

November 28, 2001

Metropolitan Council  
Room 102, Metropolitan Courthouse  
Nashville, TN 37201

Dear Members of the Metropolitan Council:

The Audit Committee of the Metropolitan Council would like to provide you with a brief report of recent Internal Audit results, as well as an outline of some of the audits and other Internal Audit initiatives in process. This letter will serve as such a report, which the Committee intends to provide to the full Council semi-annually.

#### Background on the Audit Committee

The Audit Committee was created by Council Resolution No. R91-1718 adopted May 21, 1991 and is composed of the Vice Mayor, two members of the Council elected by Council Members, one representative appointed by the Chamber of Commerce, and one representative appointed by the Tennessee State Society of Certified Public Accountants. All Audit Committee members serve one-year terms beginning on September 1. In addition to Vice Mayor Ronnie Steine, Council Members Craig Jenkins and Leo Waters are serving on the Audit Committee, as is Brack Reed, representing the Chamber of Commerce. I was appointed by the Tennessee State Society of C.P.A.'s.

The ongoing responsibilities of the Audit Committee are to review Internal Audit's annual schedule of audits; to review each audit report issued, including management's responses; and to periodically assess the implementation status of audit recommendations. With regard to the schedule of audits, Internal Audit updates an audit rotation plan annually. The plan includes all Metro departments and agencies, which are targeted for audit on a three to five year cycle, depending on risk and other factors. In order to keep this plan from becoming public, it has been the Committee's practice to have the Audit Committee Chair review the methodology for developing the rotation plan and the audit schedule in detail then report back to the Audit Committee, with the other members conducting their own individual reviews at their convenience.

#### Major Audits Completed in Fiscal Year 2001

- Pension Investments – The major benefits realized as a result of this audit include independent investment advice, reduced investment portfolio risk, and an employee deferred compensation plan that offers better returns to Metro employees. The reallocation of a portion of the portfolio out of more risky equities and into fixed income investments was timely, given recent events affecting the stock market. Those actions, coupled with renegotiated investment management fees and the implementation of trading shares on a competitive basis, saved the employee's pension fund over \$4 million in FY 2001. Savings of \$3.5 million have been

budgeted for FY 2002. Almost all of the recommendations in this audit have been implemented, and the others are in process.

- Benefit Board – The audit report included several recommendations to improve operations, customer service, and financial controls, as well as recommendations to improve disability pension management, enhance benefits offered to employees, and reduce the cost of benefits and the risk of abuse. Reducing the level of consulting services as recommended in the audit saved the pension fund over \$750,000 in FY 2001, without impacting the level of service to employees or pensioners. Savings in consulting fees of \$500,000 have been budgeted for FY 2002. The organizational audit recommendations have been implemented, as have several recommendations surrounding financial and other controls and customer service. Benefit-related recommendations are currently being considered by the Study and Formulating Committee, and other recommendations that will take longer to implement are in process.
- Schools – The audit report presented several strategies to enhance educational service delivery, update instructional and administrative technology, and operate more efficiently. The audit report recommended a total of over \$35 million in savings and revenue enhancements over the next five years that could be reallocated to fund educational and other needs. The FY 2002 budget the Metropolitan Board of Education presented to the Mayor and Council incorporated the majority of savings recommended for implementation in FY 2002, which totaled over \$2 million. Most administrative recommendations have been implemented, as have several educational recommendations. The new Director of Schools has expressed his commitment to addressing the audit report recommendations as he moves forward.
- Bordeaux Hospital – Several areas for cost savings were identified, in addition to opportunities to increase revenues and enhance financial controls and reporting. Audit recommendations identified \$3.9 million in annual savings that could be achieved once they are fully implemented, and the FY 2002 budgeted reflected \$2 million in savings. Management is in the process of implementing the audit recommendations.
- MTA – The audit report identified several operational areas that needed to be significantly enhanced, including long-range planning, budgeting, financial reporting, marketing, capital planning, and information technology. The Board has taken several actions to implement the audit recommendations, including an aggressive search for an executive director. This function had previously been left to the contractor that runs the bus operations, which the audit report identified as a practice that was not in MTA's best interest.
- E911 – The most significant findings of this audit pointed out the need for a reorganization to establish a single point of responsibility for emergency communications and the need for a new facility with a revised disaster recovery plan. Several other operational and performance enhancements were recommended. To date, an implementation task force has addressed several of the recommendations and is working toward a reorganization proposal to submit to the Mayor. Additionally, the Mayor has committed to developing an enhanced disaster recovery back-up plan as part of the next capital budget.

## Audits and Other Internal Audit Initiatives in Process

- Within the next few days, a report on the audit of Metro-wide fleet operations will be released. As previously reported to the Metropolitan Board of Education, the audit uncovered several mechanical conditions that could have resulted in unsafe vehicles being in operation. I also understand that the audit will recommend several changes that will result in significant savings and other enhancements to Metro's fleet operations.
- Audits of the Police Department, the Nashville Speedway, and the Beer Board are underway, and an audit of Public Works will begin in the next couple of weeks. Three other audits are planned to begin this year.
- Internal Audit is providing assistance in several management initiatives throughout Metro. These include: the treasury management study implementation, Water & Sewer re-engineering and acquisitions, the upcoming purchasing study, web-enabled and other information technology initiatives, and Headstart strategic planning. These are areas where incorporating the knowledge base and financial/control perspective of the Internal Audit staff into various critical initiatives will enhance the effectiveness and efficiency of the end results.
- This year Internal Audit began a proactive audit implementation monitoring program that is designed to provide implementation assistance to departments, as needed, while monitoring the progress departments make toward implementing audit recommendations. As a result, Internal Audit is continuing to remain fairly heavily involved with the Benefit Board, MTA and E911 audit implementations. Metro's investment in the audit program is significant, and this implementation monitoring effort will help ensure that Metro realizes the benefits of its audit program. In FY 2001, the cost of outside consultants Internal Audit contracted with was approximately \$1.4 million, while the actual savings realized in FY 2001 were \$4.7 million. The Audit Committee members have reviewed the calculations behind these savings and feel that they were conservatively calculated.

Please feel free to contact me or any other member of the Metropolitan Council Audit Committee if you would like further information on the contents of this report or on any other audit matter.

Sincerely,

Robert C. Brannon, Chair  
Metropolitan Council Audit Committee

Copy: Mayor Bill Purcell  
David Manning  
Kim McDoniel  
Richard V. Norment, Director of County Audit