight payment in lieu of taxes agreements and issued approximately \$636 million in tax-exempt bonds during the audit period.

Key Objectives:

- Were effective controls in place to manage economic incentives?
- Were current and effective agreements in place with Metropolitan Nashville departments performing duties on behalf of the Industrial Development Board?



Metro Nashville Credit Card and
Expense Reimbursement Top Users
(12/26/2013)

An audit of the top credit card users was performed to determine whether processes designed to control credit card and employee expenses were working effectively. During the audit period, \$4.4 million in transactions were charged to Metro credit cards.

Key Objectives:

- Were controls and procedures in place **to manage the "Credit Card Program"**?
- Were controls and procedures in place to manage expense reports and traveling by Metro employees and non-employees?

Metro Water Services Home Buyout Program
(1/29/2014)

An audit of the Metro Water Services home buyout program was conducted at the request of the Deputy Finance Director and the Director of Metro Water Services. Grants related to the program totaled \$48.2 million.

Key Objectives:

- Were contracting procedures followed in the procurement of appraisals, demolition, and title of services?
- Were external grantor compliance requirements met?
- Were Metro Nashville's grant processes followed?





The Mayor's Office
(1/30/2014)

A compliance audit of The Mayor's Office was performed by the Office of Internal Audit. Total expenditures for the department were \$4.7 million for the year.

Key Objectives:

- Was a replicable tone at the top for the Metropolitan Government established by the Mayor's Office?
- Were purchases made in accordance with applicable policies?
- Were grants properly approved, expended, reimbursed, and reported?



Police Department Firearms and Equipment Tracking
(2/6/2014)

An audit of the Police Department's firearms and equipment tracking procedures was performed due to the risks surrounding these items.

Key Objectives:

- Were controls and procedures in place to ensure firearms and equipment were procured, received, identified, recorded, tracked, secured, and disposed of in accordance with applicable requirements?
- Were policies and procedures related to firearms and equipment conforming to best practices and guidelines?

Planning Department
(2/14/2014)

The Office of Internal Audit performed a performance audit of the Metropolitan Planning Department. For the audit period, the Planning Department had a total of \$12.2 million in expenses.

Key Objectives:

- Were operational goals and expectations of the Planning Department met?
- Were fiscal resources used in a manner consistent with Metro Nashville's financial policy and the Planning Department's mission?





Permitting and Licensing System
Upgrade Interim Report I
(2/24/2014)

The Office of Internal Audit issued an interim report on the development and implementation progress of the new permitting software to replace KIVA. The KIVA system is used by 24 Metropolitan Nashville agencies. The fiscal year 2013 Capital Spending Plan allocated \$5 million to upgrade this system.

Key Objective:

- Was the project being implemented successfully by following industry practices for information system project management?



The Mayor's Office of Emergency Management
Management
(4/4/2014)

The Mayor's Office of Emergency Management underwent a compliance audit by the Office of Internal Audit. The Office of Emergency Management had expenditures and transfers exceeding \$9.8 million for the audit period.

Key Objectives:

- Were grant procedures enhanced based on previous recommendations to ensure proper management going forward?
- Were purchases made in accordance with applicable policies?
- Were assets accounted for and agreed to internal records?

District Energy System
(4/23/2014)

An audit of the controls and procedures around operating and maintaining the District Energy System facility was performed. During the audit period revenues were \$16.7 million and expenditures were \$17.5 million



Key Objectives:

- Were contract performance requirements monitored by Thermal Energy Group, Inc., the Contract Administrator?
- Were transactions for energy purchases, capital projects, engineering services, metering, billing and collection, and marketing in accordance with contract terms?



Criminal Justice Planning
(5/8/2014)

A performance audit of Criminal Justice Planning was done by the Office of Internal Audit. During the audit period, the department had over \$1.2 million in operating expenses.

Key Objectives:

- Was the organizational structure designed to support service delivery objectives and were stakeholder needs satisfied?
- Were payroll expenditures for work performed and were leave usages approved and accrued in accordance with applicable policy?
- Were information and technology assets and access privileges protected from unauthorized use?



Assessor's Office
(6/25/2014)

An audit of the Assessor's Office was conducted. During the audit period more than \$12.8 billion in property appraisals were completed.

Key Objectives:

- Were procedures for the general appraisal process adequately designed and effectively implemented?
- Did information technology system controls safeguard the integrity of the assessment information?
- Were labor and operational expenditures **in accordance with the Assessor's Office mission?**

Internal Audit Peer Review
(7/10/2014)

In accordance with *Government Auditing Standards*, the Office of Internal Audit underwent a peer review by the Association of Local Government Auditors. The peer review covered all work performed between January 1, 2011 thru December 31, 2013.

Key Objective:

- **Did the Office of Internal Audit's internal quality control system operate to provide reasonable assurance of compliance with *Government Auditing Standards*?**





Parks and Recreation Centennial Sportsplex (7/18/2014)

A performance audit of Centennial Sportsplex was conducted. During the audit period, revenues exceeded \$3.5 million and expenditures exceeded \$4.2 million.

Key Objective:

- Did programs and equipment maintenance met customer satisfaction?
- Were controls in place to ensure safety and security for patrons?
- Were fiscal matters managed properly?

Social Services (8/20/2014)

Controls and processes relating to Social Services were reviewed. Department grants and revenues exceeded \$3 million for the period. Expenditures exceeded \$15 million for the period.

Key Objectives:

- Were the Nutrition and Homemaker Services programs operating efficiently and effectively?
- Were grants properly approved, expended, reimbursed, and reported?
- Was sensitive information protected from theft, misuse, or accidental disclosure?

Law Department Claims Process (9/9/2014)

The claims process within the Law Department was reviewed by the Office of Internal Audit. The fund balance for self-insurance and claims at the end of the audit period was \$16.5 million. Payments of \$3.9 million and receipts of \$2.6 million related to claims were processed during the audit period.



Key Objectives:

- Did citizens have fair and accessible means to address claims?
- Were claims reserve amounts and insurance coverage methodically determined?
- Did controls ensure subrogation amounts and/or insurance claims were identified, investigated, and collected?



Hotel Occupancy Tax Audit Summary FY2014 (9/9/2014)

Hotel tax records were audited by the Office of Internal Audit throughout the year. A total of 29 hotels with tax returns representing \$14.2 million in hotel occupancy taxes and convention center taxes were selected for audit.

Key Objectives:

- Were asserted revenue and number of rooms for monthly hotel occupancy tax returns in agreement with hotel records?
- Were exemptions claimed properly documented and in agreement with hotel records?



Unusual Financial Related Transactions (9/22/2014)

An audit of unusual financial transactions was conducted to promote financial transparency and stewardship over funds. Transactions from three years were reviewed.

Key Objectives:

- Were there any unexplainable unusual expenditures?
- Were there any unexplainable unusual payroll entries?
- Were there any unexplainable additions, deletions, or changes made to the vendor and employee master files?



Justice Integration Services Active Director Services (10/22/2014)

The Office of Internal Audit concluded that Justice Integration Services was reasonably managing active directory services to satisfy the operational needs for the Metropolitan Government of Nashville and Davidson County.



Community Education Commission (10/31/2014)

A compliance audit of the Community Education Commission was completed. For the period audited, the Community Education Commission had in excess of \$750 thousand in revenues and \$750 thousand in expenditures.

Key Objective:

- Were controls in place to ensure proper management of fiscal resources?
- Were Community Education Commission employees aware of and acknowledging the Acceptable Use of Information Assets Policy, as well as the Basic Security Awareness Training?

Our Mission

The 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.

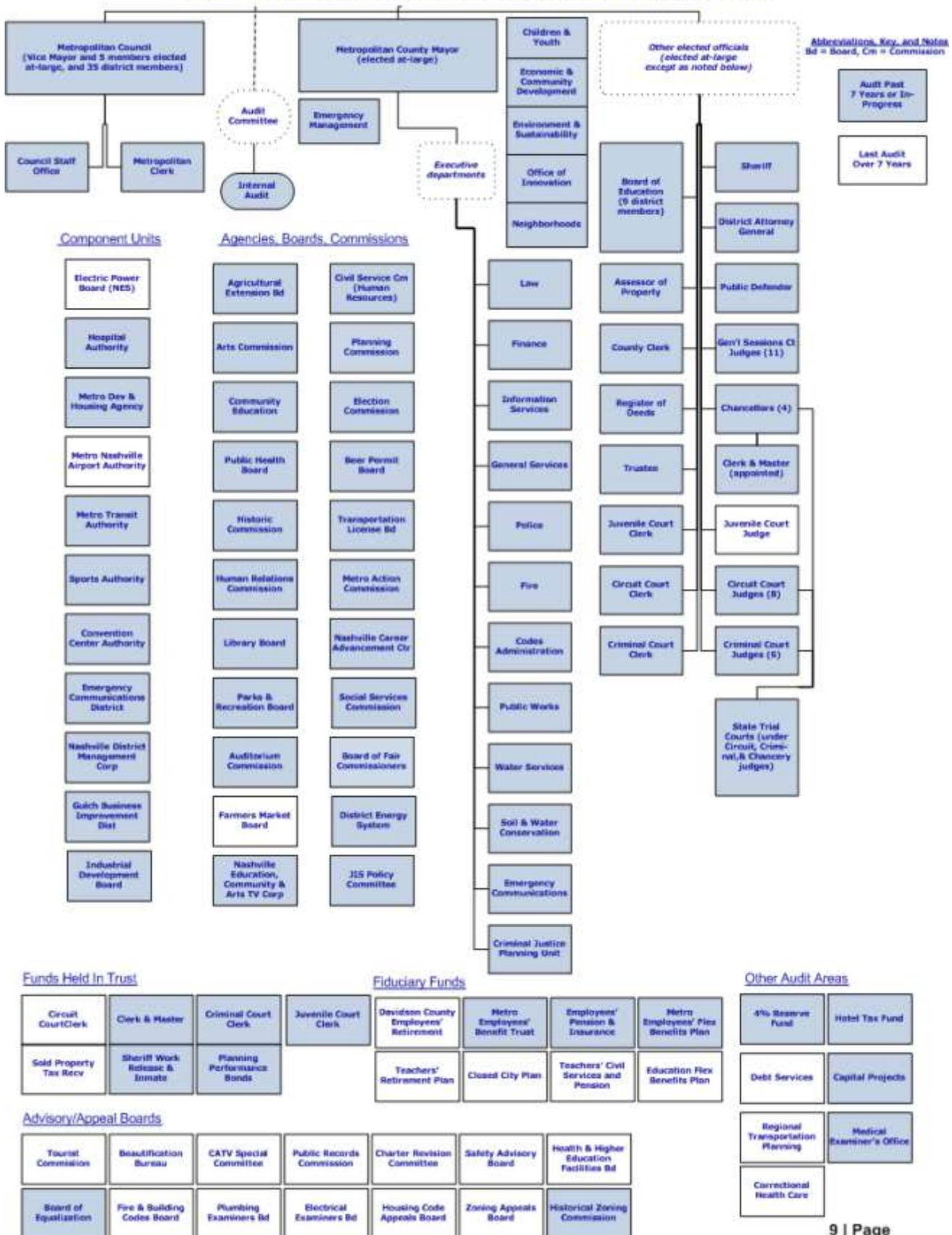
Our Vision

To be regarded as a valued resource by Council, Metropolitan Nashville management, staff, and our audit clients by:

- Applying audit work effort commensurate with perceived risk.
- **Consistently identifying significant issues so there are "no surprises".**
- **Creating continuous "early warning" control monitoring mechanisms.**
- Improving the transparency of Metro Nashville operations.
- Educating the Metro Nashville community on the importance of effective internal control measures and risk management.
- Pursuing professional advancement and sharing knowledge and experience with Metro Nashville management and our peers.



Office of Internal Audit Seven Year Audit Coverage Map



Metropolitan Nashville & Davidson County

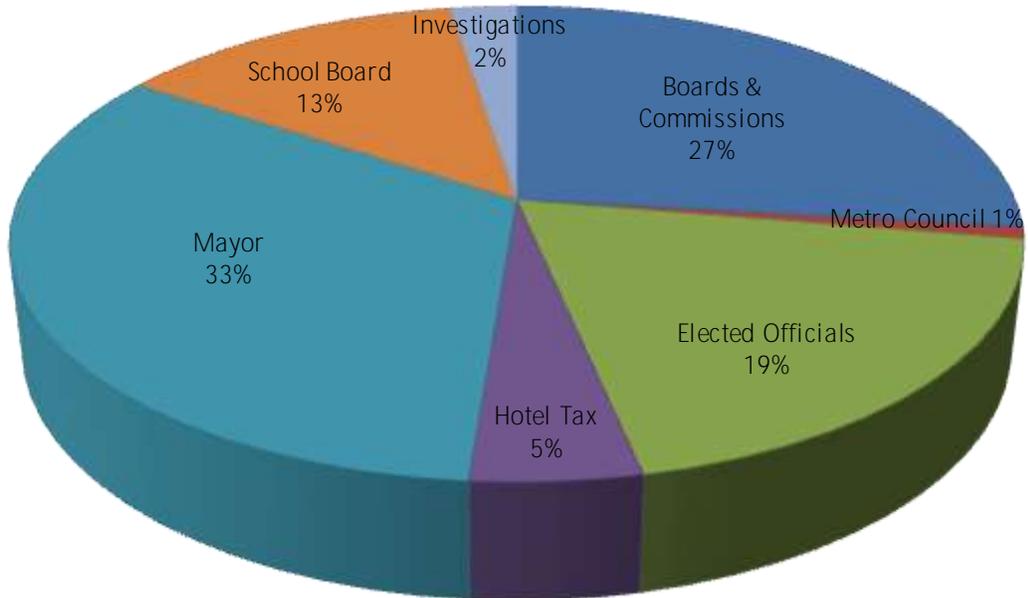


What do Internal Auditors do?

- ◇ Keep an eye on the organization climate.
- ◇ Serve as a safety net for an organization.
- ◇ **Find out what's working and what's not.**
- ◇ Help organizations do the right thing and accomplish objectives.



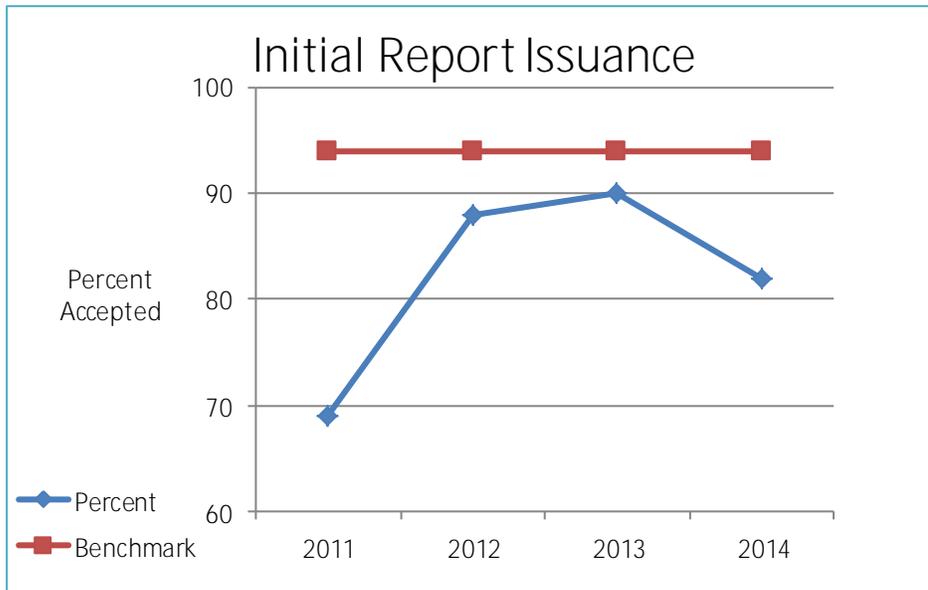
Internal Audit Work Effort
100,644 Direct Hours - July 2007 to October 2014





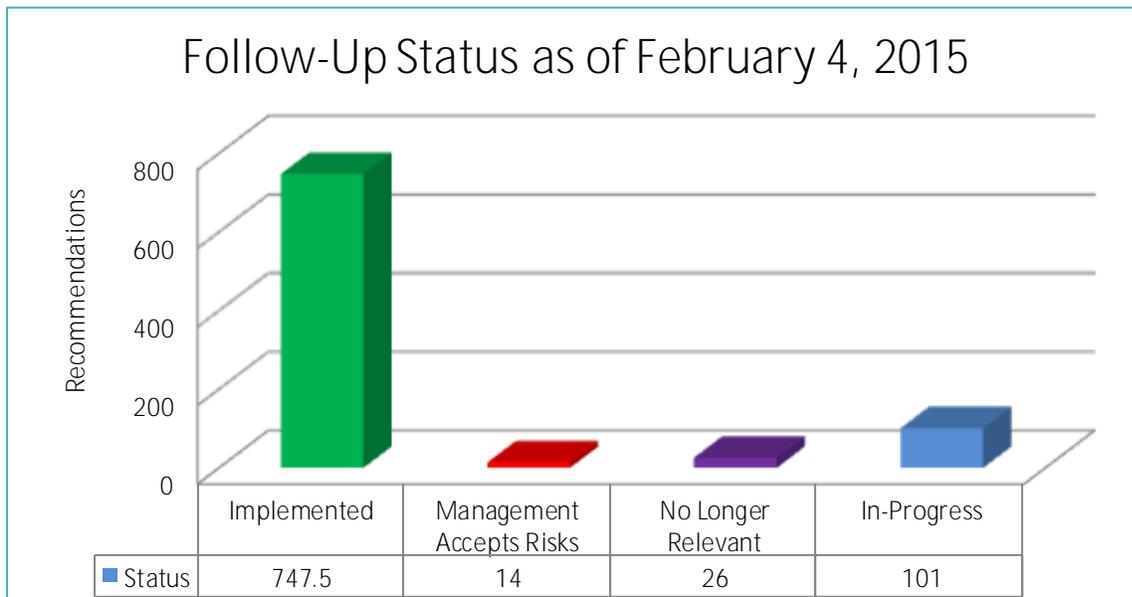
Audit Recommendations Implementation Status

Audits Issued Between November 2010 and October 2014



The Office of Internal Audit issued 111 audit reports since being reorganized as an independent audit organization in March 2007. Internal audits in the 2014 reporting period identified 150 recommendations for improvement, with 123 (82%) of the recommendations being accepted when the report was issued. The Association of Local Government Auditors benchmark is a 94% acceptance rate.

Departments were asked to provide implementation status for the accepted audit report recommendations as of February 4, 2015. Out of the 888 accepted recommendations, 748 (84%) were implemented and 101 recommendation were still in-progress pending corrective action tasks. In-progress recommendations that have been open in excess of one year totaled 54. Common delays are attributed to the necessity for budget funding, implementation of computer applications, or follow-up response delayed due to other management pressing priorities.





**Metro Nashville Government
Waste and Abuse Hotline**

**Waste?
Fraud?
Abuse?**



Your Call Matters

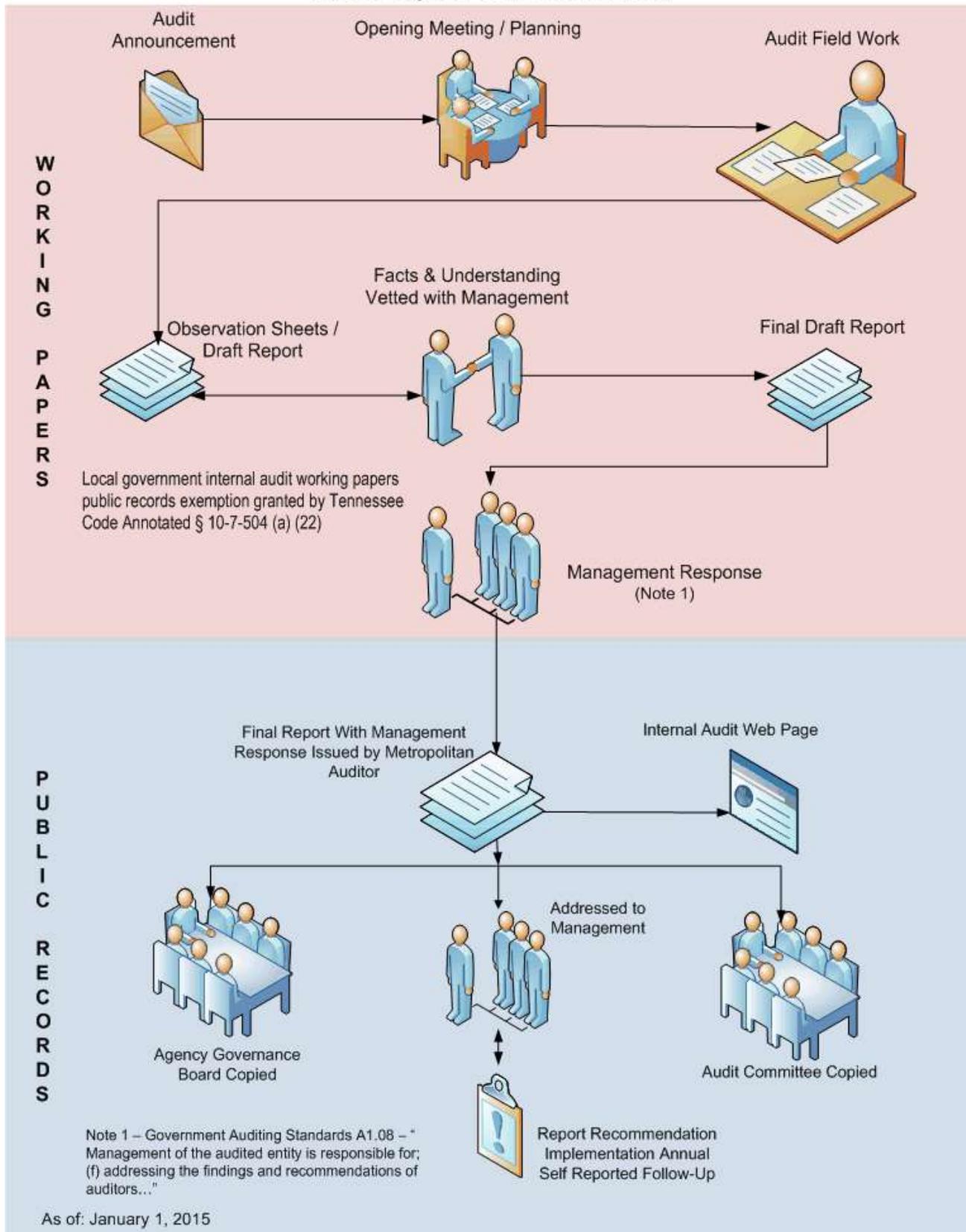
Report Any Problems Toll-Free
You Don't Have To Give Your Name
1-855-252-7606 or
www.hotline-services.com
Use Organization Name: Metro Nashville
We Can't Do It Without You

Metro Nashville Hotline Statistics

From November 1, 2013, through October 31, 2014, the Office of Internal Audit received ten calls on the Metro Nashville Waste and Abuse Hotline that required further attention.



Metropolitan Nashville Office of Internal Audit Audit Project Process Overview



Metropolitan Nashville & Davidson County



TRANSPARENCY

The Office of Internal Audit reports directly to the Metropolitan Nashville Audit Committee throughout **the year. All final reports are available on the Office of Internal Audit's website. Additionally, the Metro Nashville Waste and Abuse Hotline** can be accessed through this website or www.hotline-services.com (Use Organization Name: Metro Nashville) or calling 855-252-7606, 24 hours a day, 7 days a week.

WEBSITE

Visit us online: www.nashville.gov/internal_audit

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- Nashville.gov.
- Metro Nashville Photographer.
- Wiki Media.
- The various professional organizations.
- The United States Government Photos and Images.

NOTE

This is a performance report of the Office of Internal Audit achievements and accomplishments and should not be considered an audit report. Generally accepted government auditing standards were not used in the preparation of this report.