

June 11, 2003

Mr. Curt Garrigan, Interim Parks Director  
Members of the Metropolitan Board of Parks and Recreation  
Centennial Park Office  
Nashville, TN 37201

### **Report of Internal Audit Section**

Dear Mr. Garrigan and Board Members:

We have recently completed a performance audit of the Department of Parks and Recreation. According to the *Government Auditing Standards* issued by the Comptroller General of the United States, “a performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.” A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance.

### **Background**

The Department of Parks and Recreation Department is responsible for the supervision, control and operation of the parks and recreation system of the Metropolitan Government. With a mission to provide every citizen of Nashville and Davidson County with an equal opportunity to safe recreational and cultural activities within a network of parks and greenways, the Parks department operates 100 parks and 21 community centers, and manages approximately 10,000 acres of parkland. The Department is administered by a Director of Parks who reports to a seven-member board appointed by the Mayor and confirmed by the Metropolitan Council.

Parks and Recreation Department is organized into seven operating units with two of the units further delineated by divisions as described below.

Administration, Research & Planning - Administers the department's personnel, budget and accounting needs. It also provides and coordinates research, planning, construction and development of land within the park system. It oversees and inspects the construction of new projects, major renovations and repairs, while operating the central storeroom and receptionist functions. It also coordinates facility use and permit issuance.

Consolidated Maintenance:

*Structures/Facilities Division* – Maintains and enhances functionality of the department's physical structures. The division works with various agencies to coordinate needed repairs and construction projects including new facilities. Some of the facilities the division maintains include swimming pools, athletic field lighting, community centers, and special use facilities. The division also maintains electrical and water systems within the park system.

*Grounds Division* – Provides accessible, clean and safe grounds, athletic fields and playgrounds. In addition to maintaining parks and public grounds, it provides support to special events including crafts fairs and the Steeplechase.

*Landscaping Division* – Responsible for planting and maintaining all of the trees, shrubs and flowers within the parks, downtown urban area and Stadium grounds. The division maintains a 16,000 square foot greenhouse for growing plants used in fall and spring plantings, in addition to the maintenance of tropical plants for special events.

Recreation:

*Sports/Athletics Division* – Provides sports programs on a year-round basis for Metro citizens. They also plan, schedule and coordinate organized participatory sporting events. Additionally, the division recruits, hires, trains, compensates and oversees work of various sports officials.

*Cultural Division*– Provides cultural arts classes, concerts, performances, art gallery space and historic sites for public use and enjoyment. The division provides special events, educational and various skill development classes, and also operates the Parthenon and Two Rivers Mansion.

*Community Centers and Special Programs* – Operates Community Centers throughout Davidson County. Plans, schedules and coordinates activities and provides upkeep and maintenance of Community Center buildings and administrative offices. The division assesses recreational needs of the community, operates senior citizen centers and provides programs for disabled citizens. In cooperation with the Friends of Warner Park, it also oversees the use of Warner Park.

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Special Services - Provides recreational services on a fee basis in the areas of golf, tennis, physical fitness, ice-skating and swimming. This group operates and maintains major recreational and sports facilities including the Sportsplex, Wavepool, Tennis Center, community swimming pools, Hamilton Creek sailboat marina, golf courses, as well as coordinating summer youth camp.

Beautification And Environment - Advises, recommends, and coordinates plans with Metro Government departments to create a clean and attractive living environment. Coordinates Adopt-a-Highway, Adopt-a-Street, Bag-a-Thon clean up, community clean-up day and neighborhood bulk item pick-up. Staff assists in coordinating the activities of the Metro Beautification and Environment Commission, Metro Tree Advisory Committee, Vegetation Control Board, and the Vacant Lot program.

Greenways - Plans, develops and manages the countywide greenways program working with the Greenways Commission, Citizen Advisory Committee and a non-profit "friends" group-Greenways for Nashville. Development of greenways includes acquiring land and easements; identifying and obtaining funding; overseeing design and construction plans of consultants; coordinating environmental review clearances; and monitoring construction. Major projects include Shelby Bottoms, Beaman Park, Stones River and Whites Creek. There are potentially 210 miles of greenways within Nashville of which approximately 14 miles of trails have been constructed, much of which is located in the Shelby Bottoms Greenway. During 2003 another 19 miles is scheduled to be constructed on various routes.

Park Rangers And Safety - Responsible for protection of the park grounds and structures. The unit enforces the policies as established by the Park Board; enforces local, state and federal laws on Park property; and operates a mounted patrol unit. It also oversees departmental programs such as OSHA, ADA, Hazardous Chemical Program, and Employee Substance Abuse and Testing program.

Key financial and operational measures for fiscal year 2002 and 2003 and current full-time equivalent employees (FTE's) for the Parks and Recreation Department are as follows:

	FY 2002 <u>Actual</u>	FY 2003 <u>Budget</u>
<u>General Fund revenues</u>		
Program revenue	\$7,278,328	\$6,955,500
Non-program revenue	191,859	197,500
Transfers from other funds/units	<u>538,595</u>	<u>540,000</u>
Total revenue & transfers	<u>\$8,008,782</u>	<u>\$7,693,000</u>
 <u>General Fund expenditures</u>		
Personal services	\$20,295,596	\$20,811,054
Other services & expenses	<u>6,094,049</u>	<u>6,552,996</u>
Total operating expenditures	<u>\$26,389,645</u>	<u>\$27,364,050</u>

	FY 2002 <u>Actual</u>
<u>Revenue by Division</u>	
Administration	\$ 674,723
Recreation	848,538
Special Services	6,435,387
Maintenance	5,725
Rangers & Safety	<u>44,409</u>
Total Revenue	<u>\$8,008,782</u>

Parks largest revenue sources for fiscal year 2002 were as follows:

Green fees	\$4,082,000
Sportsplex	1,572,000
Wave Pool	367,000
Athletic fees	316,000
Parthenon	263,000
Boat slip rental	175,000
Tennis fees	107,000

	FY 2002 <u>Actual</u>	# of <u>Positions</u>
<u>Expenditures &amp; FTE's by Division</u>		
Administration	\$ 1,441,622	24
Maintenance	8,025,894	169
Recreation	6,925,225	177
Special Services	8,386,781	452
Beautification & Environment	243,617	5
Greenways	164,231	3
Rangers & Safety	1,191,333	21
Miscellaneous	<u>10,942</u>	
		Pool * <u>320</u>
Total Operating Expenditures and FTE's	<u>\$26,389,645</u>	<u>1171</u>

\*Pool employees are part-time officials, scorers, and instructors.

	FY 2002 <u>Actual</u>
<u>Special Revenue Funds</u>	
Revenues	\$1,839,605
Expenditures	2,831,046
Assets	914,669
Fund Balance	608,550
 <u>Capital Projects Funds</u>	
Expenditures	\$6,222,002

Key Annual Operating Statistics (FY 2003)

Number of Parks / Acres	100 / 10,237
Ball diamonds and fields	117
Tennis courts	175
Playgrounds	90
Bulbs planted	150,000
Trees and Shrubs planted	400
Golf attendance	475,000
Tennis attendance	18,000
Public pool attendance	165,000

The Park's Master Plan was issued in the summer of 2002 and represents the first comprehensive study of the existing park and recreation resources and facilities, as well as the current greenway efforts. The Plan addressed maintenance, improvement, and expansion issues for Metro's parks and recreation areas. The Plan also provided a detailed assessment of supply and demand for Park services and facilities, including suggestions regarding pricing and marketplace product positioning for key revenue generating activities. Cost estimates for capital expenditures were developed by the planners based on current conditions and an assessment of programmatic needs. Facilities and program development recommendations were prioritized based on criteria including: areas underserved, existing needs, demographic trends, participation rates, and the needs of special groups. In short, the Plan will guide future development of the parks and greenways system to meet Metro's changing needs.

### **Objectives, Scope and Methodology**

The primary objectives of this performance audit were as follows:

- Review key operating and financial processes.
- Evaluate key operating and financial controls.
- Examine compliance with Metro's and Park's policies and procedures and with laws and regulations applicable to Parks.
- Verify Parks implementation of prior internal audit recommendations.
- Develop findings and recommendations for any areas where performance could be improved.
- Describe any instances of non-compliance with laws and regulations, or any instances of fraud, abuse, or illegal acts noted.

The scope of the work included key operational and financial aspects of the Parks and Recreation department. The audit focused on fiscal year 2002 operational and financial results and also on key policies, procedures and practices in place during the time the audit was conducted. In doing so, we noted that prior internal audit recommendations had been satisfactorily implemented. Certain analyses required the consideration of financial and operational results outside of this time period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, Board minutes and various other forms of data, reports and information maintained by Parks and Recreation and other Metro departments. Management, administrative and operational personnel from Parks and Recreation, and personnel from other Metro departments were interviewed, and various aspects of Park's operations were directly observed.

We performed the audit procedures in accordance with generally accepted government auditing standards.

### **Findings and Recommendations**

1. Accounting processes for cash and revenue settlement need enhancement.

We examined the cash and revenue settlement and processing for multiple operations throughout the Parks system, including a detailed analysis of these processes at the Metro Sportsplex. The review included various deposit and cash handling procedures, as well as the processing of accounting detail that supports this activity. Golf operations were also reviewed and are discussed in a separate section below. Based on our review of the various revenue and cash operations we noted the following:

- While bank deposits overall are being made in a timely manner, the supporting documentation providing account detail is not submitted to Metro Finance on a timely basis. This detail is important in order to properly reconcile account balances. Delays in providing this detail creates large unreconciled balances for the Metro Finance staff to resolve. Audit testing on a sample of 16 deposits processed indicated that revenue information is frequently submitted for entry into FASTnet five working days or more after making the bank deposit. Account detail for ten of the days tested were submitted between six and sixteen working days after the date of the bank deposit. The remaining five days were submitted within five working days. Additional audit testing of deposit submissions from other Park revenue sources had similar results.
- Shortages (and overages) resulting from daily cash operations across Parks are not handled in a consistent manner. While shortages and overages are a normal part of operations in any cash-handling environment, procedures to monitor and manage this activity should be clearly and uniformly established. During our review of various Park cash handling operations we did not find any unusual activity. We did, however, note a lack of consistency in the levels established for unacceptable shortages, reimbursement procedures to re-establish appropriate funding levels to cash drawers, and aggressive tracking and reporting of shortages (overages).
- There is inadequate investigation and collection of aged outstanding billings for Park tours conducted through various tour operators, primarily those conducted at the Parthenon. Approximately \$2,600 out of a total receivable balance of \$3,136 is six months or more past due. The oldest amount dates back to 1997.

- There is a lack of segregation of duties between the issuance of permits for use of Park facilities, the collection of these fees, and the reconciliation of this activity. Annually, Parks generates approximately \$4,000 in fees and permits.
- Accounting support for Special Services needs to be increased. Additionally, Parks maintains duplicate accounting records to track financial results by key operating units. This has resulted in the Board receiving financial reports with balances that are different than the final balances per FASTnet. Although these amounts are relatively minor, duplicate accounting systems create additional reconciliation work.

### Recommendations

Parks and Recreation Accounting should improve the timeliness of submitting revenue collection information to Metro Finance to record daily cash deposit activity. The department should also develop and implement improved procedures for monitoring and reporting cash overages and shortages throughout the Park system. Additionally, the accounts receivable balance for Park tours should be aged and managed more aggressively and the segregation of duties and accounting support issues noted above should be addressed. Finally, Parks accounting staff should continue working with Metro Finance to eliminate the need to maintain the duplicate accounting system.

2. Certain established programs and practices should be examined to determine opportunities to enhance Park's financial performance.

We examined certain practices and programs at the Metro golf courses and believe there are some which should be re-examined by Parks management and by the Board.

- There were over 7000 courtesy (free) rounds played on Metro Courses during FY 2002 representing approximately 2% of total adult rounds played and representing a value of approximately \$65,000, excluding the "rounds-for-work" volunteer program. Courtesy rounds are given to Council and Parks Board members and to others as approved by the Parks Director or assistant director, or as approved by the golf director. These courtesy rounds tend to be played on the more popular Metro courses and, at least anecdotally, are concentrated during the weekends when tee times are sometimes difficult to obtain. This would indicate that a reasonable percentage of these free rounds are supplanting paid rounds. While the courtesy round program is well established and has been approved by the Parks Board in the past, consideration of certain modifications might enhance golf revenues. For example, limiting courtesy rounds during busy peak times would ensure they are not replacing paid rounds on the more popular Metro courses.

- The current structure of the Park golf membership program, while simple to administer, favors the heavy use players and tends to be more flexible than membership programs in other cities surveyed. The flat fee program in place provides an increasing level of discount for each successive round played. While the membership program is well established and has been properly approved, consideration of certain modifications might enhance golf revenues. For example, by offering different levels of membership the overall discount structure could be managed more effectively.
- Metro should consider a more flexible pricing plan at area courses. While maintaining the spirit of providing an affordable, quality golf experience for all participants, a slightly modified pricing scheme would reflect the reality of market supply and demand among the various courses and times (day/week/season). This was also a recommendation in the Master Plan.
- A pricing discount of approximately 8% is offered for annual payment of Marina slip fees, as opposed to the normal monthly charge. This is a longstanding practice, but we were unable to determine that this discount had been approved by the Park Board.

#### Recommendation

Parks and Recreation should examine the above and other fee practices to determine whether modifications should be made to enhance revenues while meeting Park's mission.

3. Planning and operating objectives, inventory management procedures, and golf business system solutions need to be improved for the Municipal Golf Pro Shops.

Metro Parks and Recreation operates seven municipal golf courses located within Davidson County. Each course contains a clubhouse and pro shop and is open for year-round operation. Our review focused on the administrative aspects of the golf operation, including proshop and inventory management. We also examined key aspects of the point of sale (POS) system, the CLASS system, currently in use at the Golf facilities (and Parthenon) and its applicability for future use in the Park system.

- We noted an absence of clear strategic and operational planning for the golf proshop businesses. We also noted a lack of operational goals and objectives typical of a retail environment. These might include market share objectives, product line mix targets, store profitability goals, shop merchandise layout standards, inventory turn and shrinkage goals. In developing plans for the retail proshops, format changes and possible outsourcing options should be considered as strategic alternatives. Additionally, decisions related to the new POS system currently under consideration should be postponed until clear goals and a related plan for the proshop operations are established.
- Key inventory management and accounting procedures for the golf pro shops, including proper accounting for excess and obsolete inventory, were lacking. Normally, an accounting provision is maintained to reflect the reality that a certain percentage of retail merchandise is excessive or obsolete (E&O). No such provision is calculated for the approximately \$150,000 of retail inventory maintained within the Metro proshops. Therefore, the Parks balance sheet is overstated to the extent of the E&O inventory, and the cost of operating the shops is understated. Operationally, E&O inventory management should be part of retail markdown (discounting) policies and practices. Parks lacks the planning and control normally found in a retail environment. Each clubhouse manager approached this practice individually with little coordination across the various facilities.
- We also noted a lack of inventory shrinkage tracking and reporting. Inventory loss from theft, damage, and poor shipping and receiving procedures (“shrink”), is normally a carefully monitored operational measure in retail environments. For the Parks department, costs associated with shrinkage are not computed and are simply included in the overall cost of sales calculation computed through the use of periodic physical inventory counts.
- We calculated inventory turnover statistics for the proshop inventory. This statistic is a standard measurement for assessing the effectiveness of an organization’s inventory management. It is the ratio of cost of goods sold to the average inventory balance and is a measure of how quickly inventory is converted into sales. We determined that the turnover for the total proshop inventory is less than 1.5 times annually. While this may be acceptable in a high profit margin retail store, it is low for most retail establishments. It is frequently useful to analyze inventory groupings to determine where inventory turn may be a particular problem. As an example, we performed this calculation for product groupings from the golf inventory and determined that the inventory of golf bags turned substantially less than one time for fiscal year 2002. Among other things, this low turnover may indicate that there is inadequate demand for certain golf products at the Park’s proshops, that the overall inventory balance is too high, and that Parks should discontinue carrying certain slow-moving items. It could also indicate that there is a significant amount of excess and obsolete inventory on hand, poor merchandise planning, or some combination of these and other factors.

- During our observation of physical inventory counting at certain proshops we noted that counters had access to on-hand inventory balances. Counters should count inventory “blind”, without access to on-hand system balances.
- We conducted a limited review of the Class System POS application. Overall we noted that this system is not designed to be a comprehensive golf business system. The CLASS system lacks adequate inventory management capability, membership functionality, automated tee time scheduling, gift certificate and rain check capabilities, and other key features of a modern golf management business system.

#### Recommendation

Parks should develop key strategic and operational goals and objectives for the golf pro shop business through the Results Matter strategic planning process. In the interim, Parks should begin to enhance inventory management practices. Once a strategic plan is developed through Results Matter, Parks should work with Metro’s Business Solutions group to explore the feasibility of acquiring a comprehensive golf management system.

#### 4. The maintenance work order process needs improvement.

Parks and Recreation operates a Maintenance Department providing support for all Metro Park facilities. Internal Audit reviewed the current work order process by examining the outstanding maintenance and landscaping work orders as of November 21, 2002 and the work orders completed for November through that date, as well as conducting a detailed analysis of a sample of work orders. Work orders outstanding at November 21, 2002 totaled 543, and 121 work orders had been completed through November 21. We also examined the automated Work Order system to determine if the system sufficiently supported the maintenance and landscaping functions. As a result of this review we noted the following:

- There were 116 work orders listed as remaining open at the end of November aged between 6 and 12 months old. There were 56 open work orders between 12 and 24 months old, 32 open work orders between 24 and 36 months old, and 17 work orders older than 36 months old. It should be noted that open work orders often represent requests that are not funded. Work orders can be opened based on requests from employees at any level of the department. Additionally, it is likely that some of this work has been completed or assigned to another department but the related work orders have not been closed.

- The maintenance management and work order system is not optimal to support a large-scale maintenance function. The system does not contain adequate warranty, preventive maintenance, location description, or other necessary data. Similarly, the system does not easily prioritize workflow, or facilitate adequate aging, follow-up and closure of work orders.

#### Recommendation

The Parks and Recreation Maintenance department should work with the Metro Business Solutions group to explore options related to the current work order system and processes in order to address the weaknesses noted. Work orders should be prioritized and categorized based on available funding and based on appropriate levels of management approval. Additionally, the Department should examine the current maintenance plan to ensure the effective alignment of maintenance resources with the Master Plan and Park's overall goals and objectives. Consideration of preventive maintenance, centralized versus de-centralized organization structures, use of dedicated support for key facilities, and possible outsourcing of certain functions should all be examined in order to achieve the most effective and efficient maintenance function.

5. Procurement card policies and procedures need to be re-enforced through training for Park employees.

We examined Parks Department compliance with procurement card policies and procedures by sampling approximately 100 procurement card transactions from the period May 2001 through June 2002, representing approximately \$50,000 out of a population of approximately 10,000 transactions totaling \$2.2 million. Based on our review, we noted the following:

- None of the eight monthly statements examined for one cardholder were reviewed by the cardholder as required by Metro policy. They were reviewed by the cardholder's supervisor.
- Eleven of the 30 detail transactions selected for an individual cardholder had unauthorized signatures on the receipt. We also noted on three invoices a vendor notation indicating the credit card information was on file.
- We also noted an example of one purchase totaling \$1,200 split into two \$600 invoices by the vendor, effectively bypassing the \$1,000 single purchase limit.

### Recommendation

Parks and Recreation should ensure that Park users of Metro procurement cards understand and adhere to Metro procurement card policies and procedures. Additionally, Parks should consider canceling the cards associated with multiple users and with the split purchase noted above. At a minimum, additional central monitoring and review of these cardholders should be required in the future.

6. The administration of the Parks & Recreation payroll function needs improvement.

We examined the Parks payroll function primarily by selecting a sample of 22 employees out of a population of approximately 1000 for the latest full calendar year. From this initial sample, additional testing was performed on detail time reports and time sheets. Tests were performed to ensure compliance with Metro policies and procedures, as well as efficient and effective operations. Based on our examination we noted the following:

- Overtime pay was calculated incorrectly for one employee examined. Vacation hours were added to timesheets beyond a normal eight-hour workday, resulting in overtime pay computed as earned for the period. This occurred in 19 time sheets out of 52 examined for this employee. The approximate cost of this overtime was \$1,200.
- In a separate case, compensatory time was calculated incorrectly by adding compensatory time to hours worked in order to generate approximately 14 hours of compensatory time earned for the same period. This occurred in two timesheets out of 24 examined for the employee.
- Three of 17 monthly time reports examined showed incorrect rates of vacation accruals. Errors in rates resulted in both over and under accruals.
- There are six houses located on Park properties that are rented to Park employees. These employees pay rent that is reduced by a housing credit, in recognition for the additional duties associated with this arrangement. The credit is based on a market value rental assessment conducted during the 1996 fiscal year.

### Recommendations

Parks should address the specific issues noted above and improve the overall controls over payroll processing to prevent future occurrences of similar errors. Additionally, the housing credit for Park property rentals should be re-assessed based on current market data, and a policy should be established requiring periodic review of these rates in order to ensure appropriate tax treatment for employees.

7. Parks should develop guidelines that more carefully define the relationships and responsibilities between the various “Friends” groups and the Metro Parks Department.

During the course of our review we examined the nature and operating relationships between the Metro Parks department and the various “Friends” organizations operating in Davidson County. Many of these organizations are large, well funded and well organized entities, while others are smaller and more loosely organized and operated. For example, the Friends of Warner Parks, Inc., provided Parks with audited financial statements that showed net assets over \$1.8 million as of December 31, 2001. Friends of West Park, by contrast, do not provide regular financial reports. During our review we noted that the Parks Department did not maintain a master list of these organizations, or monitor their governance structures, fund raising practices, ongoing objectives and initiatives, or financial statements. Additionally, there are no policies in place to guide in the establishment of these organizations. As a result, it is unclear what kinds of activities and functions are acceptable for these groups to undertake. While these Friends organizations are associated with Metro Parks, the degree of Park employee involvement allowed is also unclear.

#### Recommendation

Parks and Recreation should develop policies to guide Friends organizations and improve the management of ongoing relationships with these groups. Additionally, Parks should work with the Metro Finance department to determine if any of the Friends organizations should be included as component units in Metro’s comprehensive annual financial statements.

8. Storeroom and lumberyard functions should be examined and streamlined to fit Park requirements.

The Parks department maintains a storeroom that contains material for many Park functions including the community and recreation centers, golf shops and the maintenance department. In total, there is approximately \$150,000 of inventory maintained in this facility. The department also maintains a lumberyard that houses approximately \$12,000 of lumber used for Park maintenance. Our review of these operations revealed the following:

- We examined the established order quantity guidelines for the storeroom inventory by sampling 285 items out of a population of approximately 700 and found that over 70 were outside the order quantity boundaries, both above and below the guidelines.

- There is no inventory shrinkage or, excess and obsolete inventory analysis performed. Periodic physical counts of the inventory are performed and these counts appeared accurate.
- The inventory balance is maintained on an application running on Metro's mainframe computer, which is being phased out.
- Access to the lumber storage area is largely uncontrolled, and there is inadequate supervision of the inventory of supply stock and issuance of material.

Recommendation

Parks should assess the extent to which these storeroom functions can be eliminated. Given the procurement card program and other procurement options, it is unlikely that the storeroom function will be necessary in the future, especially if Parks were to change the golf pro shop retail operation. Parks should work with the Business Solutions group to develop inventory tracking alternatives for any storeroom inventories that cannot be eliminated.

9. Parks and Recreation should continue to develop plans to address security for the expanding greenway system.

During our review of the Park Ranger function we noted that the department was in the preliminary stages of developing short and long-range plans to address meeting the security requirements of the expanding greenway system and that additional funding for staffing and vehicles was requested in the 2003-04 budget. This planning will be crucial to help ensure safety and security along the greenway corridors.

Recommendation

Parks should continue to develop a security plan for the expanding greenway system. A comprehensive plan should address issues related to modes of transportation for Park patrol and emergency vehicles, patron communications needs, allocation of security resources, and other safety and security issues.

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Management responses to the audit recommendations follow this report.

We greatly appreciate the cooperation and help provided by all of the management and staff of the Parks and Recreation department throughout the course of this audit.

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

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Internal Audit Manager

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