

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

October 8, 2013

On Tuesday, October 8, 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, Councilmember
Steve Glover, Councilmember

Others

Mark Swann, Metropolitan Auditor
Carlos Holt, Audit Manager
Bill Walker, Internal Audit
Theresa Costonis, Department of Law
Mike Curl, Office of the Metropolitan Nashville Council
Hank Clay, Metropolitan Nashville Public Schools

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 September 9, 2013, were approved.

New Business

Discussion on the request to amend the current Internal Audit Work Plan to include a comprehensive audit of the Metropolitan Nashville Public Schools.

Mr. Swann stated that the Office of Internal Audit had received a request by the Metropolitan Nashville Council to perform a comprehensive performance audit of the Metropolitan Nashville Public Schools. Subsequent to this request, Mr. Swann met with Mr. Rebeling (Metropolitan Nashville Finance Director), Dr. Register (Director of Metropolitan Nashville Public Schools), and Chris Henson (Metropolitan Nashville Public Schools) to discuss the request and the possible scope and financing mechanism for the audit. Mr. Swann stated all parties are agreeable and welcoming of the audit. Mr. Swann then discussed previous audits conducted within the Metropolitan Nashville Public School system subsequent to the last comprehensive audit conducted in 2001 by MGT. Numerous audits and management consulting engagements have been conducted which were less in scope than the MGT audit but did cover a wide range of functional areas within the school system. Mr. Swann reviewed the listing of management

consulting and audit reports contained in the Committee Workbook, page 27. A brief discussion was pursued regarding some of the recommendation of these audits.

Councilmember Glover inquired how the audit request from the Metropolitan Nashville Council compared to the 2001 MGT audit. Mr. Swann referred the committee to page 28 of the Workbook which outlines the scope of work as requested by the Metropolitan Nashville Council and what is typically seen in these type audits. Mr. Swann also advised that the MGT audit project was a comprehensive audit with 230 recommendations being made. Of the 230, 205 were implemented as of 2006.

Mr. Riebeling advised one of the primary challenges to developing a scope of work is that you have 40 members of the Metropolitan Nashville Council, one Mayor, many people with a large variance in what they expect to look at in this audit. Mr. Swann referred the Committee back to page 28 of the Workbook to review a potential scope of work.

Mr. Swann advised he believed this audit to be time sensitive. Councilmember Dowell concurred and discussed how the primary objective of this audit should be to determine and assess how effective MNPS is utilizing available funding and how funding is allocated, particularly per school. For example, if the District is spending certain dollars per child, how much of this amount is for direct education, transportation, maintenance, and so forth. Councilmember Glover advised he believed that when looking at these numbers, one must consider things like transportation as being part of the education delivery bucket.

Councilmember Dowell's primary concern about MNPS was how effectively is appropriated funds being utilized and how much of it actually gets filtered down to the delivery of educational services to the child.

Councilmember Dowell stated the audit should look at what type of services could be contracted out, are staffing levels too high, and so forth. Councilmember Dowell indicated that she is asked by constituents why funding amounts vary per school. She advised there may be a good reason for the variance but she currently cannot answer the question. Mr. Swann advised that a system possibly could be put in place that provides that information and the external auditors, as part of their annual audit plan, could provide assurance that the information provided is reasonable. Councilmember Dowell also advised that such information would be useful in answering constituents' questions about where the money is going (there are complaints that the kids are not seeing all of the additional funding), why funding levels vary from school to school (there are complaints about a variance in resources between schools), and comparison of private school cost to public school cost for example, a specific school may spend \$9,000 per student and a local private school may charge \$5,000 per year. What are the differences in these costs?

Councilmember Glover warned that a debate could ensue over what constitutes education delivery services. Transportation costs, for example, may be viewed as administrative cost by some but in his mind it should be education delivery because you have to get a child to school to teach them. Councilmember Dowell agreed but advised Metro needs to know that transportation cost is reasonable. Councilmember Dowell wants to know how we optimize the funding to maximize the amount going to direct education. Councilmember Dowell advised knowing the difference between direct cost and indirect cost would be vital information.

Mr. Swann referred to a copy of an audit conducted at Anchorage, Alaska that addresses some of these issues. Mr. Swann advised the scope could be divided into two buckets; how does

MNPS compare in relation to best practices and identifying and ascertaining the efficacy of how funding is being allocated per child.

Mr. Swann discussed the need for the committee to approve any modification or addition to the formal Internal Audit Annual Work Plan. Mr. Swann suggested that before such an approval was granted a determination of the scope should be made. After which, an RFP could be generated with a solicitation of bids to follow. Once bids began filtering in, the Committee could assess the cost of the audit. Mr. Riebeling stated that limited funding was available to conduct the audit. Mr. Swann stated that the scope of the audit could be broken down into smaller, more manageable areas with vendors being given the opportunity to bid on individual scope segments and make bids to conduct all scope items in their entirety. Once all the various bids come in, the Committee could assess what Metro Nashville could afford and what scope of work would be desirable to pursue. Mr. Swann also suggested there could be individual segments that the Office of Internal Audit staff could perform and thus reduce cost.

The question was raised by Mr. Reed regarding how much enforcement power would the Committee have in regards to the final recommendations made from the audit report. Ms. Costonis advised the committee's enforcement power is limited. Operations of the Metropolitan Nashville Public School reside in the School Board. She advised that the Metropolitan Nashville Council has the power of the purse strings but that was about it. Mr. Glover cautioned the Committee that there may be unintended consequences to the recommendations. Moreover, a large sum of money could be expended to produce a report in which recommendations are not implemented.

Mr. Brannon inquired how long it would take to generate a scope of work and come up with a Request for Proposal. He suggested the possibility of forming a sub-committee to facilitate the process. Mr. Swann advised that potentially members of the Committee could be on the Request for Proposal evaluation committee. Mr. Swann advised the time to generate a Request for Proposal scope of work for Committee review would take about a week. Mr. Brannon advised he would like to see it by the next Committee meeting. Mr. Swann advised he would have the Request for Proposal at the next meeting but that it would not be enough time, given Metropolitan procurement policies, to have bids ready in that time frame.

Councilmember Glover reiterated the risk of unintended consequences and that one must be aware of the inherent, fundamental differences when looking at a school such as Julia Green and Harris Hillman. Councilmember Dowell suggested the need for a pie chart for each school to get an allocation of how money is being spent. She also suggested an evaluation of staffing levels for administrative type functions was needed. She wanted to see how much money was making it to the classroom. Mr. Swann advised that a similar audit from Anchorage, Alaska addressed some of those issues. Moreover, the Texas Comptroller's Office has a website whereby the citizenry can view information regarding how funds are being allocated. Both the Anchorage report and format of the Texas website might be something to be considered in the audit. Councilmember Glover advised that evaluations of different schools can be very complicated and challenging.

Mr. Riebeling stated he wanted the audit to go forward. The Office of Internal Audit was directed to conduct the necessary preliminary work to generate a proposed scope of work. A meeting would be set up at a later date for the Committee to review and approve the scope of work. The question was raised as to whether Committee members could discuss this audit between themselves before the next meeting. Ms. Costonis advised they could not speak to other committee members outside of an official, public meeting. However, they could discuss the audit

individually with Office of Internal Audit staff. Councilmember Glover stated that the scope of this audit could take over a year and that a time limit should possibly be part of the Request for Proposal. Mr. Swann advised that audits have been conducted in shorter time frame but at a higher cost.

Councilmember Glover asked about the time frame for a final report to be issued and how long did it take the 2001 MGT audit to be conducted. Mr. Swann advised the 2001 MGT audit took a year. Mr. Riebeling advised there are more readily available sources of information which may help facilitate the timeliness of the project. It was noted that the Metropolitan Nashville Council would like to see a final report prior to the fiscal year 2015 budget hearings. Mr. Swann advised the time frame of the report could be included in the Request for Proposal.

A motion for the Office of Internal Audit to generate a proposed scope of work that the Committee will review at a subsequent meeting was made. The motion was approved.

Old Business

Discussion on the status of audit project:

Mr. Swann advised there was little variance in project status for current engagements since the previous meeting on September 9, 2013. Several audits, four, had moved into the reporting phase. An audit report of the Metropolitan Citations Process will be released in the next couple of days. Mr. Swann referred the Committee to the section of the Workbook, page 37, which contained this information if they desired to review it.

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

Mr. Swann informed the Committee that audits on the Hotel Occupancy Tax were still underway. There are currently two large claims in the works totaling a range of \$40,000 to \$50,000. Total claims for fiscal year 2014 thus far appear to be close to \$100,000. Another audit is in the pipeline which could have potential claims in excess of \$130,000. Mr. Swann advised the collectability of this money may be an issue. Mr. Swann advised a common theme in conducting these audits is lack of appropriate supporting documentation. The Office of Internal Audit is attempting to utilize alternative audit steps, such as reviewing bank statements, to compensate for this lack of documentation. The lack of proper documentation is frustrating the anticipated time frame to complete these audits.

A legal issue has also developed regarding hotels who have transformed themselves into apartment complexes yet still, on occasion, house patrons whose length of stay is less than 30 days (patrons who stay over 30 days are exempt from paying the tax). The codes/laws governing classification of these issues varies for these entities in relation to the Codes Department and the Health Department. The Health Department, in form, does not view these entities as hotels. Consequently, some of the owners of these establishments have stopped paying taxes. Mr. Swann advised he was in the process of setting up a meeting between the Metropolitan Treasury Department, Legal Department, Health Department, and Codes Department to gain additional clarity on the subject.

Discussion on Metropolitan Auditor 2014 recruitment and recommendations for the term July 1, 2014, through June 30, 2022.

It was noted that nothing of significance had changed since the September 9, 2013, meeting. Mr. Swann advised that the job description presented at the last meeting could be reviewed for possible changes in the December 2013 Committee meeting. The Committee would make its recommendation and then present the candidate to be approved by the Metropolitan Nashville Council. Ms. Costonis concurred and advised she had reviewed minutes pertaining to the prior selection process. It was noted that a majority vote was needed by the Metropolitan Nashville Council to meet the confirmation requirements.

Meeting adjourned after 52 minutes.

The next meeting will be scheduled in the next few weeks.

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