



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

March 14, 2017

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 2016 and January 2017 as well the implementation status of previously completed internal audit projects.

For this period, the Metropolitan Nashville Audit Committee was comprised of Vice Mayor David Briley, Council Members John Cooper and Bob Mendes, Metro Nashville Director of Finance Talia Lomax-O'dneal, Brack Reed, who represents the Chamber of Commerce and Robert Brannon, who represent 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.

Crossland and Associates P.C. 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, 2016, without any exceptions noted.

Office of Internal Audit Projects Completed

The Office of Internal Audit issued 14 audit reports providing 72 recommendations for improving Metro Nashville 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 **14** audits which included **72** recommendations for improvement were identified with a **99** percent acceptance rate.

- Accommodated Metropolitan Nashville Council and management requests pertaining to:

Metropolitan Nashville Public Schools Performance Reporting	The Fairgrounds Nashville
Finance Department Credit Card Usage	Health Department Administration Bureau
Clerk and Master	Human Relations Commission
Assessor of Property	Autumn Hills Assisted Living Contract
Hotel Occupancy Tax	
- Selected 4 hotels representing \$3.1 million in hotel occupancy taxes for audit. Determined from revenue and room night data that over \$55 thousand had been underpaid and was referred to the Metropolitan Treasurer for collection.
- Completed 8 requests for investigation of fraud, waste, and abuse issues.
- Processed 3 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 October 2014**

Audit entities were asked to provide implementation status for accepted audit recommendations for 144 reports issued since March 2007. Out of the 1,204 accepted recommendations, 1,053 (87 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,



Robert C. Brannon

Enclosure

cc: Mayor Megan Barry
Members of Metropolitan Nashville Audit Committee
Mark Swann, Metropolitan Auditor

METROPOLITAN NASHVILLE OFFICE OF INTERNAL AUDIT



INTERNAL AUDIT PERFORMANCE REPORT
February 1, 2016 through January 31, 2017



Report to Metropolitan Nashville Audit Committee

February 28, 2017

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, 2016, and January 31, 2017. During this period the Office finished 14 operational audits, 4 hotel tax audits, and 8 investigations. Since the Office reconstituted as an independent agency in 2007, over 1,370 audit recommendations have been reported to improve the Metropolitan Nashville Government. This past year 99 percent of the 72 recommendations to improve government services were accepted by management with implementation plans. Also, the Office accommodated seven requests for audit services from Metropolitan Nashville Government management, the Metropolitan Nashville Board of Education, 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 4. Please note the breadth of audit coverage accomplished over the past five years as shown on page 11. It is my hope that you find this report to be a valuable resource and will contact us with any questions or concerns related to the Metropolitan Nashville Office of Internal Audit.

I wish to show our appreciation to the Metropolitan Nashville Audit Committee Chairperson, Mr. Robert C. Brannon, for 25 years of untiring volunteer service. He has elected not to renew his term ending in March 2017. Also, the office was fortunate to share work days with three capable auditors, Kimberly Smith, Joe McGinley, and Jack Henry, each of whom left this past year to pursue other career opportunities. Thank you all for your dedicated service to the 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

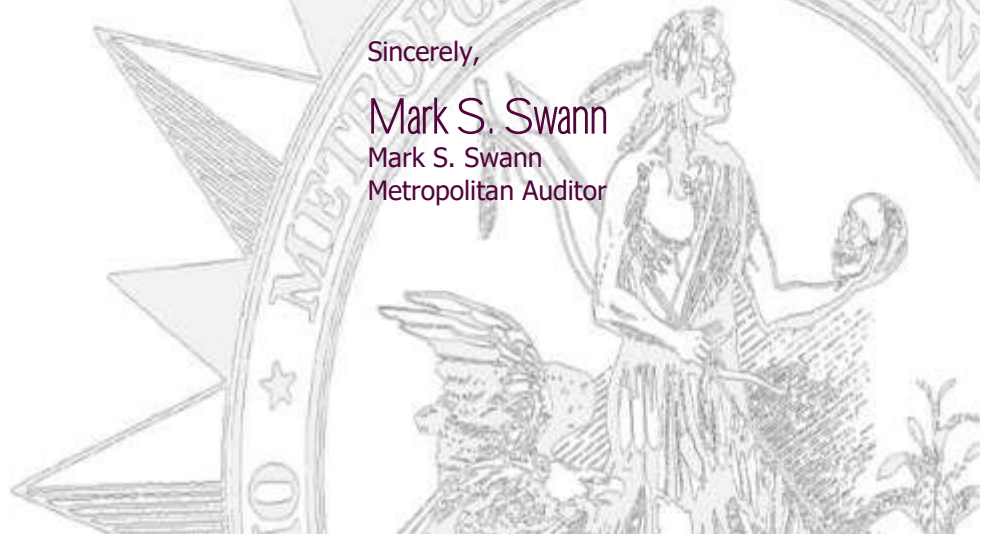




Table of Contents

OUR ACCOMPLISHMENTS	1
REPORTING STRUCTURE	1
METROPOLITAN NASHVILLE AUDIT COMMITTEE	2
METROPOLITAN NASHVILLE AUDIT COMMITTEE MEMBERS	2
INTERNAL AUDIT STAFF	3
FORMER INTERNAL AUDIT STAFF	3
PROFESSIONAL CREDENTIALS	3
SUMMARY OF PERFORMANCE AUDIT PROJECTS	4
RISK GUARDS	9
ORGANIZATIONAL IMPAIRMENTS	9
OUR MISSION	10
OUR VISION	10
WHAT DO INTERNAL AUDITORS DO	10
OFFICE OF INTERNAL AUDIT FIVE YEAR AUDIT COVERAGE MAP	11
INTERNAL AUDIT WORK EFFORT	12
PERFORMANCE MEASURES	12
AUDIT RECOMMENDATIONS IMPLEMENTATION STATUS	13
METRO NASHVILLE RED FLAG FRAUD, WASTE, & ABUSE HOTLINE	14
CONTACT INFORMATION	15



Our Accomplishments

- Conducted 14 audits where 72 recommendations were identified with a 99 percent acceptance rate.
- Selected 4 hotels representing \$3.1 million in hotel occupancy taxes for audit. Determined from revenue and room night data that over \$55.8 thousand had been underpaid and was referred to the Metropolitan Treasurer for collection.
- Completed 8 requests for investigation of fraud, waste, and abuse matters.
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Assessor of Property	Human Relations Commission
Hotel Occupancy Tax	Autumn Hills Assisted Living Contract
- Processed 3 duplicate payment reports on behalf of the Metropolitan Nashville Government Department of Finance.

Reporting Structure





Metropolitan Nashville Audit Committee Members

Representing	2015– 2017
Vice Mayor	David Briley
Council Representative	John Cooper
Council Representative	Bob Mendes
Director of Finance	Talia Lomax-O'dneal
Nashville Chapter of the Tennessee Society of CPAs	Robert C. Brannon
Nashville Area Chamber of Commerce	Brack 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 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.



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
Senior Auditor
Higher Institute of Economics, BS Finance & MS Finance; University of Oklahoma, MBA



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



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
Lipscomb University, BS-Accounting; Middle Tennessee State University, MAcc



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; Western Kentucky University, Masters Public Accountancy



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

Former Internal Audit Staff



Joe McGinley, CISSP, CISA
Senior Auditor
Washington University, BS-Systems and Data Processing; Saint Louis University, MBA



Kimberly Smith
Internal Auditor II
Lambuth University,
BBA-Accounting;
University of Tennessee at Martin, MBA



Jack Henry, CPA, CGFM, CGMA
Senior Auditor
Western Kentucky University
BS-Accounting/Business Administration

Professional Credentials

CPA - Certified Public Accountant

CGAP - Certified Government Auditing Professional

CIA - Certified Internal Auditor

CISA - Certified Information Systems Auditor

CFE - Certified Fraud Examiner

CISSP - Certified Information Systems Security Professional

CGMA - Chartered Global Management Accountant

ACDA - ACL Certified Data Analyst

CMFO - Certified Municipal Finance Officer

CGFM - Certified Government Financial Manager



Summary of Performance Audit Projects



Health Department Immunization Program (02/18/2016)

An audit of the Metro Public Health Department Immunization Program was conducted. The Immunization program plays an important role in ensuring that children in Davidson County are immunized against preventable diseases.

What We Found:

The Immunization Program does not retain all backup documentation to support completed daycare and kindergarten audit engagements. The clinic vaccine inventory procedures did not require administered vaccines to be reconciled to month-end inventory counts, segregation of duties controls were not implemented in vaccine inventory and cash handling processes, and bad debt write-off procedures did not exist.



Clerk and Master of the Chancery Court (03/18/2016)

An audit of the Clerk and Master of the Chancery Court was initiated based on the request of the State Trial Court Administrator on behalf of the Chancellors due to the transitioning of the Clerk and Master position.

What We Found:

The Clerk and Master had controls in place to effectively manage resources and protect assets. However, information systems could be more effectively utilized and protected, and controls could be improved around leave time and credit card purchases. Additionally, six prior accepted audit recommendations from the August 28, 2013, internal audit report were not implemented.

Fiscal Year 2016 Hotel Occupancy Tax Audit (07/21/2016)

Hotel tax records were audited throughout the 2016 fiscal year. A total of 16 hotels with tax returns representing \$14.7 million in hotel occupancy taxes and convention center taxes were selected for audit.

What We Found:

Thirteen hotels underpaid taxes by over \$100 thousand along with overpaying over \$25 thousand, leaving \$85 thousand including penalty and interest recommended for recovery, or less than 1 percent of hotel occupancy and convention center taxes audited.





**Juvenile Court
(03/31/2016)**

An audit of the Juvenile Court was conducted due the important role the court plays in the lives of minors in Davidson County.

What We Found:

Financial information reported by the Juvenile Court was complete, accurate, and recorded in accordance with financial policies. However, it was found that changes can be made to case information within the Juvenile Court computer systems by unauthorized personnel without approval and without an audit trail. Also, reconciliations between the Metropolitan Nashville Police Department's Automated Records Management System and Juvenile Court computer systems are not routinely conducted.



**Comcast Franchise Fee
(06/03/2016)**

The audit of the Comcast Franchise Fee was initiated based on a request of the Cable Franchise Administrator within Metropolitan Nashville Government.

What We Found:

A review of financial documentation found that franchise fees are correctly calculated and paid for cable television revenue. The exclusion of bad debt expense and the inclusion of whole house maintenance revenue resulted in an overpayment of \$42,197 from Comcast to the Metropolitan Nashville Government.

**Finance Credit Card Purchases
(07/18/2016)**

This audit is a component of the Metropolitan Nashville Government credit card review conducted by the Office of Financial Accountability. It was initiated by a request from the Director of Finance.

What We Found:

The Finance Department has controls in place to provide assurance that credit card usage is in compliance with Metropolitan Nashville Government financial policies. Controls are in place over the issuance of credit cards. However, maintenance of supporting documentation, as well as management control over eligible types of card purchases, could be improved.





**Nashville Farmers Market
(08/18/2016)**

The audit of the Nashville Farmers Market was initiated due to the role the Nashville Farmers Market plays in enhancing the quality of life for the citizenry and the length of time that has elapsed since the last audit.

What We Found:

The Nashville Farmers Market has controls in place to help assure operational objectives are being met. However, the operational goal to be financially self-sufficient has yet to be met. Control enhancements should be made for revenue and payroll activities, including implementing a more sophisticated document management, billing, accounts receivable system. Maintenance of supporting documentation should be enhanced, particularly as it pertains to verification of merchant liability insurance.



**Fairgrounds Nashville
(11/01/2016)**

The audit of the Fairgrounds Nashville was requested by the Board of the Fair Commissioners in order to give the new Executive Director insight on the status of current operations and any possible areas of improvement.

What We Found:

The Fairgrounds Nashville is achieving their operational objectives and mission which is evidenced by the high satisfaction of their customers. Controls were in place and functioning for procurement and payroll. However, controls should be strengthened surrounding the revenue cycle.



**Information Technology Email Service
(09/23/2016)**

The audit was initiated because Metropolitan Nashville Government employees rely on email services for exchange of information (instructions, inquiry, files, and so forth) to perform critical mission objectives.

Information Technology Services must adhere to the security requirements placed on them by the Tennessee Bureau of Investigation and the Federal Bureau of Investigation. These requirements included restricting the distribution of information related to the underlying technology infrastructure and supporting system security services.



Finance Debt Management Process (11/02/2016)

The audit of the Finance Debt Management Process was conducted to determine if bonds issued by Metro are properly issued, managed, and recorded in the financial statements. In addition, nationally recognized Government Finance Officers Association Best Practices were compared to the practices adopted by the Metropolitan Nashville Government.

What We Found:

Internal Control documentation was either out of date or incomplete and not maintained in a centralized Internal Control Manual as required by the State. If Metro was to issue derivate debt instruments in the future, the current Debt policy does not address two provisions as recommended by the Government Finance Officers Association.



Information Technology Services Radio Shop Follow-Up (11/10/2016)

This audit was a follow-up audit of the Radio Communication Division Audit Report issued on November 2, 2015. This follow-up audit was included on the Annual Work Plan due to the importance of radio communications to public safety.

What We Found:

Out of the 41 audit report recommendations, 21 recommendations are fully implemented. Implementation of 19 audit recommendations is in progress and should be completed before July 2017. The last one will be implemented by December 2017.



Office of Conservatorship Management (12/02/2016)

This audit was conducted due to the office being a new function which has never been audited and it provides valuable oversight to some of our most vulnerable citizens.

What We Found:

The Office of Conservatorship Management has controls in place to help assure achievement of its operational goals and mission. The Office of Conservatorship Management is in the early stage of developing a training program to educate conservators and guardians about conservatorships and guardianships in Davidson County.



Metropolitan Nashville Public Schools Performance Reporting Process (12/06/2016)

An audit of the Metropolitan Nashville Public Schools Performance Reporting Process was conducted after local news reports started questioning the integrity of the process. The Board of Education requested a review of the performance reporting process.

What We Found:

The data warehouse application effectively validates data input by schools. However, historical records of input errors should be analyzed so that weak controls in source information systems can be identified and improved. Several procedures regarding data access and grade changes should be revised for clarification and consistent application at all schools. Metropolitan Nashville Public Schools should establish procedure to obtain assurance of the integrity of data reported by charter schools. Employee responsibilities, school assignments, and employment status were not updated in EnterpriseOne resulting in prolonged unneeded access privileges in student information systems.



Public Works Traffic Signalization Improvement Projects (12/08/2016)

Metro Nashville Public Works Department initiated two projects in 2015 to improve congested traffic areas in Davidson County. The total budget for these projects is \$6 million. An audit was conducted to help ensure traffic issues are improved through the successful completion of the projects.

What We Found:

The measure of project success was not formally defined. Moreover, management did not maintain an inventory of the keys to the signal control cabinets.





Risk Guards

The Metropolitan Nashville Audit Committee, along with the Office of Internal Audit and Metropolitan Nashville Government's external auditor, Crosslin & Associates, 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.
- Metropolitan Nashville Airport Authority Internal Audit.
- Nashville Electric Services Internal Audit.
- State of Tennessee and United States Government grant compliance reviewers.
- Contract audit service from Experis Finance, Crosslin & Associates, and other professional service firms.

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.



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 Government of Nashville and Davidson County.

Our Vision

To be regarded as a valued resource by Council, Metropolitan Nashville Government management, staff, and our audit clients by:

- Applying audit work effort commensurate with perceived risk.
- Consistently identifying significant issues so there are "no surprises".
- Creating continuous "early warning" control monitoring mechanisms.
- Improving the transparency of Metropolitan Nashville Government operations.
- Educating the Metropolitan Nashville Government community on the importance of effective internal control measures and risk management.
- Pursuing professional advancement and sharing knowledge and experience with Metropolitan Nashville Government management and our peers.

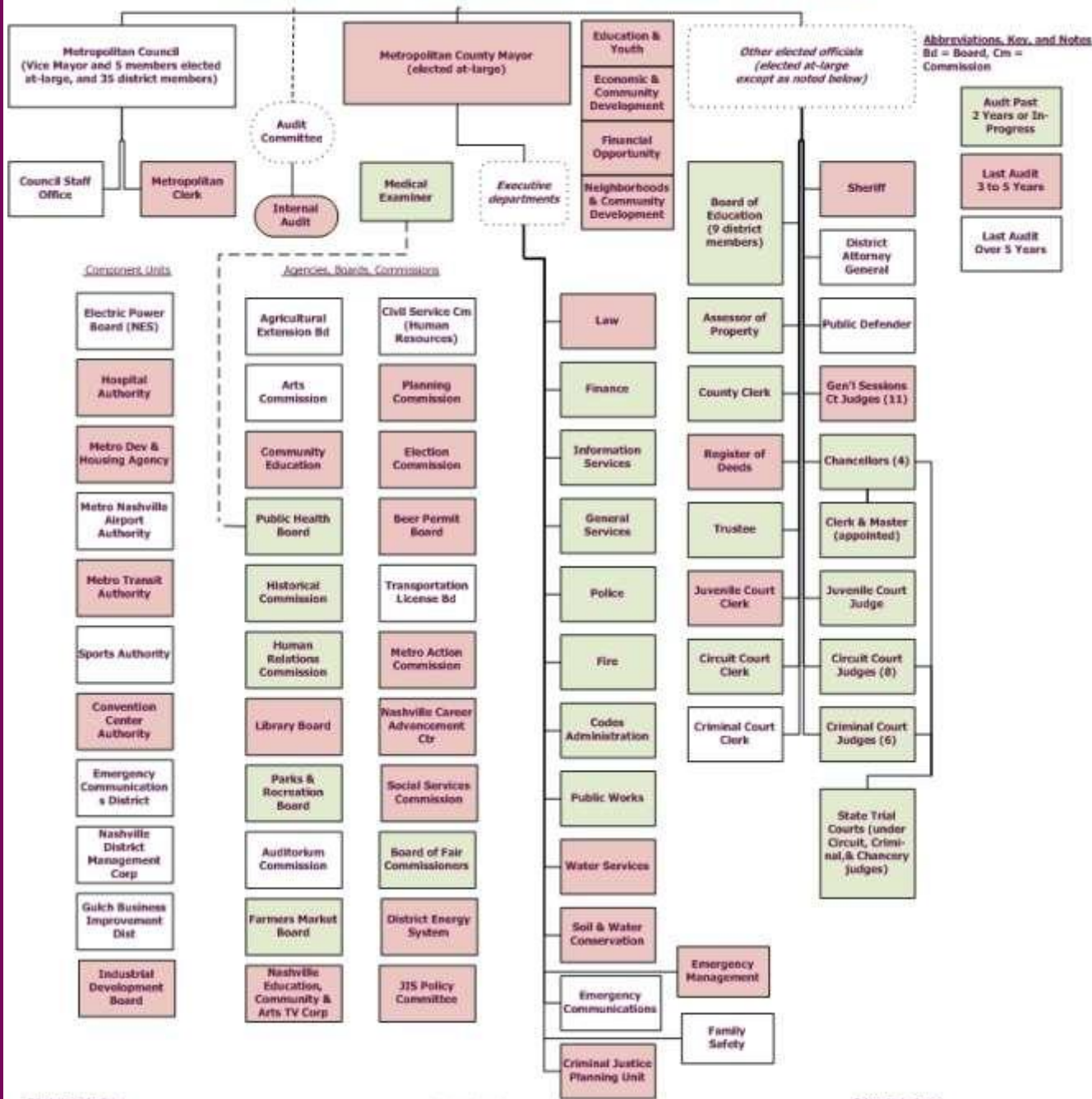
What do Internal Auditors do?

Internal Auditing is a catalyst for improving an organization's effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.





Office of Internal Audit Audit Coverage Map



Funds Held In Trust

Circuit Court Clerk	Clerk & Master	Criminal Court Clerk	Juvenile Court Clerk
Sold Property Tax Recv	Sheriff Work Release & Inmate	Planning Performance Bonds	

Boundary Funds

Davidson County Employees' Retirement	Metro Employees' Benefit Trust	Employees' Pension & Insurance	Metro Employees' Flex Benefits Plan
Teachers' Retirement Plan	Closed City Plan	Teachers' Civil Services and Pension	Education Flex Benefits Plan

Other Audit Areas

4% Reserve Fund	Hotel Tax Fund
Debt Services	Capital Projects
Regional Transportation Planning	Insurance Reserves
Correctional Health Care	Judgment & Losses

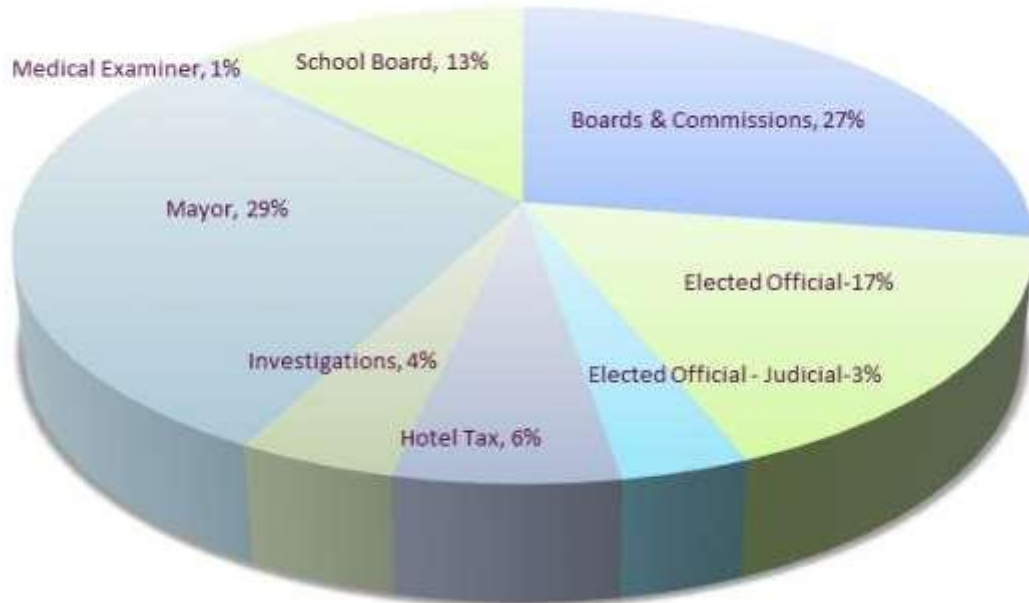
Agency/Special Boards

Tourist Commission	Beautification Bureau	CATV Special Committee	Public Records Commission	Charter Revision Committee	Safety Advisory Board	Health & Higher Education Facilities Bd
Board of Equalization	Fire & Building Codes Board	Plumbing Examiners Bd	Electrical Examiners Bd	Housing Code Appeals Board	Zoning Appeals Board	Historic Zoning Commission

As of February 28, 2017



**Internal Audit Work Effort
Reports Issued February 2012 to January 2017**



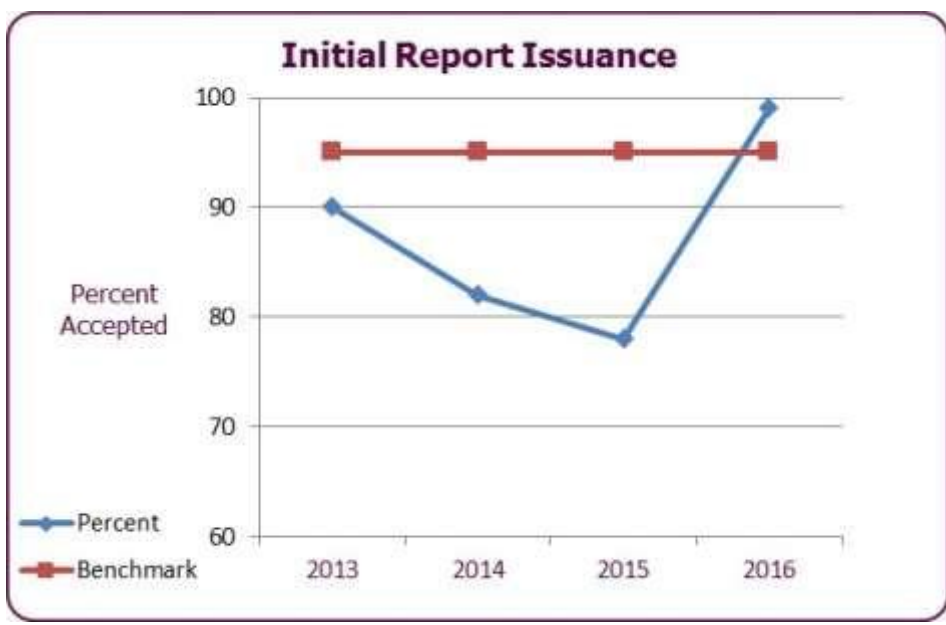
Performance Measures

Performance Measure	Goal	:-----Plan Year-----:		
		2016	2015	2014
Percentage of Direct Time to Available Time	85%	84%	79%	85%
Percentage of Recommendations Accepted	90%	99%	77%	81%
Number of Audit Projects Completed	19	14	15	19
Percentage of Recommendations Implemented within 1st Follow-Up After Report Issuance	85%	88%	n/a	n/a
Percentage of Audit Project Milestone Dates Achieved	85%	38%	n/a	n/a

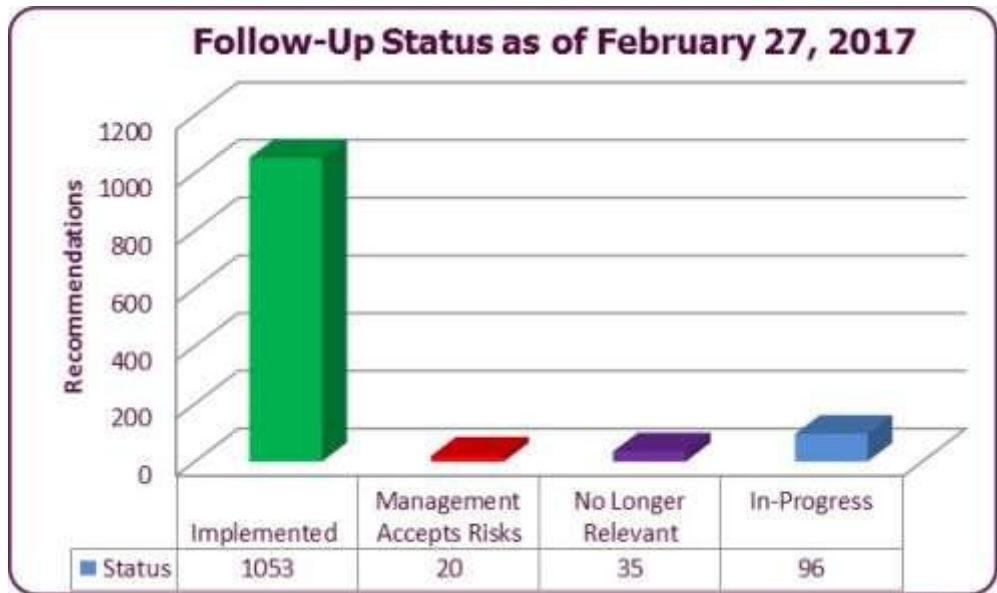


Audit Recommendations Implementation Status Audits Issued Between November 2011 and October 2015

The Office of Internal Audit issued 144 audit reports since being reorganized as an independent audit organization in March 2007. Internal audits in the 2016 reporting period identified 77 recommendations for improvement, with 76 (99 percent) of the recommendations being accepted when the report was issued. The Association of Local Government Auditors benchmark is a 95 percent acceptance rate.



Departments were asked to provide implementation status for the accepted audit report recommendations as of February 27, 2017. Out of the 1,204 accepted recommendations, 1,053 (87 percent) were implemented and 96 recommendations were still in-progress pending corrective action tasks. In-progress recommendations that have been open in excess of one year totaled 76. Common delays are attributed to the necessity for budget funding, implementation of computer applications, or follow-up response delayed due to other management pressing priorities.





Metro Nashville Red Flag Fraud, Waste, and Abuse Hotline

Call 877-647-3335

or

**<https://login.redflagreporting.com/>
Use Client Code: Metro**



Metro Nashville Hotline Statistics

From February 1, 2016, through January 31, 2017, the Office of Internal Audit received six calls on the Metro Nashville Waste and Abuse Hotline that required further attention.

**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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- 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.