

**BILL PURCELL
MAYOR**



**DEPARTMENT OF FINANCE
INTERNAL AUDIT SECTION**

**METROPOLITAN
GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY**

**222 3RD AVENUE NORTH, SUITE 401
NASHVILLE, TENNESSEE 37201
Telephone: (615) 862-6110
FAX Number: (615) 862-6425**

May 27, 2004

Members of the Metropolitan Council
Metropolitan Government of Nashville and
Davidson County
Metro City Hall
225 Polk Avenue
Nashville, TN 37203

Dear Council Members:

Each year the Metropolitan Council Audit Committee presents a brief report of Internal Audit results to the Council, and we would like to present this report summarizing the impacts the performance audit program has had over the past year. In addition to Vice Mayor Howard Gentry, Council Members Buck Dozier and Jim Shulman are serving as Council representatives on the Audit Committee. Brack Reed represents the Chamber of Commerce on the Committee, and I represent the Tennessee State Society of CPA's. Any Audit Committee member would be happy to discuss the contents of this report with you.

Performance Audits Completed in Fiscal Years 2001 and 2002

Many performance audit recommendations continue to produce benefits long after the audits are issued. Additionally, the nature of many recommendations is such that full implementation is often a long-term process. Following are some of the more significant current year impacts of the performance audits issued during the 2001 and 2002 fiscal years.

- The **Pension Investments** audit has been fully implemented for over a year and continues to positively impact the employee benefits system. As a result of improvements in the consulting arrangement and in monitoring the investment managers, the fund saved \$4.7 million in commissions and fees during 2003, bringing the total savings and recoveries resulting from this audit to \$21.3 million.

- Enhancements to the practices surrounding employees injured on duty (IOD) were among the improvements recommended in the **Benefit Board** audit. Last year an IOD Provider Network was established to better support injured employees. In addition, the Board is now receiving independent medical advice from a new Civil Service Medical Examiner.
- In the current year, a Fuel Study and a Vehicle Utilization Study have been completed as recommended in the **Fleet** audit. The Fuel Study included recommendations that will significantly enhance Metro's fragmented fuel operations, and the Vehicle Utilization Study recommendations will further reduce the size of Metro's fleet and enhance the efficiency and effectiveness of vehicle assignments and use. Recommended reductions of 193 vehicles represent \$3 million in capital and are expected to result in annual operating savings of \$350,000.
- The **Public Works** audit recommendations have continued to be implemented, and their information technology strategic plan has been completed.
- The **Police** audit implementation is continuing to progress. Notably, a staffing study was completed this year. The study concluded that an appropriate level of resources has been dedicated to the Police Department.

Performance Audits Completed in Fiscal Years 2003 and 2004

Following are highlights of the more significant findings and recommendations reported by Internal Audit since our last report to the Metropolitan Council.

- The **Convention Center and CVB** audit reported that the Convention Center compares very favorably to its peers, which is particularly notable given that the peers are the primary convention facility in their cities. Nashville has two convention facilities, and the Convention Center is the secondary, smaller facility. Overall, Nashville has more exhibit space than the peers. The audit recommended a full cost benefit analysis of expanding or replacing the Convention Center, and that study is underway through a contract being managed by Internal Audit. The audit also recommended improvements in the governance of the CVB to enhance accountability, and those improvements have been made.

- An audit of the **Gaylord Entertainment Center** found that the facility was well run and that there was compliance with the material terms of the related contracts in place. Those contractual arrangements, however, are not comparable to those of peers. Generally, facility operators are required to assume the risk of operating losses when there is common ownership between tenant teams and the facility operator. The negative financial impact on Metro is compounded by the Predators having more favorable lease terms as compared to peer teams.
- In addition to recommending several operating and efficiency improvements, the **Codes** audit reported that the fees had not been reviewed in several years and that Metro was not recovering all costs associated with inspections. As a result, a fee analysis was conducted under Internal Audit, and Metro will begin collecting well over \$1 million in additional fees annually to cover the cost of inspections.
- An audit of the **Planning Department** identified the need to clarify Metro's development philosophy and to improve interdepartmental coordination of the development management process. Similar to the Codes audit, the report also recommended a fee analysis that has resulted in recommendations that could generate over \$250,000 in additional annual fees.
- Internal Audit recently released a performance audit report on Metro's **Printing and Postal Operations**. The audit found that Metro's equipment was inadequate, resulting in very high cost. A recommendation to consolidate over 57 outside printing vendors and the in-house printing operation through a competitive proposal process is expected to save over \$190,000 annually. Additionally, recommendations to streamline mail delivery and take advantage of US Postal Service discounts available by pre-sorting mail by zip code are expected to save over \$60,000 annually.

Other Recent and Current Audit Work

Internal Audit has just issued the first annual Performance Measurement Certification Report for the eleven Metro departments that are reporting performance results under the Results Matter managing for results initiative. That report summarizes the key result measures reported by each of those eleven departments, along with Internal Audit's conclusions and findings after testing the reliability of selected measures for each department.

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Over the past year Internal Audit has issued several other performance audit and special reports, including audits of the Juvenile Court Clerk, the Sheriffs Office, the Teachers' Pension Investment Fund, and Social Services, and special reports on the capacity of the emergency radio communication system, on cell phones, and on streamlining the process used by Police to book suspects into jail. Performance audits on General Hospital and Radio operations are currently in process.

I have attached a spreadsheet prepared by Internal Audit summarizing the actual cost savings and revenues resulting from implementing audit recommendations to date, which I have reviewed. The cost savings and revenues for the 2003 fiscal year totaled \$8.5 million, and the cumulative savings and revenue for audits completed since 2001 total \$32.8 million. I have also attached a summary of the recommendation implementation status of past audits that Internal Audit recently presented to the Audit Committee.

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

Sincerely,

Robert C. Brannon, Chair
Metropolitan Council Audit Committee

Attachments

Copy: Mayor Bill Purcell
David Manning
Kim McDoniel
Richard V. Norment, Assistant to the Comptroller

Performance Audit Return on Investment
Fiscal Year Ending June 30, 2003 Actual Results

Updated May 2004

Performance Audits	Report Issue Date	Cost of Consultants	Cumulative Recommended Savings/Revenue Through June 30, 2003	Actual Results Achieved				
				Cost Savings/Revenue During June 30, 2001	Cost Savings, Revenue, Recovery During June 30, 2002	Cost Savings/Revenue During June 30, 2003	Cumulative Through June 30, 2003	Cumulative Over/(Under) Recommended
Completed FY 2001:								
Benefit Board - Investments	March 2000	\$ 213,616	\$ 5,010,000	\$ 4,018,660	\$ 12,618,663	\$ 4,693,445	\$ 21,330,768	\$ 16,320,768
Benefit Board - Operations	December 2000	105,718	2,100,000	773,000	265,092	87,000	1,125,092	(974,908)
Schools	January 2001	499,570	11,189,768	-	1,544,287	1,254,313	2,798,600	(8,391,168)
Bordeaux Hospital	April 2001	174,692	6,809,000	-	2,600,000	1,636,000	4,236,000	(2,573,000)
E-911 System	April 2001	235,000	-	-	-	-	-	-
MTA	May 2001	158,184	200,000	-	-	-	-	(200,000)
Completed FY 2002:								
Fleet Management	November 2001	367,202	274,371	-	124,730	181,000	305,730	31,359
Beer Board (100% staffed by IA)	April 2002	-	-	-	-	-	-	-
Public Works	May 2002	189,500	194,526	-	-	181,917	181,917	(12,609)
State Taxes	May 2002	80,000	3,000,000	-	2,364,000	491,993	2,855,993	(144,007)
Police Department	May 2002	462,000	-	-	-	-	-	-
Completed FY 2003:								
Disability Monitoring - Kroll	September 2002	309,000	-	-	-	-	-	-
Convention Center / CVB	February 2003	70,000	-	-	-	-	-	-
Gaylord Entertainment Center	March 2003	60,000	-	-	-	-	-	-
Municipal Auditorium	March 2003	35,000	4,600	-	-	4,600	4,600	-
Parks (100% staffed by IA)	June 2003	-	-	-	-	-	-	-
Codes Administration	June 2003	127,000	-	-	-	-	-	-
Completed FY 2004 to date:								
Juvenile Court Clerk (100% IA)	August 2003	-	-	-	-	-	-	-
Sheriff's Office (100% IA)	August 2003	-	-	-	-	-	-	-
Planning Department	December 2003	166,000	-	-	-	-	-	-
Teachers Pension Investments	January 2004	100,000	-	-	-	-	-	-
Printing and Postal	April 2004	144,750	-	-	-	-	-	-
Vehicle Utilization	May 2004	168,410	-	-	-	-	-	-
Social Services	To be Issued	197,000	-	-	-	-	-	-
Totals - Through Fiscal Year 2003		\$ 3,862,642	\$ 28,782,265	\$ 4,791,660	\$ 19,516,772	\$ 8,530,268	\$ 32,838,700	\$ 4,056,435

Cumulative Return on Investment - All Performance Audits

850%

**Performance Audit Implementation Status
Updated May 2004**

	Number of Recommendations			Cumulative Savings/Revenue Through June 30, 2003	Cumulative Actual Savings Over/(Under) Recommended	Comments
	Made	Implemented Through 2003	Implemented Through 2004			
<u>Completed FY 2001:</u>						
Benefit Board - Investments	38	38	38	\$ 21,330,768	\$ 16,320,768	Includes the \$10 million PaineWebber settlement
Benefit Board - Operations	44	29	37	1,125,092	(974,908)	Implementation is still progressing, except for certain injured on duty and return to work recommendations.
Schools	230	158	179	2,798,600	(8,391,168)	Implementation is progressing except for teacher incentives to stay in low performing schools. Unrealized savings/revenue are due primarily to: not assigning principals on formula (\$833,000), state delaying TennCare reimbursements (\$1,120,000), not eliminating certain personnel staff (\$354,000), not abolishing instructional prep pay (\$442,000), not reducing absenteeism (\$382,000), not fully implementing fixed asset and inventory efficiencies (\$438,000), not enhancing maintenance productivity (\$265,000), not implementing full building usage fees (\$1,034,000), delaying an energy savings program (\$888,000), and increasing bus routes (\$1,982,000).
Bordeaux Hospital	8	6	8	4,236,000	(2,573,000)	Implementation is progressing, reducing the General Fund subsidy for positive cash flow has been delayed
E-911 System	8	4	6	N/A	N/A	Implementation is progressing
MTA	48	24	32	-	(200,000)	Implementation is progressing, determined earlier grant collection is not feasible
<u>Completed FY 2002:</u>						
Fleet Management	65	38	45	305,730	31,359	Implementation has stalled, future savings could be delayed. Search for new director has begun.
Beer Board	5	1	4	N/A	N/A	Implementation is progressing
Public Works	68	30	46	181,917	(12,609)	Implementation is progressing
State Taxes	N/A	N/A	N/A	2,855,993	(144,007)	No more savings will be realized from Hall
Police Department	106	N/A	79	N/A	N/A	Implementation is progressing

**Performance Audit Implementation Status
Updated May 2004**

	Number of Recommendations			Cumulative Savings/Revenue Through June 30, 2003	Cumulative Actual Savings Over/(Under) Recommended	Comments
	Made	Implemented Through 2003	Implemented Through 2004			
<u>Completed FY 2003:</u>						
Disability Monitoring - Kroll	20	N/A	6	N/A	N/A	Board has not implemented all recommendations that would enhance return to work and reduce the risk of abuse of the system
Convention Center	8	N/A	7	N/A	N/A	Implementation is progressing
Convention Visitors Bureau	12	N/A	7	N/A	N/A	Implementation is progressing
Gaylord Entertainment Center	27	N/A	9	N/A	N/A	Implementation is progressing
Municipal Auditorium	12	N/A	8	4,600	-	Implementation is progressing
Parks	17	N/A	6	N/A	N/A	Implementation is progressing
Codes Administration	20	N/A	7	N/A	N/A	Implementation is progressing
<u>Completed thru November 2004:</u>						
Juvenile Court Clerk	16	N/A	7	N/A	N/A	Implementation is progressing
Sheriff's Office	24	N/A	7	N/A	N/A	Implementation is progressing