METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY METROPOLITAN AUDIT COMMITTEE MEETING

December 11, 2012

On Tuesday, December 11, 2012, at 4:00 p.m., the Metropolitan Nashville Audit Committee met in the Metropolitan Courthouse, 2nd Floor Committee Room 4. The following people attended the meeting:

Committee Members

Bob Brannon, Chairman
Brack Reed, Vice Chairman
Richard Riebeling, Director of Finance
Jacobia Dowell, Council Member
Steve Glover, Council Member

Others

Mark Swann, Metropolitan Auditor
Carlos Holt, Internal Audit Manager
Qian Yuan, Internal Auditor
J. Dell Crosslin, Crosslin & Associates, P.C
Rich Lockwood, Crosslin & Associates, P.C.
David Hunt, Crosslin & Associates, P.C.
Theresa Costonis, Department of Law
Sharon Wahlstrom, Public Works
Kim McDoniel, Metro Finance

<u>Committee Member Absent</u> Diane Neighbors, Vice-Mayor

Quorum present? Yes

Call Meeting to Order

Bob Brannon, Committee Chairman, called the meeting to order.

Approval of Minutes

The minutes of the meeting on September 25, 2012, were approved.

New Business

External auditor presentation of fiscal year 2012 Comprehensive Annual Financial Reports (Crosslin & Associates, P.C.)

Mr. David Hunt with Crosslin & Associates presented the Comprehensive Annual Financial Reports for Metropolitan Government of Nashville & Davidson County fiscal year 2012.

Mr. Brannon stated that no particular actions needed at this point.

<u>Discussion on Agreed-Upon Procedure for the General Sessions Court Probation Office report issued September 27, 2012 (Mark Swann – Metropolitan Auditor)</u>

Metropolitan Auditor Mark Swann explained that this was a follow-up to an audit of the Probation Office years back when there were several control break-downs. The procedure looked at revenue collection, monitoring services, drug testing, segregation of duty, and user access rights to probation system. Issues found in previous audit, such as reconciliation of drug tests to revenue, and use of manual receipts have been addressed with controls implemented. Unnecessary access rights were found assigned to users in the probation information system. Recommendation was made and accepted by the Probation Office to review the roles in the adult probation system.

No question was raised from the committee.

<u>Discussion on Audits of the Acceptable Use of Information Technology Assets (Mark Swann – Metropolitan Auditor)</u>

Mr. Swann explained that the Acceptable Use policy was issued as a part of renewed efforts to improve Metro's information security after several incidents occurred in the past. Three areas, namely Nashville Expo Center, Emergency Management and Metro Action Commission, were tested for the compliance of the policy. Two reports were issued and report on Metro Action Commission is in draft phase. Mr. Swann stated that overall results were satisfactory.

No question was raised from the committee.

<u>Discussion on Audit of Contract Monitoring Process at Metro Nashville Public Works audit report</u> issued October 2, 2012 (Mark Swann – Metropolitan Auditor)

Mr. Swann stated at Public Works, thirty seven vendors were paid over \$400,000 in the audit period and four vendors with eight contracts valued about 21 million were chosen and reviewed. Overall, Public Works monitoring process was satisfactory. Some exceptions were found such as, annual true-up process stipulated in contract not occurred, best available quantified information should be used in invitation to bid and change order over \$100,000 needed actual cost and price data for review.

No question was raised from the committee.

<u>Discussion on the Information Technology Services' Certificate Service audit report issued</u> <u>October 19, 2012 (Mark Swann – Metropolitan Auditor)</u>

Mr. Swann explained that the certificate service is used for information security awareness improvement. It provides identity management to build trust relationships. Metro's public facing website uses outside vendor. Internally Metro used our own certificates to identify our own application and machines. ITS requested the review two years ago before a vendor was finally found to complete the review. Recommendations were made by this review but no major exceptions found which might cause break down of the system. Mr. Swann stated that the report was confidential and no more details can be released.

Mr. Brannon asked what should be done to read the report. Mr. Swann answered that readers should be finger printed and to pass CJIS background check.

<u>Discussion on Audit of Metro Nashville's Motor Fuel Usage audit report issued October 25, 2012</u> (Mark Swann – Metropolitan Auditor)

Mr. Swann stated that Fleet Management manages Metro's motor fuel and diesel fuels. Fuel cards were used by Public Works, Fire Department, and Metro Parks. Metro Schools manages its own fuel. Nine million dollars' worth of fuel was purchased during 2012. The major finding is that no inventory reconciliation had been done. Three random fuel tanks were randomly selected to reconcile purchases, usage and quantity on-hand. 26% variance was found going one way or the other. Various reasons found to be lack of meters maintenance and usage monitoring. Going forward, the Fleet Management agreed to do monthly inventory reconciliation on all the tanks.

Another observation from this audit is that out of over two hundred fifty one thousand fuel card transactions, over fifteen thousand were not authorized by policy in buying higher grade. Recommendation was to work with vendor to provide additional control to block the unauthorized grade. The audit recommended that a specialized fuel management system and equipment in place to improve accountability.

Mr. Brannon asked whether Police Department uses this fuel. Mr. Swann answered that Police uses fuel cards at the facilities managed by General Services. Police also has their own underground tanks.

No other question raised by the committee.

<u>Discussion on the Audit of Nashville Career Advancement Center audit report issued November 27, 2012 (Mark Swann – Metropolitan Auditor)</u>

Mr. Swann stated that the Nashville Career Advancement Center uses Federal funds and was audited by grants and the State. The Center got clean opinions from those audits and we rely on these audit reports. Additional test on payroll was done and we have no observations and recommendations.

No question raised by the committee.

<u>Discussion on the Audit of the Metropolitan Nashville Historical Commission audit report issued</u> <u>December 3, 2012 (Mark Swann – Metropolitan Auditor)</u>

Mr. Swann stated that the audit found the Historical Commission did tremendously better than the time of last audit before his time. Documents were kept well in compliance with policies and procedures. However, for the project of preserving Nashville City Cemetery, a sole source contract was approved at low amount but actual spending was much higher to over eight hundred thousand dollars. No documentation found for the effort of looking for other bids. This audit also recommended that the Commission should continue to consider provide incentive program for historical restoration at local level.

No question raised by the committee.

<u>Discussion on the Audit of Nashville Fire Department Drug Inventory audit report issued</u> October 26, 2012 (Mark Swann – Metropolitan Auditor)

Mr. Swann stated that overall the Fire Department had better controls than Health Department over the controlled substances. The audit recommended the reconciliation of purchases and usage periodically. The Fire Department was in agreement.

No question raised by the committee.

<u>Announcement</u>

Mr. Swann announced that he will request amendment of the audit plan due to a request from State Fair for an audit of Ovation concessionaire contracts. Mr. Riebeling stated that Mr. Swann should consider that Ovation had four contracts with Metro buildings. Nothing further was discussed on this issue.

No comments and question was raised on new business items. Mr. Brannon stated that no action required at this point.

Old Business

Hotel Occupancy Tax Audits (Mark Swann – Metropolitan Auditor)

Mr. Swann presented the status of Hotel Occupancy Tax audits. He advised that six hotels were audited and \$18,694 recovered from one hotel, and another potential three thousand dollar tax underpaid due to lack of documentations. Mr. Swann stated that the hotels changed owner frequently and the auditors had to find the owners who had the records.

Mr. Glover asked what time period was audited. Mr. Swann said that it could be up to three years. Mr. Brannon asked how many hotels there are in total. Mr. Swann answered that there are about 250 hotels. Mr. Glover asked how many revenue the occupancy tax represents. Mr. Swann answered about forty million dollars a year.

<u>Audit of Nashville Electric Services by State Comptroller's County Audit Division (Mark Swann – Metropolitan Auditor)</u>

Mr. Swann said the report is scheduled to be released on Thursday morning at nine o'clock. Mr. Swann will send a link or copy of the report to the committee.

Follow-up on external auditor presentation FY 2011 Management Letter and Single Audit (Bob Brannon – Committee Chairman)

Mr. Brannon moved to approve the FY 2011 Management Letter and Single Audit Report. Motion carried by the committee.

Metro Hotline Status and Investigation Reports (Carlos Holt – Internal Audit Manager)

Mr. Holt advised that 29 Hotline alerts were received this year, where 23 were anonymous, and 6 non-anonymous. Other requests were received from the State and other Metro entities. All investigations were conducted, closed and reported.

Mr. Brannon asked Mr. Holt whether he thinks the hotline is effective. Mr. Holt answered absolutely.

<u>Internal Audit Project Status (Mark Swann – Metropolitan Auditor)</u>

Mr. Swann presented the status of audit projects at the Office of Internal Audit. Mr. Swann advised that the goal for calendar year 2012 was to complete 16 audit projects. As of now, 16

projects were completed. Two are in draft report phase and three are in field work phase about to be completed. One audit will be started next week and three others in January.

Other Administrative Matters (Mark Swann – Metropolitan Auditor)

Office of Internal Audit Annual Performance Report November 1, 2011 to October 31, 2012

Mr. Swann presented the Internal Audit Annual Performance Report. He showed the heat map of audit coverage over the past five years. Mr. Swann advised that 239 recommendations made this year and the acceptance rate is continuously 87%. This rate is lowed by State Trial Court not accepting any of the recommendations. About a hundred recommendations are in open status and most of those were from last three months. As of now there are twenty eight recommendations remained over a year old, partial due to funding issue. One other reason for a recommendation still open is that no one can answer the question what level of merchant Codes Department is pertaining to credit card payments transactions in accordance with Payment Card Industry standards.

Mr. Glover asked about how the accepted recommendations were reported. Mr. Swann advised that the implementation of the recommendations was self-reported. Follow-up audits were not done due to lack of resources. Mr. Glover stated that the self-reporting is a good process.

FY 2013 Budget

Mr. Swann stated that the Office of Internal Audit will be on budget this year.

<u>Staffing</u>

Mr. Swann advised that another senior auditor resigned and there are two openings in the senior auditor position. Senior Auditor position was open and posted for hire and the process should start the following week.

Other

Mr. Swann asked whether the committee wants to accept the Annual Performance Report and forward it to Metro Council. Mr. Riebeling moved to accept the report and forward it to the Council. Mr. Brannon second. Motion carried.

Consideration of Items for Future Meetings (Bob Brannon - Committee Chair)

No items were discussed.

Meeting adjourned after 75 minutes.

The next meeting is scheduled for Tuesday, February 12, 2013.