

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

September 10, 2013

On Tuesday, September 10, 2013, 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
Seth Hatfield, Internal Auditor
Sonny Lyons, Human Resources
Theresa Costonis, Department of Law
Rachelle Gallimore-Scruggs, Department of Law

Committee Member Absent

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 July 9, 2013, were approved.

New Business

Discussion on Metropolitan Auditor 2014 recruitment and recommendations for the term July 1, 2014, through June 30, 2022 (Bob Brannon – Committee Chairman, Theresa Costonis – Department of Law, Sonny Lyons – Metro Human Resources Department)

Ms. Costonis briefed the Committee on the process that should be followed for the upcoming selection of Metropolitan Auditor. Ms. Costonis stated that the Metropolitan Nashville Charter 8.121 provision was straightforward. There is a process spelled out for the selection of the Metropolitan Auditor that involves the Committee identifying three qualified candidates. A majority of the Metropolitan Council will select one of those candidates or, if none are chosen, require the Committee to find three more qualified candidates. Ms. Costonis stated that it is advisable that Human Resources be utilized for the selection process as they have the resources and are objective.

Mr. Reed asked what would happen if the Committee could not find three candidates.

Ms. Costonis explained that the charter uses the word “shall” so three candidates would need to be found.

Sonny Lyons presented the job description for the Metropolitan Auditor to the Committee. Mr. Lyons requested the Committee review the job description to determine if any changes need to be made. Mr. Lyons briefed the board on the services that were provided during the previous selection process. Mr. Lyons stated that Human Resources would be willing to help with the process again if called upon.

There was a discussion as to whether a resolution or ordinance was needed for the appointment and it was agreed that would need to be clarified before the next meeting. There was a discussion as to what the timeframe for the selection process should be. Richard Riebeling suggested the candidates be delivered to the Metropolitan Nashville Council in April before the budget discussions begin.

Mr. Lyons stated that the goal would be to post the position in January, go through the interview process in February and March, and deliver the candidates to Metro Council in April.

Ms. Dowell asked if there is a certain amount of time a job posting is left out.

Mr. Lyons stated it depends on the position and what is agreed upon with the Department posting the position. He stated that 30 days is too long and that 10 days to two weeks is better.

Mr. Lyons said he would be at the December Committee meeting and any changes to the job description should be completed by that time.

A motion to use Metro Nashville Human Resources for the Metropolitan Auditor selection process was carried.

Discussion on request to amend current Internal Audit Work Plan to include an audit of Metro Water Services Flood Buy-out Program (Mark Swann – Metropolitan Auditor)

Mr. Swann explained that allegations were made to the Deputy Director of Finance about some improprieties involving the Flood Home Buyout Program. Mr. Swann stated that Scott Potter, Director of Metro Water Services, requested an audit be performed of the program in order to get the highest level of assurance. Mr. Swann stated the allegations of fraud would be investigated as part of the audit.

There were no questions about the amendment.

Mr. Glover motioned for the amendment of the audit plan. Ms. Dowell second. Motion carried.

Discussion on Audit of Information Technology Services Telecom Services audit report issued July 12, 2013 (Mark Swann – Metropolitan Auditor)

Mr. Swann noted that the Audit Committee received a letter stating an audit of Information Technology Services Telecom had been completed. The report was restricted because it involves infrastructure that supports the police department and other government entities. Mr. Swann stated that there was an issue with the disaster recovery plan being incomplete. The audit found that Information Technology Services is doing a good job at verifying the rates on contracts that are used for billings. Mr. Swann stated the departments are responsible for ensuring that all lines billed to them are lines being used for governmental services. Mr. Swann stated he doesn't know if the departments are actually performing this check, but explained it

was an area that would be looked at in the future. There were no questions about the audit from the Committee.

Discussion on Audit of Nashville Fire Department Grant Administration report issued July 26, 2013.

Mr. Swann explained the audit was initiated at the request of Fire Chief Billy Lynch. Mr. Swann stated that five grants and a TennCare agreement related to EMS reimbursements were reviewed, totaling \$9.6 million. Mr. Swann stated that these were primarily SAFER grants used for staffing, equipment, and training. Mr. Swann noted that the Fire Department is in compliance with the grant terms, but needs to document the grant process and implement procedures for managing grants. Mr. Swann stated that the grant applications were not being reviewed by Metro Legal, Metro Finance, or Metro Council prior to submission.

Mr. Brannon asked why they were not being reviewed.

Mr. Swann stated they were not submitted for review, but were reviewed by Metro Council after the grants were accepted.

Mr. Riebeling explained that the request should be brought before Metro Finance and Metro Legal before submission to ensure everyone is on board.

Mr. Swann stated that the Fire Department agreed to complete this step going forward.

Mr. Swann explained that the department was using the wrong rates labor but this was caught during the review process and corrected before the end of the grant period.

There were no other questions from the Committee.

Discussion on Audit of Metropolitan Development and Housing Agency Procurement-to-Pay Process audit report issued August 2, 2013 (Mark Swann – Metropolitan Auditor

Mr. Swann explained that an audit was completed of the Metropolitan Development and Housing Agency (MDHA) procurement process and a follow up of the 2009 audit by Kraft CPAs. Mr. Swann noted that all recommendations from the 2009 audit report had been implemented. MDHA processed \$194 million in payments in a two year audit period. Mr. Swann explained that Section 8 payments were included in that figure but were scoped out of the audit. There was an issue that came up since the audit concluded¹. Mr. Swann explained that there were no issues with their procurement process. Mr. Swann stated 75% of employees have a procurement card and had about \$7 million in P-card transactions during the audit period. Mr. Swann stated that no irregularities were observed with the use of P-cards but a recommendation was made to help strengthen their review process. It was recommended that those higher in the department not have P-cards since their transactions are not being reviewed. Mr. Swann stated that improvements to strengthen controls around their Yardi computer system were recommended in the report and accepted by MDHA.

Mr. Reibeling asked if Section 8 was scoped out by Internal Audit or MDHA.

¹ Subsequent to approval of the September 10, 2013 Minutes it was determined that this issue was communicated in error by Mr. Swann. The issue did not involve the Section 8 program. The matter has been reported to the the State of Tennessee Comptroller's Office and the Metropolitan Nashville Police Department.

Mr. Swann stated that Internal Audit scoped it out due to the size of Section 8 and because it is reviewed by the Federal Government.

Ms. Dowell asked if we would do an Audit of Section 8 due to the issue that arose after the audit.

Mr. Swann explained that the issue was reported to the State Comptroller's Office so it may be handled by the state or it could be turned over to Metro Internal Audit.

There were no other questions about the audit.

Discussion on Hotel Occupancy Taxes for Fiscal Year 2013 audit report issued August 22, 2013 (Mark Swann – Metropolitan Auditor)

Mr. Swann explained that 18 hotels were audited during Fiscal Year 2013 and found that less than half a percent of taxes were underpaid. There have also been four hotel audits completed during the current fiscal year, including one that was underpaid over \$56,000.

Mr. Brannon asked if the hotel operator would be financially able to pay that amount.

Mr. Swann stated that he collected the tax originally so he should be able to pay. Mr. Swann stated that he could not determine if it was deliberate or not. The hotel operator may have had someone in his organization pointing him in the wrong direction which is why the hotel audits are important.

Discussion on Audit of Clerk and Master audit report issued August 28, 2013 (Mark Swann – Metropolitan Auditor)

Mr. Swann explained that the audit of the Clerk and Master focused on revenue collection and expenditures. The Office of Clerk and Master collects \$2 million a year and spends about \$1.5 million a year. Recommendations included improving their reconciliation process, leave time tracking, training, and use of technology.

Mr. Brannon asked who the funds held in trust belonged to.

Mr. Hatfield explained that the funds involved in Chancery Court cases are held until the case is resolved.

Mr. Brannon asked if there were any problems with the funds held in trust.

Mr. Swann stated that no problems were found.

Committee survey results and annual confirmation of responsibilities outlined in the Metropolitan Nashville Audit Committee Bylaws (Bob Brannon – Committee Chairman, Mark Swann – Metropolitan Auditor)

Mr. Swann briefed the Committee on results of the survey which had four respondents. Effectiveness of the Committee, internal auditors, and external auditors were ranked highly. An area of improvement included having Metro management and external auditors engaged in the

risk assessment process. Another Committee member requested more exposure of the final Comprehensive Annual Financial Report (CAFR) to the entire Metropolitan Nashville Council.

Mr. Swann presented the FY 2013 Audit Committee Confirmation of Responsibilities to the audit Committee. Mr. Swann stated that the audit Committee met all expectations during the 2013 fiscal year.

Motion for the acceptance of the FY 2013 Audit Committee Confirmation of Responsibilities carried.

Annual assessment of Metropolitan Auditor's performance (Bob Brannon – Committee Chairman)

Mr. Swann explained that an assessment of the Metropolitan Auditor's performance was required by the Metropolitan Nashville Charter. An additional clarification was added to the assessment which stated that unused accrued and earned vacation time will be paid to the Metropolitan Auditor upon termination.

Motion for the acceptance of the annual assessment of the Metropolitan Auditor carried.

Mr. Reed complemented the new audit report implemented by Metro Internal Audit. Mr. Reed stated it was much more readable and was well laid out. Mr. Swann complemented Lauren Riley, who was instrumental in changing the report format.

Bylaws annual review (Bob Brannon – Committee Chairman)

Mr. Brannon asked if there were any comments or suggestions after reviewing the bylaws.

There were no comments or suggestions raised by the Committee.

Old Business

Fiscal Year 2014 Hotel Occupancy Tax audits (Mark Swann – Metropolitan Auditor)

Mr. Swann summarized the hotel audits that have been completed to date. 22 hotel audits have been completed covering close to \$70 million in revenue. Mr. Swann explained that net claims totaled close to \$100,000. The hotels are being given credit for overpayments during the three year audit period. Mr. Swann explained to the Committee that most of the hotels were owned by small business entrepreneurs and the auditors are working hard to cooperate with them. Mr. Swann stated that there is the possibility that the owners could be upset about the audits and requested the Committee contact him if anything comes up.

Follow-up on external auditor presentation FY 2012 CAFR, Single Audit, and Management Letter (Bob Brannon – Committee Chairman)

Mr. Brannon stated that the Committee received copies of fiscal year 2012 CAFR, Single Audit, and Management Letter. Mr. Brannon asked if there were any additionally comments about the documents.

There were no questions.

Motion for the acceptance of the external auditor presentation fiscal year 2012 CAFR, Single Audit, and Management Letter carried.

Metro Hotline Status and Investigation Reports (Mark Swann – Metropolitan Auditor)

Mr. Swann noted that the Office of Internal Audit receives one to two hotline calls a month. Fifteen hotline calls were received this year and two of those calls are still open.

Internal Audit Project Status (Mark Swann – Metropolitan Auditor)

Mr. Swann explained that 12 out of 17 audits in the audit plan have been completed. There are seven audits in the field work or draft stage. Mr. Swann informed the Committee that they could expect four or five reports before the next audit Committee meeting.

Other Administrative Matters (Mark Swann – Metropolitan Auditor)

FY 2014 Budget

Mr. Swann stated that the Office of Internal Audit is currently under budget.

Audit Committee Member Training

Mr. Swann reminded the Committee members that sexual harassment and diversity training was required of all Committee members. Mr. Swann stated that only three members have completed this training.

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

Mr. Brannon stated that the external auditor presentation of the Metropolitan Nashville Fiscal Year 2013 Comprehensive Annual Financial Report would be a large part of the next meeting.

Meeting adjourned after 45 minutes.

The next meeting is scheduled for Tuesday, December 10, 2013.

Approved as revised at the October 22, 2013, Metropolitan Nashville Audit Committee meeting.