

BRACKNEY REED
METROPOLITAN NASHVILLE
AUDIT COMMITTEE CHAIRMAN



OFFICE OF INTERNAL AUDIT
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METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

February 12, 2019

Members of the Metropolitan Nashville Council
Metropolitan Government of Nashville and Davidson County
Metro Courthouse
Nashville, Tennessee 37201

Annual Report to Council

The Metropolitan Nashville Audit Committee is presenting its annual report to the Metropolitan Council highlighting some of the audit work completed between February 2018 and January 2019 as well the implementation status of previously completed internal audit projects.

For this period, the Metropolitan Nashville Audit Committee was comprised of then-Vice Mayor David Briley, Vice Mayor Jim Shulman, Council Members John Cooper, and Bob Mendes, Metropolitan Nashville Government Director of Finance Talia Lomax-O'dneal, Brackney Reed, who represents the Chamber of Commerce and Charles Frasier, who represents the Nashville Chapter of the Tennessee Society of CPAs.

Please feel free to contact any Metropolitan Nashville Audit Committee member about the contents of this report or about any audit matter.

Crosslin PLLC External Audit

The Metropolitan Nashville Audit Committee reviewed and accepted the Metropolitan Government of Nashville and Davidson County Comprehensive Annual Financial Report for the year ended June 30, 2018, without any exceptions noted.

Office of Internal Audit Projects Completed

The Office of Internal Audit issued 17 audit reports providing 109 recommendations for improving Metropolitan Nashville Government processes during this period. A summary of the audit reports begins on page seven of the enclosed report. All of these reports, along with other reports issued in previous years, can be found at the Office of Internal Audit's website at <http://www.nashville.gov/internal-audit>.

Office of Internal Audit Accomplishments

- Conducted 17 audits that included 109 recommendations for improvement were identified with a 96 percent acceptance rate.
- Accommodated Metropolitan Nashville Council and management requests pertaining to:
 - Then-Mayor Barry's Travel and Security Detail Overtime Investigation
 - Metro Water Services Fire Hydrant Inspection, Flow Testing, and Maintenance
 - Collier Engineering Investigation
 - General Sessions Traffic Court
 - Metro Nashville Public Schools Financial and Budget Matters
 - Metro Equal Employment Opportunity EEO-4 Survey Process
 - Register of Deeds Office
 - Hotel Occupancy Tax
- Selected 7 hotels representing \$1.6 million in hotel occupancy taxes for audit. Determined from revenue and room night data that over \$27 thousand had been underpaid and was referred to the Metropolitan Treasurer for collection.
- Completed 3 requests for investigation of fraud, waste, and abuse issues.
- Processed duplicate payment reports on behalf of the Metropolitan Nashville Government Department of Finance.

Summary of Office of Internal Audit Recommendations Implementation Status Audits Issued Between April 2007 and January 2019

Audit entities were asked to provide implementation status for accepted audit recommendations for 177 reports issued since March 2007. Out of the 1,469 accepted recommendations, 1,251 (85 percent) were reported as implemented.

I hope you find this report informative and that you will contact us with any questions or issues related to external or internal audit efforts within the Metropolitan Nashville Government.

Sincerely,



Brackney Reed

Enclosure

cc: Mayor David Briley
Members of Metropolitan Nashville Audit Committee
Mark Swann, Metropolitan Auditor

METROPOLITAN NASHVILLE OFFICE OF INTERNAL AUDIT



INTERNAL AUDIT PERFORMANCE REPORT
February 1, 2018, through January 31, 2019



Report to Metropolitan Nashville Audit Committee

February 12, 2019

Members of the Metropolitan Nashville Audit Committee
Metropolitan Government of Nashville and Davidson County
Metro Courthouse
Nashville, TN 37201

Members of the Metropolitan Nashville Audit Committee:

The Metropolitan Nashville Office of Internal Audit is pleased to present its performance report highlighting accomplishments and audit work completed between February 1, 2018, and January 31, 2019. During this period the Office finished 17 performance audits, 7 hotel tax audits, and 3 investigations.

Since the Office reconstituted as an independent agency in 2007, over 1,647 audit recommendations have been reported to improve the Metropolitan Nashville Government. This past year 96 percent of the 109 recommendations to improve government services were accepted by management with implementation plans. Also, the Office accommodated eight requests for audit services from Metropolitan Nashville Government management and the Metropolitan Nashville Council.

The content of these reports are at www.nashville.gov/internal_audit. A summary of the audit projects completed starts on page 7. Please note the breadth of audit coverage accomplished over the past five years as shown on page 17. It is my hope that you find this report to be a valuable resource and you will contact us with any questions or concerns related to the Metropolitan Nashville Office of Internal Audit.

I appreciate the Metropolitan Nashville Audit Committee's strong, continued support of the internal audit function.

Sincerely,

Mark S. Swann
Mark S. Swann
Metropolitan Auditor

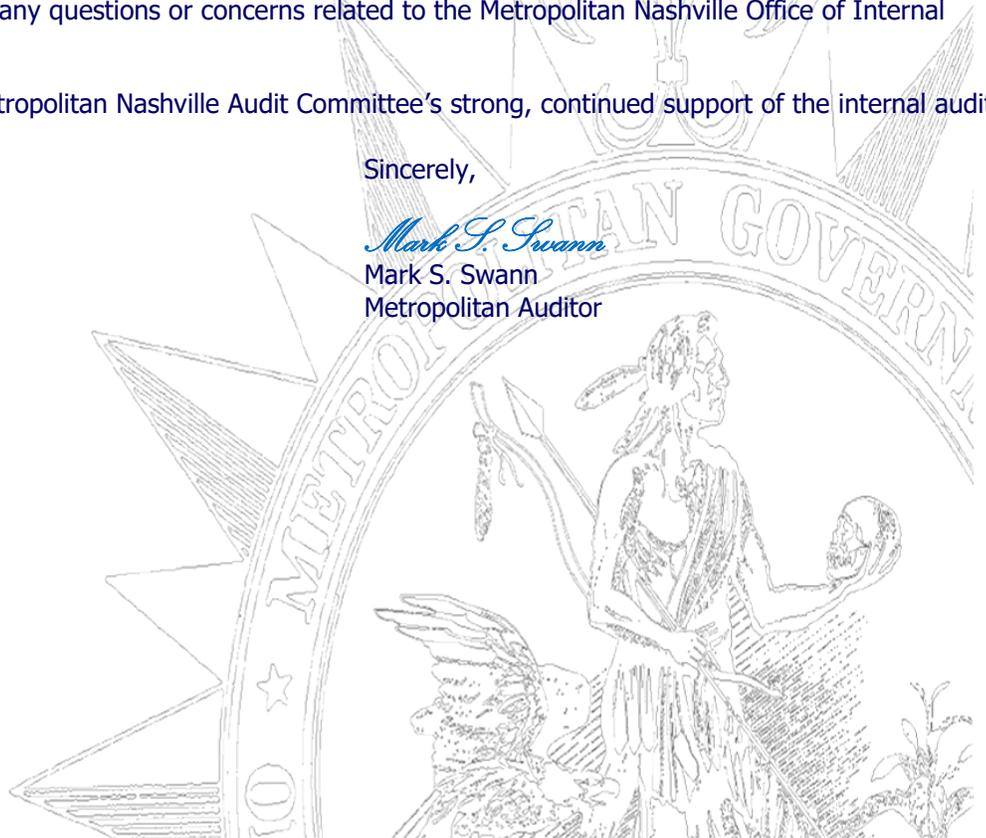




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Our Mission

The Office of Internal Audit is an independent appraisal agency established to ensure and enhance the integrity, equality, accountability, effectiveness, and efficiency of service activities and to pursue an atmosphere of honesty and mutual trust within the Metropolitan Nashville Government.



Our Accomplishments

- Conducted 17 audits where 109 recommendations were identified with a 96 percent acceptance rate.
- Selected 7 hotels representing \$1.6 million in hotel occupancy taxes for audit. Determined from revenue and room night data that over \$27 thousand had been underpaid and was referred to the Metropolitan Treasurer for collection.
- Completed 3 requests for investigation of fraud, waste, and abuse matters.
- Processed duplicate payment reports on behalf of the Metropolitan Nashville Government Department of Finance.
- Accommodated 8 Metropolitan Nashville Council and management requests pertaining to:
 - Then-Mayor Barry’s Travel and Security Detail Overtime Investigation
 - Metro Water Services Fire Hydrant Inspection, Flow Testing, and Maintenance
 - Collier Engineering Investigation
 - General Sessions Traffic Court
 - Metro Nashville Public Schools Financial and Budget Matters
 - Metro Equal Employment Opportunity EEO-4 Survey Process
 - Register of Deeds Office
 - Hotel Occupancy Tax

Reporting Structure





Metropolitan Nashville Audit Committee Members

Representing	2017– 2019
Vice Mayor	Jim Shulman
Council Representative	John Cooper
Council Representative	Bob Mendes
Director of Finance	Talia Lomax-O'dneal
Nashville Chapter of the Tennessee Society of CPAs	Charles Frasier
Nashville Area Chamber of Commerce	Brackney Reed

Metropolitan Nashville Audit Committee

The Office of Internal Audit reports directly to the Metropolitan Nashville Audit Committee. This reporting structure fully complies with independence standards required by the American Institute of Certified Public Accountants, the Institute of Internal Auditors, and United States Government Accountability Office.

The Office of Internal Audit strives to meet the Committee’s expectations for integrity, objectivity, and independence by applying professional auditing standards to all engagements. This office is committed to functioning professionally and efficiently in all business matters.

The Metropolitan Auditor meets with the Metropolitan Nashville Audit Committee at least quarterly to discuss audit reports released during the previous quarter. The Committee also approves the annual internal audit work plan and reviews the Metropolitan Nashville Government annual financial reports with the external auditors.

Meeting agendas and minutes are posted on the Metropolitan Nashville Audit Committee’s website at: <https://www.nashville.gov/Government/Boards-and-Committees/Committee-Information/ID/51/Metropolitan-Nashville-Audit-Committee.aspx>



Internal Audit Staff



Mark Swann, CPA, CIA, CISA, ACDA, CMFO
Metropolitan Auditor
Abilene Christian University,
BBA-Accounting



James Carson, CIA, CFE
Senior Auditor
University of Tennessee, BS Finance;
Louisiana Tech at Ruston, MBA



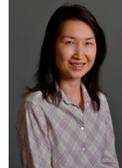
Bill Walker, CPA, CIA
Principal Auditor
Middle Tennessee State University,
BS-Public Administration



Innocent Dargbey, CPA, CMFO
Senior Auditor
Higher Institute of Economics, BS Finance & MS Finance; University of Oklahoma, MBA



Lauren Riley, CPA, CIA, ACDA
Principal Auditor
Mississippi State University,
BS-Accounting; University of Alabama,
MAcc



Nan Wen, CPA
Internal Auditor II
Hefei Economy & Technology Institute,
BS-Accounting; University of Sydney,
MS-Accounting; Saint Joseph's University,
MS-Computer Science



Seth Hatfield, CPA, CIA, CFE
Senior Auditor
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Laura Henry, CFE
Internal Auditor II
St. Ambrose University, BA-Management; Roosevelt University, MS-Accounting Forensics



Mary Cole, CPA, CISA, CFE, CGFM
Senior Auditor
Western Kentucky University,
BS-Accounting and Masters Public Accountancy



Ted Ciuba
Internal Auditor I
University of Tennessee,
BS Finance and MBA, Finance

Former Internal Audit Staff



Qian Yuan, CISA, CIA, ACDA, CMFO
Principal Auditor
Western Kentucky University,
BS-Accounting and MS-Computer Science

Professional Credentials

- CPA** - Certified Public Accountant
- CIA** - Certified Internal Auditor
- CFE** - Certified Fraud Examiner
- CMFO** - Certified Municipal Finance Officer

- CISA** - Certified Information Systems Auditor
- CGFM** - Certified Government Financial Manager
- ACDA** - ACL Certified Data Analyst



Summary of Performance Audit Projects



Metropolitan Transit Authority Revenue Collection Process (03/01/2018)

Why Audited:

The audit was conducted due to the importance of ensuring all revenue collections are managed and are available for public mobility services.

What We Found:

Cash receipts are accurate and deposited timely. Responsibilities are segregated, but controls could be strengthened around custodial transfers of cash within the Music City Central ticket window. Advertising sales and passenger counts have enhanced controls around the revenue collection process.



Audit of Development Incentives Managed by Metropolitan Development and Housing Agency (03/30/2018)

Why Audited:

The audit was initiated to ensure that public and private stakeholders' interests are protected through defined goals, transparency, and accountability when incentivized development occurs.

What We Found:

MDHA is actively taking steps to improve the transparency and general stewardship regarding its use of tax increment financing. No instances of non-compliance with state and local statutes were observed.

Audit of the Office of Family Safety (04/03/18)

Why Audited:

The audit occurred due to the Office of Family Safety not being audited since its creation in 2015.

What We Found:

The Office of Family Safety has improved their controls since the department was created in July 2015. However, controls for retention of credit card transactions, benefit leave time processing, and the collection of donations need to improve.



Metro Office of Family Safety



**Audit of Information Technology Services
Software Asset Management
(05/02/2018)**

Why Audited:

The audit was conducted to ensure effective management of software assets as an essential part of cybersecurity.

What We Found:

Governance structure over software asset management exists. However, consistent practices and detailed procedures and plans did not exist to provide guidance for software asset management.



**Metro Nashville Public Schools Purchasing
Card Program
(08/01/2018)**

Why Audited:

The audit was conducted due to the size and inherent risk around purchasing card programs. No audit of the program had been performed previously.

What We Found:

The Metro Nashville Public Schools have generally implemented purchasing card policies effectively. Controls are in place to provide assurance that purchasing card transactions are appropriate, approved, and recorded in the general ledger. However, inconsistencies were noted in performance, documentation retention, and reconciliation sign off.

**Oracle E-Business Suite R12.2
Implementation Interim Report
(08/17/2018)**

Why Audited:

The audit was conducted due to the significant role the software will play in financial reporting and daily business practices.

What We Found:

Oracle E-Business Suite R12.2 has standard controls built into the system, which need to be configured or customized by developers to satisfy Metropolitan Nashville Government's specific needs. The Project Delivery Platform was not being used as described in the CSS Business Plan, which is incorporated as part of the implementation contract.





Department of Finance Procurement Division (08/17/18)

Why Audited:

The audit was requested by the Director of Finance due to the important role the procurement cycle plays in the financial health of the Metropolitan Nashville Government and to ascertain if taxpayer dollars are being spent in the best interest of the community.

What We Found:

The system of quality control to ensure consistent compliance with the Metropolitan Nashville Government Code of Laws related to procurement and Procurement Regulations needs improvement. Between July 1, 2015, and June 30, 2017, \$135.5 million (10 percent of total) of disbursements for supplies, services, and construction were not associated with a purchase order or a supplier with a contract.

Metro Nashville Public Schools Financial Matters (08/20/2018)

Why Audited:

The audit was initiated at the request of two Metro Nashville Board of Public Education members and a Metro Nashville Council Member.

What We Found:

The current accounting and budget structure do not completely meet the needs of certain members of the Metropolitan Nashville Board of Public Education to identify central office versus centralized services costs.



Metro Water Services Process Control Infrastructure Information Security Practices (08/20/2018)

Why Audited:

This audit was conducted due to the integral part process control systems play at water and wastewater treatment facilities.

What We Found:

Out of 82 applicable security controls, 42 controls are compliant, and 32 controls are partially compliant. Eight controls are non-compliant. We recommend management of Metro Water Services improve risk area coverage and consistency across plants.





Nashville General Hospital at Meharry



Nashville General Hospital Procurement-to-Pay Process (08/28/2018)

Why Audited:

The audit was conducted due to the large amount of monetary transfers the Nashville General Hospital receives from the Metropolitan Nashville Government.

What We Found:

Controls are generally in place to manage the procurement-to-pay process. However, controls should be strengthened around bidding for goods and services, the vendor master listing, information systems access controls, usage of credit cards, and the retention of records.

Metro Water Services Fire Hydrant Inspection, Flow Testing, and Maintenance Process (11/19/2018)

Why Audited:

Audit initiated by request of the Director of Metro Water Services.

What We Found:

Generally, inspection work and maintenance performed was conducted in accordance with internal procedures and industry standards. A portion of public fire hydrants (17 percent) were not inspected or flow tested within the established five-year period. Procedures related to the follow up of private hydrants that fail inspection were not followed.

Follow-Up on the Audit of Human Relations Commission (12/06/2018)

Why Audited:

The audit was conducted to provide assurance that management's corrective action plan remedies the matters identified in the April 5, 2017, internal audit of the Human Relations Commission.



What We Found:

All three recommendations made in the prior audit were fully implemented and operating.



**Parks & Recreation Department—
Wave Country Operations
(12/28/2018)**

Why Audited:

This audit was conducted due to the importance of ensuring all revenue collections are managed, as well as the safety risks associated with operating a public pool.

What We Found:

Strong controls around cash receipts are in place, and functioning, but controls to protect against cash skimming opportunities could be implemented. Daily inspection documentation generated by Wave Country employees was not maintained for at least a two year period. Wave Country members are satisfied with the staff, facilities, and safety at Wave Country.



**Follow-Up on the Audit of Codes and
Building Safety Short Term Rental Prop-
erty Permit Issuance and Renewal Pro-
cess
(01/04/2019)**

Why Audited:

This follow-up audit was performed at the request of the Metropolitan Nashville Audit Committee.

What We Found:

Of the 12 initial audit report recommendations, 6 recommendations have been implemented, 4 are still in process, and 2 are not able to be completed. The four in-process recommendations are scheduled to be completed by July 1, 2019.

**Follow-Up on the Audit of Metropolitan
Nashville Government's Radio
Communication Division
(01/24/2019)**

Why Audited:

The follow-up audit was due to the importance of radio communications to public safety.

What We Found:

Of the remaining 20 open recommendations, 18 recommendations are implemented. The final two open recommendation implementation plans are in progress.





Audit of the Register of Deeds (01/24/2019)

Why Audited:

The audit was conducted at the request of the then-incoming Register of Deeds, Karen Johnson.

What We Found:

Controls are generally in place to ensure financial objectives are met. However, exceptions and inconsistencies were noted around user access rights, logging of mail requests, peripheral information systems, and expenditure supporting documentation. Additionally, a compensation study has not been performed recently.

Audit of General Sessions Court Traffic School (01/28/2019)

Why Audited:

The audit was initiated after an employee was charged with stealing from General Sessions Court Traffic School, and The Presiding Judge and Court Administrator for the General Sessions Court requested a review of controls.

What We Found:

High risk observations were made around fee waiver management and physical security of cash. Medium risk observations were identified in cashier accountability, reconciliation and monitoring, employee cross training, and OTS privileged user access.



Organizational Impairments

There were no unwarranted restrictions on the staffing of the internal audit activity or on access by internal auditors to organization activities, records, property, and personnel during this period.



Summary of Notable Investigations

Over 20 Red Flag Fraud, Waste, and Abuse Hotline alerts were reviewed in 2018. These alerts resulted in investigation of 24 allegations within Metro Nashville Public Schools and the notable matters listed below.

- **Investigation of Then-Mayor Megan Barry's Travel and Dignitary Security Detail Extra Time Expense (08/22/2018)**

Why Investigated:

The investigation was initiated at the request of the Metropolitan Nashville Council and Metropolitan Nashville Audit Committee.

What We Found:

Sergeant Robert Forrest conducted non-Metro business related activities while being paid by the Metro Nashville Government. Mayor Barry and Sergeant Forrest's admitted theft of over \$10,000 does not comply with the Metropolitan Nashville Government employee standards of conduct per Mayor Barry's Executive Order Number Five.

- **Investigation Report of Collier Engineering, Inc. (10/26/2018)**

Why Investigated:

Investigation requested by Mayor David Briley following various allegations of an untoward relationship between Collier Engineering, Inc. and the Metro Nashville Government.

What We Found:

The investigation substantiated claims of an appearance of preferential treatment being given to Collier Engineering, Inc. by Metropolitan Nashville Government employees in exchange for entertainment and various gifts. However, additional claims of out of scope contract projects, missing invoice support, and conflicts of interest were unsubstantiated.

Risk Guards

The Metropolitan Nashville Audit Committee, along with the Office of Internal Audit and Metropolitan Nashville Government's external auditor, Crosslin, PLLC is constantly scanning the horizon for dangerous situations, such as breakdowns in management internal controls that may lead to financial misstatement, fraud, waste, or abuse of government resources.

Other groups helping identify emerging risks include:

- State of Tennessee Comptroller's Audit Divisions.
- Office of Financial Accountability within the Metropolitan Nashville Finance Department.
- Metropolitan Nashville Public Schools Internal Audit.
- State of Tennessee and United States Government grant compliance reviewers.
- Contract audit service from KraftCPAs BerryDunn, and other professional service firms.



Audit Feedback

“We acknowledge the **outstanding work** of your team...”
- Register of Deeds

“It was a **pleasure** working with your office.”
- Human Relations Commission

“...thanks to you and your staff for performing the audit in a **professional and timely manner.**”
- Information Technology Services

“Thank you for your **diligent work, expertise, and partnership** with the district to better serve our students.”
-MNPS

“We specifically thank, and extend our admiration to, Mr. Innocent Dargbey for his **extraordinary attention to detail** reflected in the audit.”
-Metro Water Services

“Your department’s insights and observations will be **very helpful** in **improving** our revenue collection process.”
- Metropolitan Transit Authority

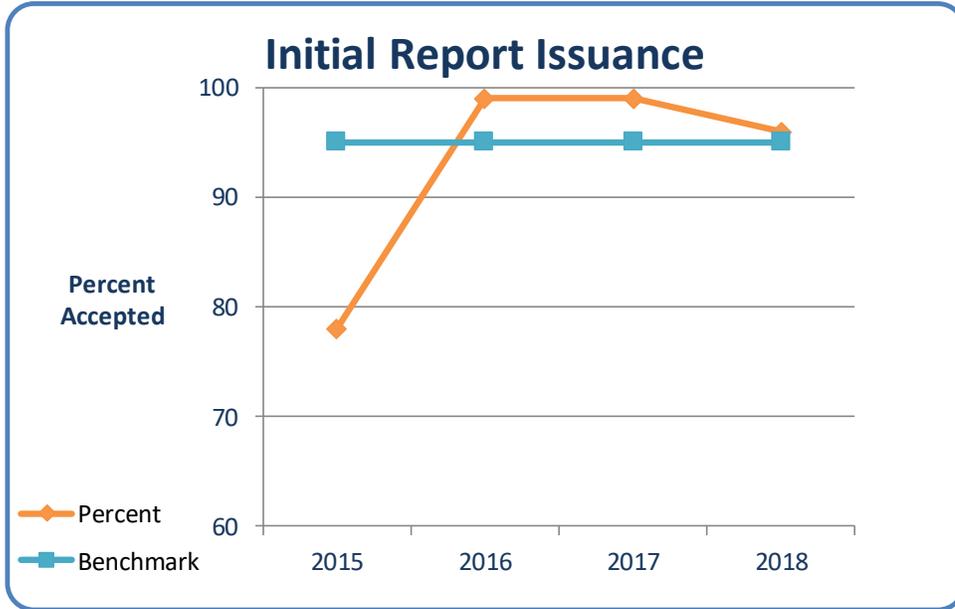
“ We appreciate the **methodology** used ...particularly the **cooperative effort** in developing the report and considering our input and concerns during the entire process.”
- Department of Finance

“We appreciate the **insightful recommendations** and will continue to see improvement.”
- MDHA

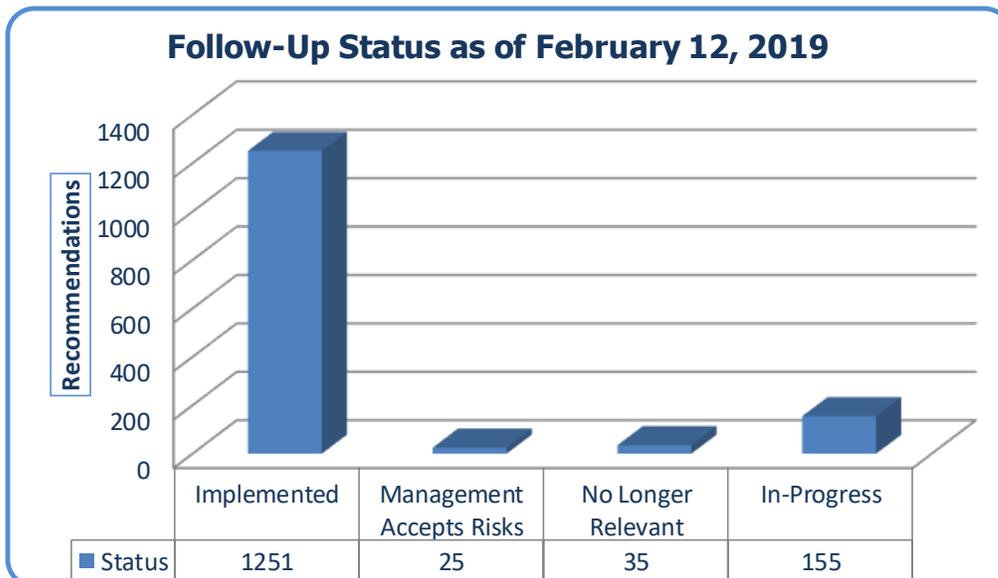


Audit Recommendations Implementation Status

The Office of Internal Audit issued 177 audit reports since being reorganized as an independent audit organization in March 2007. Internal audits in the 2018 reporting period identified 109 recommendations for improvement, with 105 (96 percent) of the recommendations being accepted when the report was issued. The Association of Local Government Auditors benchmark is a 95 percent acceptance rate.



As of January 31, 2019, departments were asked to provide implementation status for accepted audit report recommendations. Out of the 1,469 accepted recommendations, 1,251 (85 percent) were implemented and 155 recommendations were in-progress pending corrective action tasks. In-progress recommendations open in excess of one year totaled 96. Common delays were attributed to the necessity for budget funding, implementation of computer applications, or follow-up response delayed due to other management pressing priorities.





Performance Measures	2018 Goal	:-----Plan Year-----:		
		2018	2017	2016
Percentage of Direct Time to Available Time (Excludes Metropolitan Auditor Time)	85%	83%	83%	84%
Percentage of Recommendations Accepted	90%	96%	99%	99%
Number of Audit Projects Completed	24	17	16	14
Percentage of Recommendations Implemented within 1 Year of Report Issuance	85%	36%	25%	83%

**Metro Nashville Red Flag
Fraud, Waste, and Abuse Hotline**

Call 877-270-8334

or

<https://www.redflagreporting.com/nashville>

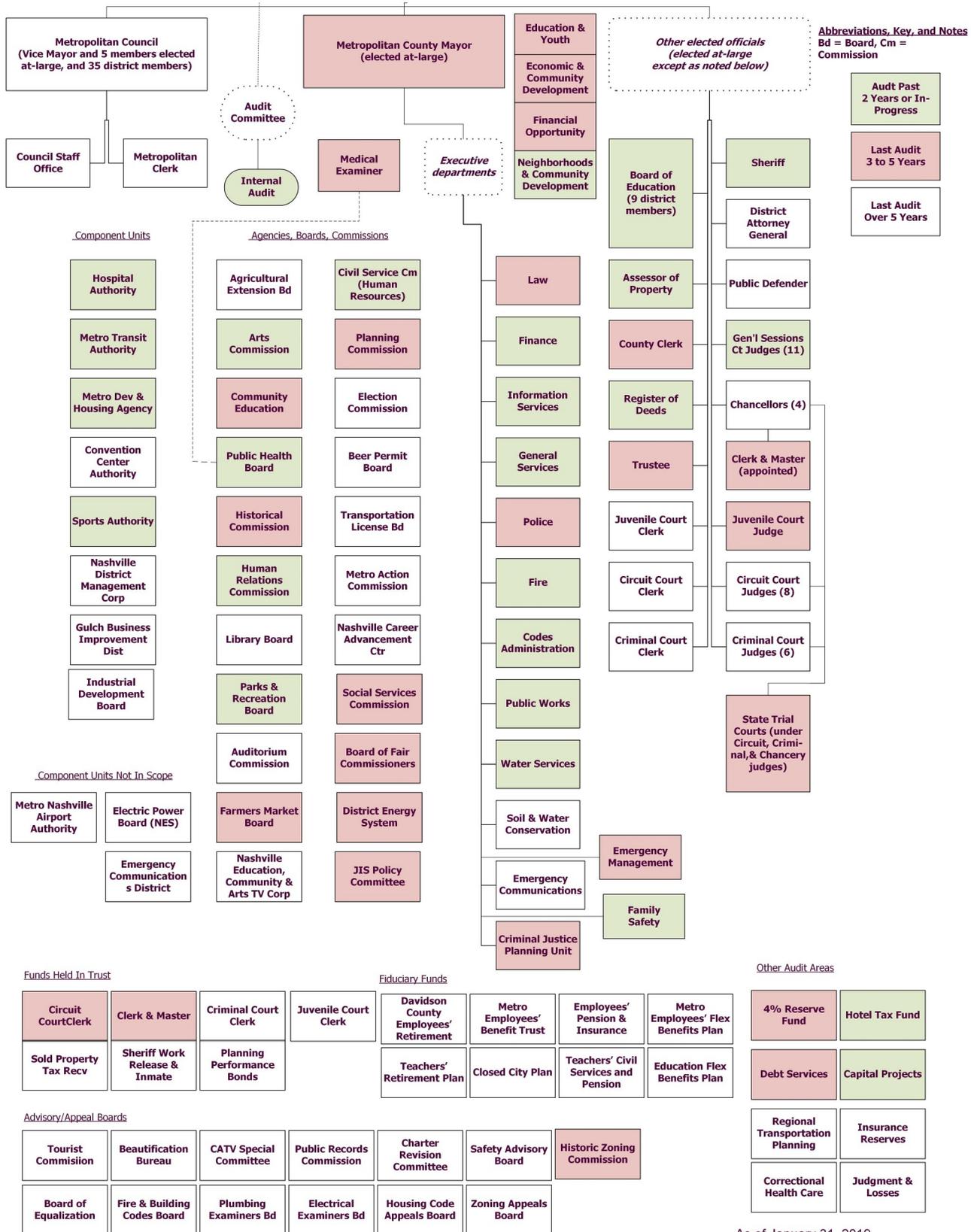


Metro Nashville Hotline Statistics

From February 1, 2018, through January 31, 2019, the Office of Internal Audit received 21 calls on the Metro Nashville Waste and Abuse Hotline that required further attention.



Attachment D - Office of Internal Audit Coverage Map



As of January 31, 2019



TRANSPARENCY

The Office of Internal Audit reports directly to the Metropolitan Nashville Audit Committee throughout the year. All final reports are available on the Office of Internal Audit's website.

WEBSITE

Visit us online: www.nashville.gov/internal_audit

ADDRESS

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Nashville, TN 37219-6300

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- Metro Nashville Photographer
- Canstockphoto.com
- Internal Audit Staff Photos

NOTE

This is a performance report of the Office of Internal Audit's achievements and accomplishments and should not be considered an audit report. Generally accepted government auditing standards were not used in the preparation of this report.