

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

July 10, 2012

On Tuesday, July 10, 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, Metro Council

Others

Mark Swann, Metropolitan Auditor
Carlos Holt, Internal Audit Manager
Jack Henry, Internal Auditor
Margaret Darby, Assistant Metropolitan Attorney
Phil Carr, Finance Manager
J. Dell Crosslin, Crosslin & Associates, P.C.
Rich Lockwood, Crosslin & Associates, P.C.
Dan Miller, Crosslin & Associates, P.C.

Committee Members Absent

Diane Neighbors, Vice Mayor
Steve Glover, Metro Council

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 February 14, 2012, were approved.

New Business

External Auditor Presentation of FY 2011 Management Letter (Crosslin & Associates) Rich Lockwood, Audit Principal, Crosslin & Associates, P.C., presented the FY 2011 *Letter of Recommendation to Management* (Management Letter).

A copy of the FY 2011 Management Letter, which had been prepared by Crosslin & Associates, P.C., was provided to all members of the Committee. Mr. Lockwood provided a briefing of the letter.

External Auditor Presentation of FY 2011 Single Audit (Crosslin & Associates) Dan Miller, Audit Principal, Crosslin & Associates, P.C., presented an overview of the results of the FY 2011 Single Audit.

A copy of the FY 2011 Single Audit, which had been prepared by Crosslin & Associates, P.C., was provided to all members of the Committee. Mr. Miller provided a presentation of the audit.

External Auditor Presentation of Audit Plan for FY 2012 Financial Statements (Crosslin & Associates) Rich Lockwood, Audit Principal, Crosslin & Associates, P.C., presented the *Audit Plan for FY 2012 Financial Statements*.

A copy of the *Audit Plan for FY 2012 Financial Statements*, which had been prepared by Crosslin & Associates, P.C., was provided to all members of the Committee. Mr. Lockwood provided a briefing of the plan.

Discussion on MNPS Payroll audit report issued March 27, 2012 (Mark Swann – Metropolitan Auditor)

The Office of Internal Audit completed an audit of the Metro Nashville Public Schools (MNPS) payroll which covered fiscal years 2010 and 2011. Payroll is a significant portion of the budget for the schools, and fringes and payroll were over \$500 million in fiscal years 2010 and 2011. Payroll included over 16,000 total part-time and full-time employees in this period. One thing that makes payroll more complicated for these schools is that there are over 162 different pay types for the school payroll.

One of the areas that the Office of Internal Audit did have an observation is where a sample of principals and directors had payroll approval authority and time entry privileges inside the EnterpriseOne (EBS) time entry system. This was a segregation of duties issue.

Other observations related to leave accounting where sick leave usage transactions had been reversed with no matching unpaid absence or other matching transactions in 16 of 46 instances reviewed. Testing of 46 sample instances of 854 reversal transactions indicated that in 34.8% of the instances the reversals were made without apparent and/or well documented justification. The report included a recommendation for the management of MNPS to implement a policy that timekeepers may not enter negative hours for sick leave and that all such needs should be entered only by the MNPS Business Office after first documenting the need.

Also, an observation was included where internal controls related to approval for overtime pay were not working effectively to prevent premium pay without supporting documentation. Out of a sample of 53 instances of overtime pay, four payment instances (7.6%) were found to have been made without adequate support and were not detected by existing controls. Two of the four instances showed overlapping overtime pay for the same individual related to a federal grant.

In other areas internal controls were not working effectively to prevent overpayments to employees who separated. This was evidenced by 71 overpayments in the amount of \$86,535 made since July 1, 2009, to employees who were already separated or who subsequently left employment.

There were no questions by the Committee.

Discussion on Davidson County Register of Deeds audit report issued April 17, 2012 (Mark Swann – Metropolitan Auditor)

The Register of Deeds office currently does their own accrual accounting function using QuickBooks and is probably the most decentralized constitutional office within Metro Nashville. Because of this, the Office of Internal Audit focused audit procedures on revenue collections, payroll, leave accounting and expenditures. The Register of Deeds revenues were close to \$4

million for each year, and their expenditures were close to \$3 million a year. The Office of Internal Audit didn't see a lot of problems with the expenditures cycle.

The Office of Internal Audit concluded that the DTS system is well designed to help management with recording documents. However, the financial module is not as robust as the document management side. In that area, the system has a sequence number for transactions, and the Office of Internal Audit evaluated those transactions for completeness. The Office of Internal Audit found there were gaps in the sequence numbers. When this happens it makes it difficult to know what happened to the transaction. The audit testing determined, for a sample of 90 days, that the revenue was following the controls and process designed by management.

Mr. Brannon inquired if the transaction gaps could be considered a major internal control weakness and what was the corrective action plan for the Register of Deeds to address this weakness. Mr. Swann stated the report objective question was answered inconclusive because of the weakness with the transaction sequence numbers. The Register of Deeds stated they would be working with their software vendor, DTS, to upgrade the system to provide a complete audit trail of financial transactions in future software releases.

Mr. Brannon asked if the Office of Internal Audit plan to conduct a follow-up any time soon to review this internal control weakness. Mr. Swann stated the Office of Internal Audit follow-up process is to have the entity to update information concerning their corrective action plan to the Office of Internal Audit. The number of recommendations that are still open are reported to the Committee annually. However, the Office of Internal Audit can always go back to verify the corrective action plan has been completed.

Mr. Brannon inquired if this issue was still an open recommendation. Mr. Swann stated it should still be an open recommendation because the issue was not resolved prior to issuance of the audit report.

Discussion on Metro Parks and Recreation Golf Operations audit report issued May 22, 2012
(Mark Swann – Metropolitan Auditor)

Fiscal year 2010 was the first year management had cost statement to see if an individual golf course was making money or losing money. Then Metro Nashville experienced the May 2010 flood which covered two different fiscal years for golf operations. For those two years in aggregate, golf operations was losing \$500 thousand a year.

This is a policy issue on how Metro Nashville wants to fund golf operations. There are two courses that continuously lose upwards of \$200 thousand a year. The question is what would be the best course of action going forward. One of the recommendations the Office of Internal Audit made was to explore other alternatives for running golf operations. Other cities have golf operations outsourced to a nonprofit association. You can also privatize it. Also, in other cities long term leases are signed with restaurants at golf course club houses and the restaurants provide capital for leasehold improvements. The majority of the recommendations to Metro Parks and Recreation management were rejected. They said they tried in the past to make operational changes and were told they could not do anything.

The Office of Internal Audit also found that the golf courses did not have all of the costs segregated by course. The Office of Internal Audit recommended Metro Parks and Recreation be more precise on recording costs for each individual golf course.

There is close to four percent of the park employees and volunteers who get discounted rounds or free rounds of golf. A report to the Parks and Recreation Board on these discounted rounds had never been provided in accordance with their procedures. Metro Parks and Recreation Golf Operations stated that four percent of the rounds being discounted was not unusual and they get a lot of free volunteer labor as a result.

There were no questions.

Discussion of Metropolitan Nashville Hospital Authority Revenues audit report issued June 28, 2012 (Mark Swann – Metropolitan Auditor)

For the Metropolitan Nashville Hospital Authority, revenue is a significant area for the hospital with a large percentage of it being charity care. One of the major areas within any medical entity is their Charge Master. This audit reviewed how the Authority was evaluating and making sure the Charge Master was accurate. One of the significant tasks considered as a positive control was that the Hospital Authority sends the Charge Master every year to an independent party to be reviewed and provide feedback as to whether it is reasonable. There is a lot of inherent complexity in the healthcare business in billing and this process was a good overall control.

The lease agreement for the third party leasing space for physical therapy was reviewed. It was determined that all revenue received was in compliance with the lease agreement.

One of the things that a lot of other entities are doing for prisoner inmate care is checking to see if they have insurance. There is a possibility that some of these inmates may have insurance. The Hospital Authority had not checked for insurance for inmates in the past. They agreed to look into that going forward. There are firms that make a living full-time doing that for hospitals and other localities.

The Hospital Authority contract with Vanderbilt Medical Center to provide services was close to \$2 million last year. Patients were sent to Vanderbilt to provide services that the Hospital Authority cannot provide in-house. The question up for review was if the Hospital Authority wanted to continue to provide indigent care for anybody for any situation or do you say the Hospital Authority will only provide the in-house care that they offer and will help try to find indigent care at other entities going forward for care they cannot provide. The Hospital Authority Board's response was they wanted to continue providing services using this contract when needed services are not available in-house. They did believe they needed to work on their contract with Vanderbilt Medical Center to attempt to get better terms. When you look at the contractual allowances for this agreement, it is around a 30 percent discount and it is believed this should be at least 50 percent. If successful in negotiating a new rate, the Hospital Authority could save between \$200,000 and \$300,000 a year based on historic usage.

Also, the Hospital Authority residency policy did not contain a firm definition. The Hospital Authority agreed to look at the voter's registration requirements and adopt it going forward.

There were no questions.

Discussion on Council Lady Sandra Moore request dated June 5, 2012, for audit of Fair Board regarding the fairgrounds speedway contract (Mark Swann – Metropolitan Auditor)

The Metropolitan Nashville Audit Committee received a request from a constituent of Council Lady Sandra Moore to conduct an audit of the contract for the fairgrounds speedway. The Fair Board met to see about doing an audit of the fairgrounds speedway contract and opted not to perform an audit at this time. The contract has a \$50,000 minimum guarantee and includes requirements for the Fair Board to receive a penny for every gallon of gasoline, ten percent of tire sales, and ten percent of concessions. The contract has a requirement that a certified public accountant audit the contractor's books and revenue calculations for what is supposed to be going back to the Fair Board every year. Mr. Swann's recommendation would be to agree with the Fair Board and let them try to enforce the contract requirement for audited financial statements and revenues calculation for payment. This should provide assurance that the contract is being adhered to.

Mr. Brannon recommended the Office of Internal Audit ask the person who requested the audit if they would find the certified public accountant report to be sufficient for this request. Mr. Swann stated he would follow-up on this request.

Mr. Brannon then asked if there was any reason why the constituent of Council Lady Moore made this request. Mr. Swann stated he asked Mr. Dozier about it and he was aware of this individual but he didn't quite understand why he was asking for this particular request. Mr. Riebeling stated he believed the request was prompted as result of the media reports that the attendance has been at a record high with a number of people going to the fairgrounds to the races and the revenue wasn't reflecting that and he thought that it might be worth some review.

Mr. Riebeling recommended waiting until after a year of operation and seeing what the Fair Board gets from the certified public accountant. If the report is not sufficient then maybe it's something that the Office of Internal Audit might want to take a look at. Mr. Riebeling made the motion that Mr. Swann communicates this decision to Council Lady Moore that this is the action that the Committee would recommend.

The motion was seconded and carried.

Discussion on Warner Hassell, General Sessions Court Administrator, request dated June 7, 2012, for review of General Sessions Probation Department (Mark Swann – Metropolitan Auditor)

General Sessions Court Administrator Warner Hassell requested that the Office of Internal Audit do a review of the Probation Department. The Office of Internal Audit did an audit of the Probation Department two years ago, and the Office of Internal Audit found a lot of significant control issues at that time. The Director, Mr. Mondelli, will be resigning his position as of the end of July. The Office of Internal Audit agreed to work on this as an agreed-upon procedure, which the Office of Internal Audit has already started, and it's up to the Committee to decide if it would like to approve the Office of Internal Audit to continue with this project. The agreed-upon procedures engagement mainly focuses on conducting a follow-up of the prior audit recommendations concerning revenue and drug testing.

Mr. Brannon inquired if the Office of Internal Audit normally performed audits when people in leadership positions leave employment with Metro Nashville. Mr. Swann stated there are no mandated internal audits for the Metro Nashville Government. In the past, the Office of Internal Audit had agreed to this when the director of the General Sessions Court Traffic School left employment.

Mr. Riebeling made the motion and it was seconded that the Office of Internal Audit facilitate this request and that the audit plan be revised accordingly.

The motion was seconded and carried.

Discussion on Lannie Holland, Metro Nashville Treasurer, request for Metropolitan Nashville Office of Internal Audit to conduct audits of hotel/motel taxes (Mark Swann – Metropolitan Auditor)

The Metro Nashville Treasurer, Lannie Holland, requested the Office of Internal Audit to consider hotel/motel tax audits in the Internal Audit Annual Work Plan. Performing hotel tax compliance audits could be continuous going forward or performed on a periodic basis.

Mr. Brannon asked if this request was to audit all 250 plus hotel/motels. Mr. Swann stated that the Office of Internal Audit is considering performing the audits on a rotation basis spread over multiple years. It is estimated that an audit of the top twenty hotels by number of room nights would provide coverage for close to 60 percent of the tax collections. The Office of Internal Audit recommended the use of analytics to prioritize hotel/motels for the Audit Pan.

Mr. Riebeling added this function has been moved back to the Finance Department from the Davidson County Clerk's Office. The Metropolitan Nashville Counsel at Mr. Riebeling's request moved the collection function for hotel/motel tax and certain liquor taxes that the Davidson County Clerk had been responsible for. Mr. Riebeling believed there needed to be some compliance audit of what is being done on the hotel collections. The Metro Nashville Government has a lot of things that are dependent upon hotel/motel tax collections, and Mr. Riebeling would like to make sure that Metro Nashville is receiving the correct tax amount.

The Office of Internal Audit has a calendar year work plan and will need to allocate resources to perform this type of audit work. Mr. Swann recommended 800 hours of work effort on this year's plan or the next twelve months for hotel/motel tax audits. Mr. Riebeling strongly recommended this be done in light of all the circumstances so there would be a base of effort required to audit all hotel/motels.

Mr. Swann stated part of the hours would be for establishing an effective audit work program. A lot of the time is required just coordinating the location of the records between local hotel properties and hotel management companies.

Ms. Dowell stated she believed the Office of Internal Audit should do this work and going forward adjust the methodology on which hotel/motels and how often based on the initial results. The Office of Internal Audit can establish a baseline and look at trends going forward that would provide an idea of future resource requirements.

Mr. Lockwood stated it may be possible that the Office of Internal Audit could do a joint project with Crossland & Associates, P.C. for these types of audits.

Ms. Dowel made the motion to allocate 800 audit hours to go forward with doing some type of baseline audit of the hotel/motel tax and then establish a plan going forward.

Motion was seconded and carried. A status report will be provided at the next Committee meeting.

Old Business (Committee Chair)

Discussion on elected official part-time employee benefit participation eligibility (Margaret Darby – Metro Nashville Department of Law)

Margaret Darby provided a one page Memorandum referencing the “Follow up to the February 14th Audit Committee meeting wherein an inquiry related to the audit of the Davidson County Clerk’s Office concerning part-time employee benefits was raised.”

Ms. Darby reported that a permanent part-time employee who works a minimum of 20 hours a week is eligible to participate in the benefit system and that would also be 720 hours a year; it is a fiscal year apparently (referring to the Memorandum Ms. Darby handed out to attendees). According to the minutes, if you look at it in note three, in 1965, they said “A permanent part-time regular employee is eligible to participate in the Metro Employee Benefit System.” But apparently from 1965 to 1990 that was applied kind of sporadically and not consistently so in 1990 they said specifically that if you are a 20 hour week employee then you are eligible. There is no definition in the Metropolitan Nashville Charter or Code about this; it’s an interpretation from the Benefit Board.

It was generally agreed that something needs to be in the Metropolitan Nashville Code about who’s eligible for benefits.

Metropolitan Nashville Public Schools Teacher Retirement Plans (Mark Swann – Metropolitan Auditor)

The next follow-up item was a question about the Metropolitan Nashville Public Schools teacher’s retirement plan. The question was should internal audit be considering the teachers’ retirement plan as part of the internal audit work plan and universe. In the last meeting nobody had a definitive answer for what was happening with teachers’ retirement funds.

Mr. Swann reported all of the funds go to the State, the Tennessee Consolidated Retirement System. One member mentioned that there are some older teachers who are under the old plan. But the original question was what about the money going to the State-the \$40 million plus that the Metro Nashville spends a year. This amount is a small piece of the \$33 billion fund balance. Probably on a population census wide, the Metro Nashville Public Schools teachers represent eight to ten percent of all the teachers in the plan.

Audit of Nashville Electric Services by State Comptroller’s County Audit Division (Mark Swann – Metropolitan Auditor)

The State of Tennessee Comptroller’s Local Government Audit Division is still performing this audit.

Follow-up on external auditor presentation FY 2011 CAFR (Bob Brannon – Committee Chairman)

The FY 2011 CAFR review will be closed.

Metro Hotline Status

Carlos Holt reported that the Office of Internal Audit had a total of 15 reports this year; the Office of Internal Audit has one still open. Most of them are small in magnitude. We've had one or two that somebody asked us to help them on. General Services asked us to help them on one. Most have been resolved at the department head level.

Internal Audit Project Status

The Internal Audit Project Status report was provided to all Committee members present.

Other Administrative Matters

- FY 2012 Budget versus Actual Report - The Office of Internal Audit should come out about 20 percent under budget for 2012.
- FY 2013 Budget - The Office of Internal Audit received a one percent cut in the final budget. However, the Office of Internal Audit was allowed to carry forward \$70,000 for management consulting for next year.

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

No items were discussed.

Adjournment

The next meeting is scheduled for Tuesday, September 25, 2012.