

METROPOLITAN NASHVILLE OFFICE OF INTERNAL AUDIT



INTERNAL AUDIT PERFORMANCE REPORT
November 1, 2014 through October 31, 2015

Report to Metropolitan Nashville Audit Committee

February 9, 2016

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:

We welcome our newly elected Mayor, Megan Barry, as well as newly appointed Metropolitan Nashville Audit Committee members. As our leadership transformed, the Office of Internal Audit experienced transitions also, two auditors accepted opportunities in other states, we continued to settle into new office space, and we added three new auditors to our staff.

The Metropolitan Nashville Office of Internal Audit is pleased to present its performance report highlighting accomplishments and audit work completed between November 1, 2014, and October 31, 2015. During this period, 16 operational audits, 16 hotel tax audits, and 1 investigation were completed. Since the Office was reconstituted as an independent agency in 2007, over 1,200 audit recommendations have been reported to improve the Metropolitan Nashville Government.

The content of these reports can be found at www.nashville.gov/internal_audit. Audit observations are summarized beginning on page 7. Please note the breadth of audit coverage accomplished over the past eight years as shown on page 16. 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 appreciate the Metropolitan Nashville Audit Committee's strong, continued support of the internal audit function. Also, I want to congratulate Carlos Holt, Internal Audit Manager, for being selected the City Auditor for the City of Gainesville, Florida and thank him for his contributions to the Office over the past eight years.

Sincerely,

Mark S. Swann

Mark S. Swann
Metropolitan Auditor

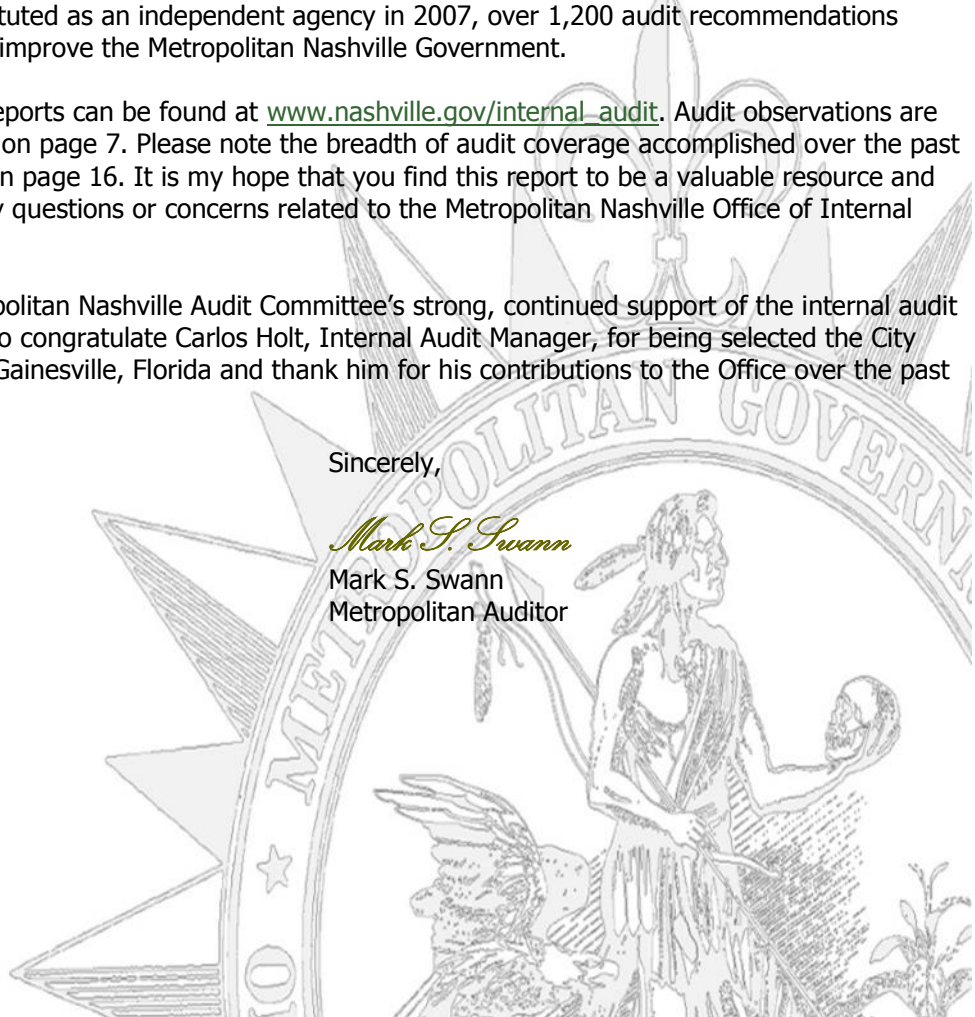




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Our Accomplishments

- Conducted 16 audits where 234 recommendations were identified with a 78 percent acceptance rate.
- Coordinated with our contract auditors, McConnell Jones Lanier & Murphy LLP, to issue the Operational and Performance Audit of the Metropolitan Nashville Public Schools that identified over 124 recommendations to improve the \$1.1 billion annually spent on public education.
- Selected 16 hotels representing \$3.7 million in hotel occupancy taxes for audit. Determined from revenue and room night data that over \$109 thousand had been underpaid and was referred to the Metropolitan Treasurer for collection.
- Completed one request for investigation of fraud, waste, and abuse issues.
- Accommodated Metropolitan Nashville Council and management requests pertaining to:
 - Metropolitan Nashville Public Schools
 - Hotel Occupancy Tax
 - Metro Water Services
 - Historic Zoning and Historical Commission
- Reviewed the CityWorks software development project to help reinforce sound development project management and internal control practices.
- Analyzed work tasks and resource requirements to expand the use of community historic overlay districts.
- Provided additional assurance services for oversight of processes and controls that pertained to revenues and/or expenditures of:
 - \$891 million in revenue for the Office of the Trustee.
 - \$224 million in revenue for Metro Water Services.
 - \$70 million in payroll expenditures at the Fire Department.
 - \$56.9 million in revenue at the Davidson County Clerk's Office.
 - \$52 million in general reserve 4 percent funds.
 - \$30 million fund balance for funds held in trust by the Circuit Court Clerk's Office.
 - \$4.4 million in expenditures for outsourced forensic medical services provided by Forensic Medical Management Services.
 - \$4.4 million in revenue for Public Works parking program.
 - \$4 million CityWorks software development project.
 - \$900 thousand in revenue and \$1.1 million in expenditures for the Police Department secondary employment program.
- Reviewed the controls to safeguard over \$5 billion in capital assets.
- Reviewed the controls to safeguard firearms and other critical equipment at the Sheriff's Office.



Reporting Structure



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.

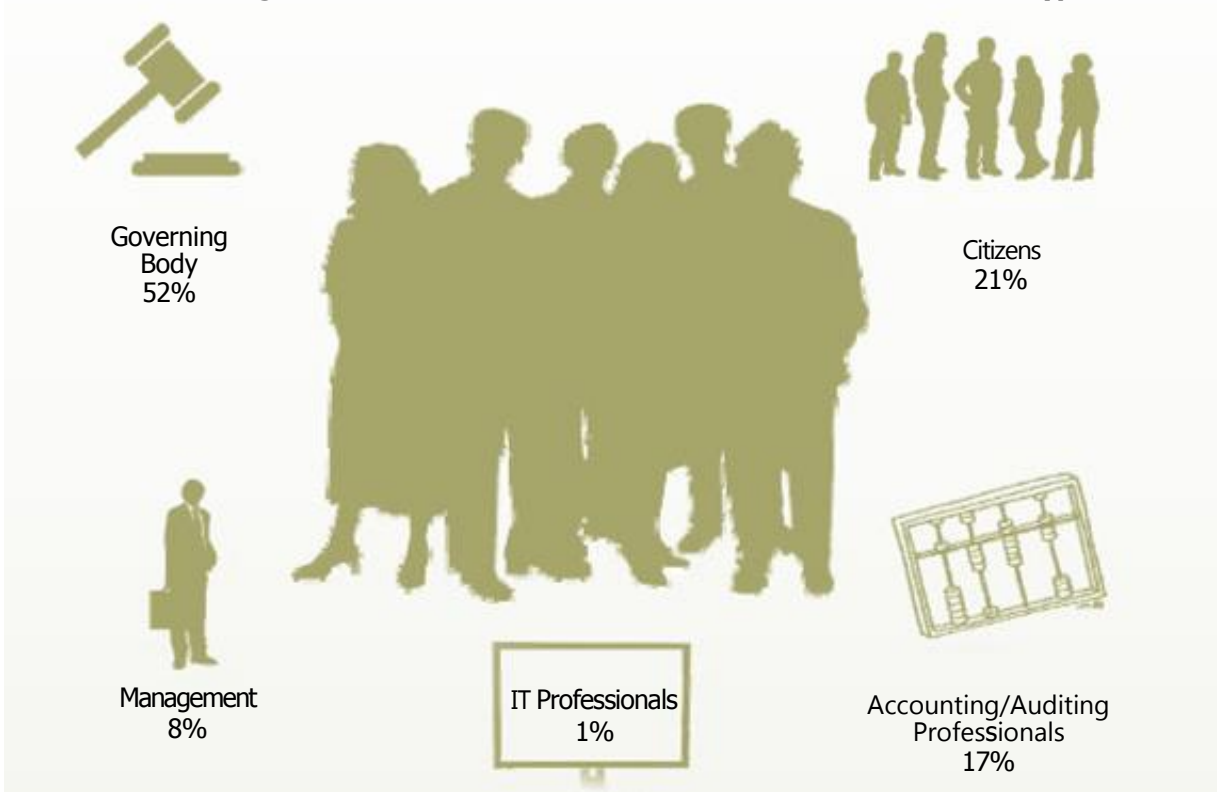
Meeting agendas and minutes are posted on the Metropolitan Nashville Audit Committee’s website.



Metropolitan Nashville Audit Committee Members

Representing	2013-2015	2015– 2017
Vice Mayor	Dianne Neighbors	David Briley
Council Representative	Jacobia Dowell	John Cooper
Council Representative	Steve Glover	Bob Mendes
Director of Finance	Richard Riebeling	Talia Lomax-O'dneal
Nashville Chapter of the Tennessee Society of CPAs	Robert C. Brannon	Robert C. Brannon
Nashville Area Chamber of Commerce	Brack Reed	Brack Reed

The average audit committee has 5.4 members and various member types.



Source: Association of Local Government Auditors 2014 Benchmarking, Best Practices, and Salary Survey, published November 2015. Over 100 audit organizations responded to questions related to the who, what, why, and how of their operations.



Internal Audit Staff



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



Seth Hatfield, CPA, CIA
Internal Auditor II
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MAcc



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



Kimberly Smith
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BBA-Accounting;
University of Tennessee at Martin,
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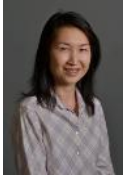
Joe McGinley, CISSP, CISA
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Washington University, BS-Systems and
Data Processing; Saint Louis University,
MBA



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St. Ambrose University, BA-
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Qian Yuan, CISA, CIA, ACDA
Senior Auditor
Western Kentucky University, BS-
Accounting and MS-Computer Science



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



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

Former Internal Audit Staff



Carlos L. Holt, CPA, CFF, CIA, CFE, CGAP,
Audit Manager
Columbia College, BA Business / Finance
and BS Accounting; University of Mary-
land, MS-Finance & Accounting; Central
Michigan University, MS-Administration
Resigned March 2015



Lauren Riley, CPA, ACDA
Senior Auditor
Mississippi State University,
BS-Accounting; University of Alabama,
MAcc
Resigned May 2015

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 |
| | CGFM - Certified Government Financial Manager |



Professional Organizations



As the internal audit profession's recognized authority, the Institute of Internal Auditors is committed to improving internal audit activities worldwide. Four of our staff members are Certified Internal Auditors.

The Association of Local Government Auditors (ALGA) is a professional organization committed to supporting and improving local government auditing through advocacy, collaboration, education, peer reviews, and training, while upholding the highest standards of professional ethics. Two staff members attended the ALGA 2015 Annual Conference held in San Diego, California.



The Association of Certified Fraud Examiners (ACFE) has become the largest anti-fraud organization in the world and is the premier provider of anti-fraud training and education. One staff member is a Certified Fraud Examiner.

The Information Systems Audit and Control Association is a pace-setting, global organization for information governance, control, security, and audit professionals. Three staff members are Certified Information Systems Auditors.



In addition to these organizations, we have staff participating in the American Institute of Certified Public Accountants, Tennessee Society of Certified Public Accountants, Government Financial Officers Association, Association of Government Accountants, Information Systems Security Association, and Nashville ACL User Group.



Continuing Professional Education

In June 2015, Larry Hubbard, a frequent author, course leader, and speaker for The Institute of Internal Auditors and other professional organizations, facilitated a two-day course on operational auditing to help the staff hone their audit skills and tools. Some of the areas the course emphasized were:

- Completion of a project level risk register.
- Translating risk into descriptive audit objectives.
- Describing why it makes business sense to practice certain management controls.
- Interviewing skills.

This training opportunity was shared with assurance and budget staff from the Metropolitan Nashville Government Department of Finance, Metropolitan Nashville Public Schools, Metropolitan Nashville Airport Authority, and Tennessee Department of Transportation.

Educational seminars expanded our knowledge in the following disciplines:

- Local government risk and audit issues sponsored by the Association of Local Government Auditors.
- Fraud trends and awareness sponsored by the Middle Tennessee Association of Certified Fraud Examiners.
- Persuasive evidence sponsored by the Nashville Chapter of The Institute of Internal Auditors.
- Project management sponsored by the Nashville Chapter of the Information Systems Audit and Control Association.
- Audit analytic software sponsored by the Nashville Area ACL User Group.



Summary of Performance Audit Projects



Sheriff's Office Firearms and Equipment Inventory (11/6/2014)

An audit of the Davidson County Sheriff's Office firearms and equipment management practices was conducted. The audit was initiated based on the significance and risks associated with firearms, ammunition, and other inherently dangerous items.

What We Found:

No weapons or ammunition were found to be unaccounted for during the audit. The Davidson County Sheriff's Office could enhance its control environment by implementing a number of suggested control activities and documentation additions.



Permitting and Licensing System Upgrade Interim Reports (11/11/2014) and (8/30/2015)

Two system development interim audit reports on the Permitting and Licensing System Upgrade were completed. This project will impact 24 Metropolitan Nashville Government agencies. Out of the **\$5 million** approved budget, a contract of about **\$2.65 million** was awarded to the vendor for the development and implementation of the system. Also, **\$1.1 million** was estimated for additional hardware, software and maintenance needed for the new system.

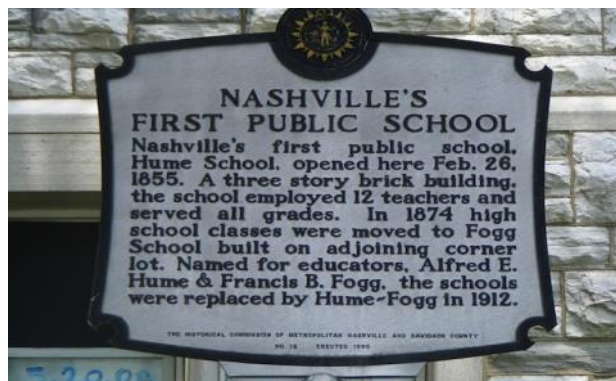
What We Found (11/11/2014):

As of October 31, 2014, the project was two weeks behind the target January 2015 implementation schedule.

The project could benefit through additional attention to data conversion, data classification, and beginning defining application security requirement earlier rather than just prior to implementation.

What We Found (8/30/2015):

As of August 17, 2015, the project go-live date was postponed three times and no fixed date was determined at this point. The delay was mainly due to the initial aggressive estimation, complexity in interfaces with other systems, and delayed development of testing plans, among other things.



Historic Zoning and Historical Commission Work Force (1/26/2015)

An audit of Historic Zoning and Historical Commission work force was conducted because the existing Historical Commission and Historic Zoning Commission staff was not able to process new historic zoning overlay applications with existing resources.

What We Found:

In reviewing the work activity and the Metropolitan Historic Zoning Commission staff workload, it was clear that increasing the number of properties for historic overlay district designations and the permitting process were key drivers of work effort.



Police Department Active Directory Services (2/6/2015)

An audit of the Metropolitan Nashville Police Department information technology active directory services was performed.

What We Found:

The Metropolitan Nashville Police Department was managing active directory services to satisfy the operational needs for the agency.



Water Services Cash Collections (12/22/2014)

An audit of the Metro Water Services cash collections was conducted due to the high volume and associated risks of cash collections at Metro Water Services. For the audit period, total revenues (excluding Stormwater) were approximately **\$440 million**.

What We Found:

Areas for improvement exist for documentation, policies and procedures, timeliness of depositing and recording funds, tracking of receivables, segregation of duties, and maintenance and monitoring of information technology systems.



Operational and Performance Audit of the Metropolitan Nashville Public Schools (2/10/2015)

McConnell Jones Lanier & Murphy LLP was engaged to conduct an audit of the Metropolitan Nashville Public Schools. The objectives of the engagement were to assess the School System's major operations; review its program initiatives and evaluation methods; and analyze educational spending.

The following areas were reviewed:

- District Organization and Management
- Educational Service Delivery
- Impact of Charter Schools
- Human Capital
- Financial Management
- Facilities Management
- Nutrition Services
- Transportation
- Safety and Security
- Technology Management
- Analysis of Education Spending
- Performance Accountability Systems



Fact Sheet

- Of 155 best practices listed, the district met 91.
- Of 124 recommendations to district administration:
 - ◊ 108 were accepted or partially accepted (87%).
 - ◊ 16 were rejected (12.9%).
- The audit listed 46 accomplishments identifying areas where the district is “performing exceptionally well.”
- If all recommendations were implemented, the fiscal impact of the audit over the next five years would include:
 - ◊ \$18.68 million in savings.
 - ◊ \$18.95 million in investments.
 - ◊ Resulting in a net \$272,463 in new investments over five years.
- The audit recommends additional savings of \$54.12 million through outsourcing transportation, facilities maintenance, and nutrition services. The district rejected all three recommendations.



***Place 2015 TENN Decal Here**



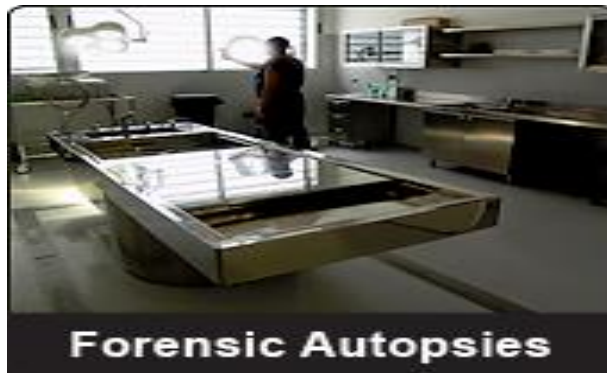
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**Davidson County Clerk's
Cash Collections
(3/24/2015)**

An audit of the Davidson County Clerk's cash collections was conducted. The fiscal year 2014 cash collections totaled approximately **\$57 million**.

What We Found:

Opportunities for improvement exist in revenue monitoring, cash handling, segregation of duties, reconciliations, and general and application controls within the TN Clerk information system.



Forensic Autopsies

**Medical Examiner's Office
(4/14/2015)**

The contract to provide medical examiner services valued at **\$25 million** over a five-year period was audited. During fiscal year 2014, the department had over **\$4 million** in total costs.

What We Found:

The per capita cost associated with this office was more than three times the state average and two times the national range.



**Public Works Parking Management
(6/26/2015)**

An audit of the controls and procedures around Metro Nashville Public Works parking management program was performed. During the audit period, revenues were approximately **\$2.6 million**.

What We Found:

Segregation of duties of permit fee collections could be improved. Additionally, documentation of applications and requests was not maintained in an organized fashion. Sufficient documentation of parking garage expenses was not provided by the Nashville Downtown Partnership. Revenue opportunities were being explored, but rainy day revenues and booting or towing revenues could be implemented to increase proceeds.



Police Department Secondary Employment (7/8/2015)

A performance audit of Metropolitan Nashville Police Department Secondary Employment Unit was completed. During the audit period, the Secondary Employment Unit had over **\$900 thousand** in total revenues and over **\$1.1 million** in total expenses.

What We Found:

Cash management lacked segregation of duties. The Metropolitan Nashville Police Department Secondary Employment Unit service contracts included an indemnification clause and department requirements limited work performed to jobs of lower risks or where the department determined public safety may benefit from a police presence.

Fiscal Year 2015 Hotel Occupancy Tax Audit (7/9/2015)

Hotel tax records were audited throughout the 2015 fiscal year. A total of **14 hotels** with tax returns representing **\$2.8 million** in hotel occupancy taxes and convention center taxes were selected for audit.

What We Found:

Nine hotels underpaid taxes by over \$100 thousand along with six of these hotels overpaying over \$11 thousand, leaving a total of approximately **\$89 thousand net underpaid** recommended for recovery, or three percent of hotel occupancy and convention center taxes audited.



Fire Department Payroll Process (7/24/2015)

An audit of the Metropolitan Nashville Fire Department payroll process was conducted. During the audit period, more than **\$139 million** in payroll expenses was processed.

What We Found:

It was difficult to demonstrate that all compensatory payroll activities and pay types were approved, and user access to information systems was not so restrictive to ensure integrity of time records through segregation of duties and least privilege principles.





**Trustee Office Cash Collections
(7/24/2015)**

An audit of Trustee’s Office cash collections was conducted. During the audit period, the amount of actual property taxes collected in tax years 2012, 2013, and 2014 were approximately **\$794 million**, **\$892 million**, and **\$908 million** respectively.

What We Found:

The Trustee’s Office should enhance internal controls related to segregation of duties, reversal of tax payments, cash till custody transfers and security checks. Also, enhancement opportunities to application controls within the TaxMan system existed.



**Circuit Court Clerk Funds Held in Trust
(9/3/2015)**

Controls and processes relating to Circuit Court Clerk funds held in trust were reviewed. Closing balance for FY 2013 and FY 2014 exceeded **\$8 million** and **\$29 million** respectively.

What We Found:

The Circuit Court Clerk should enhance controls related to cash custody transfers.



**Finance General Reserve Funding and Capital Asset Process
(9/4/2015)**

An audit of the general reserve funding (4 percent funds) and capital asset process was conducted based on issues identified with capital assets in previous audits. Capital assets totaled **\$5.3 billion** in FY 2014. The General Reserve Fund is derived from 4 percent of revenues from the General Services District.

What We Found:

Communication is lacking between the departments and the Division of Accounts regarding capital asset acquisitions. Additionally, controls should be strengthened around the inventory and disposition of capital assets.



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, McConnell Jones Lanier & Murphy, 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.

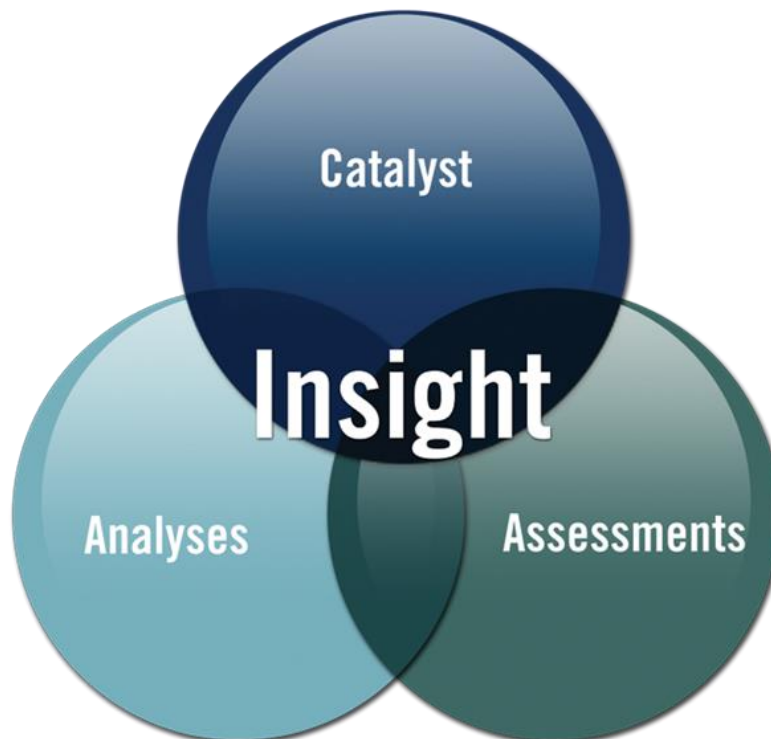
Our Vision

To be regarded as a valued resource by Council, Metropolitan Nashville 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 Metro Nashville operations.
- Educating the Metro Nashville community on the importance of effective internal control measures and risk management.
- Pursuing professional advancement and sharing knowledge and experience with Metropolitan Nashville management and our peers.

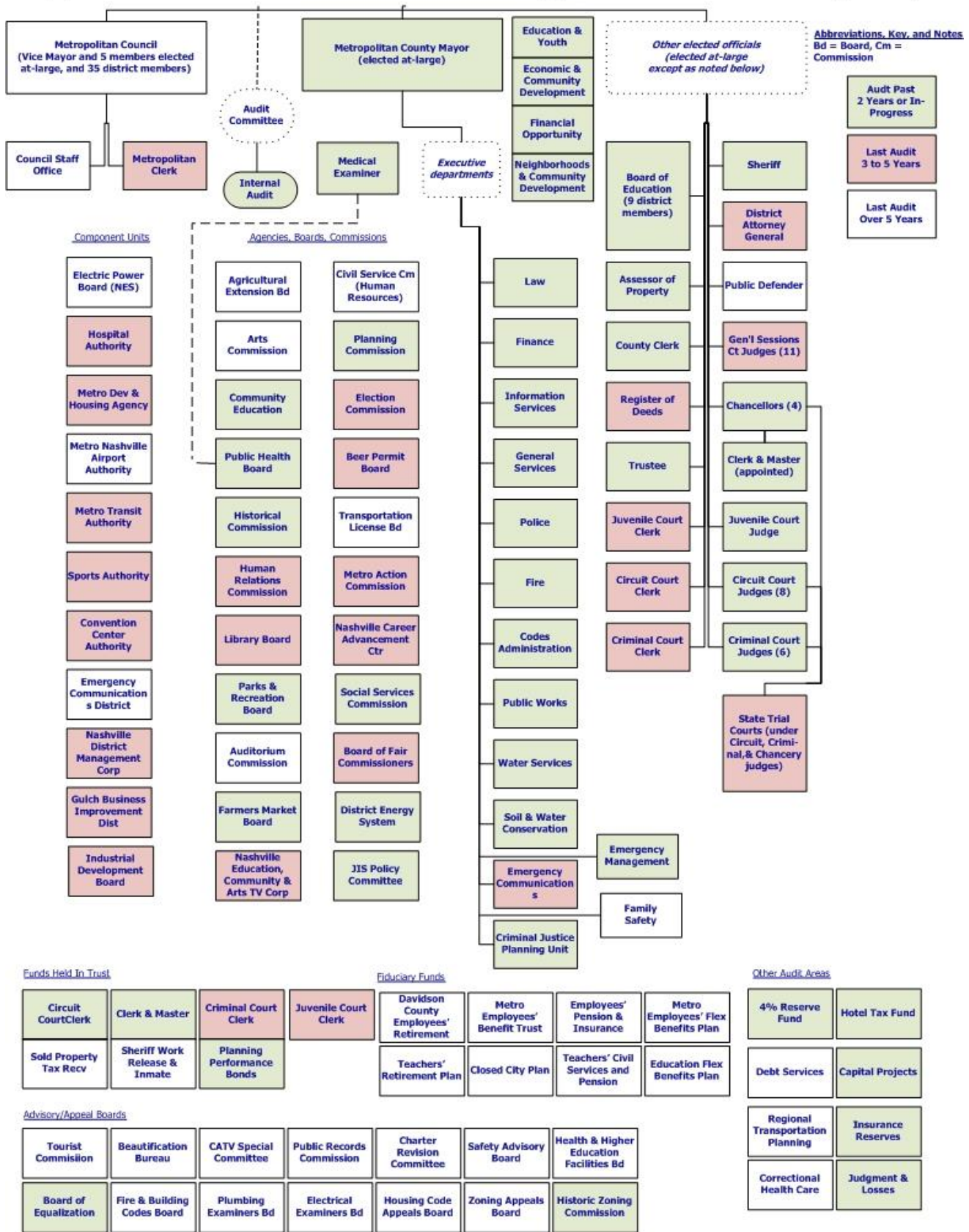
What do Internal Auditors do?

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.





Appendix D - Office of Internal Audit Eight Year Audit Coverage Map

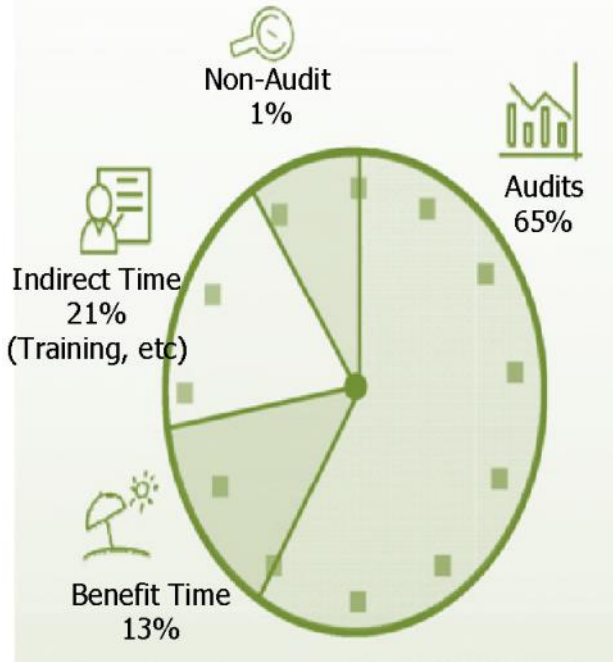


Metropolitan Nashville & Davidson County

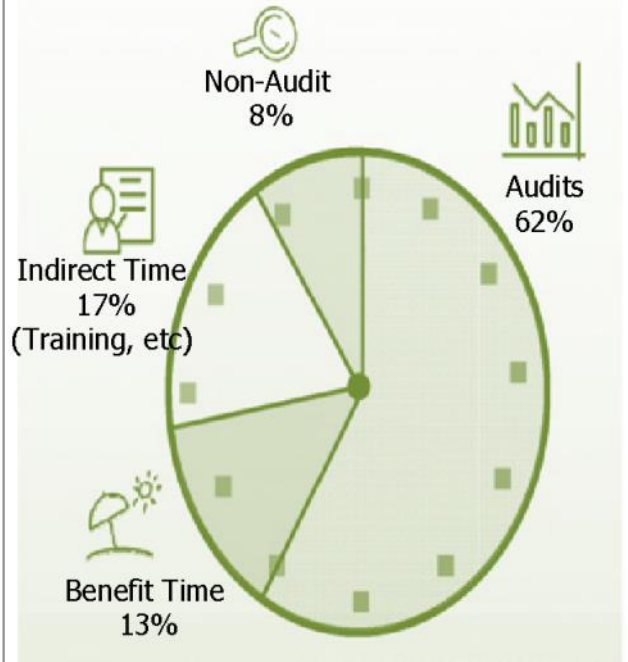


Office of Internal Audit

Metropolitan Nashville Office of Internal Audit

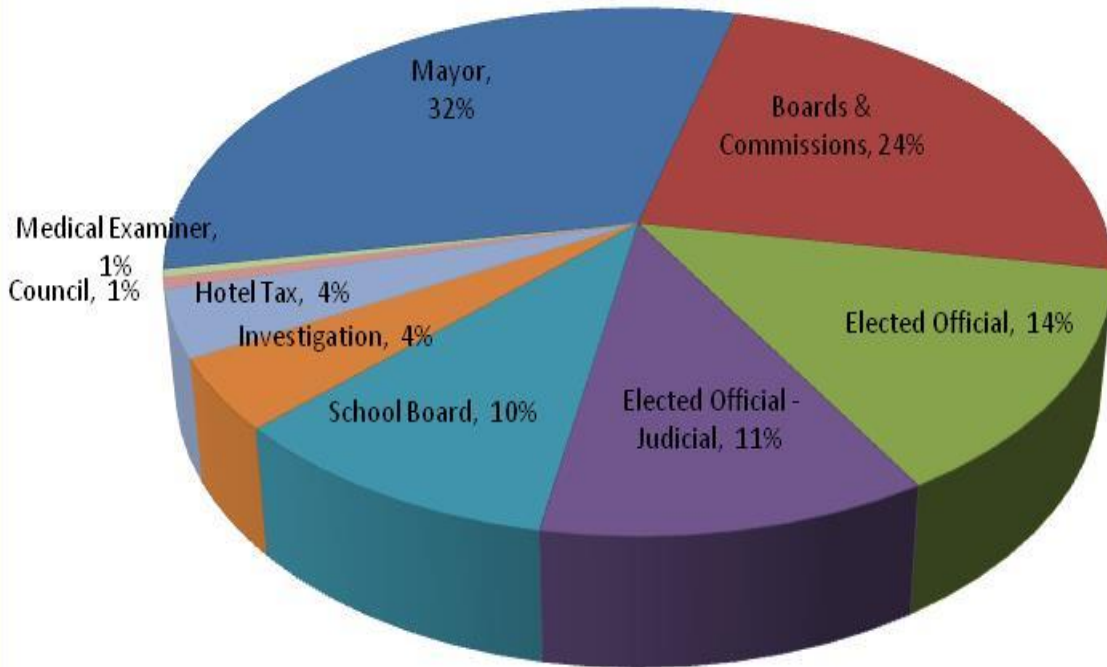


Association of Local Government Auditors Peers



Internal Audit Work Effort

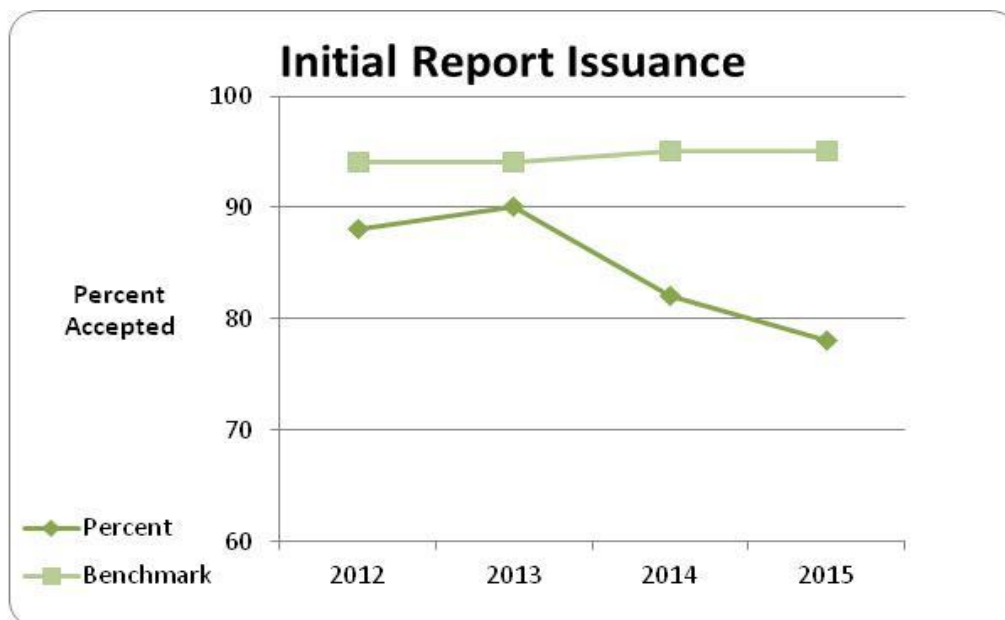
111,245 Direct Hours - July 2007 to October 2015



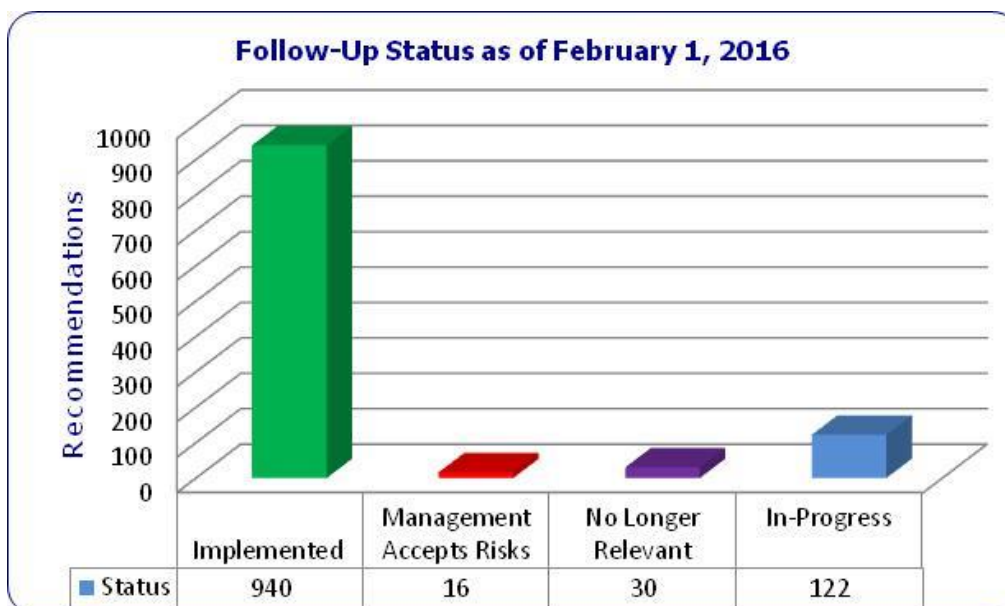


Audit Recommendations Implementation Status Audits Issued Between November 2011 and October 2015

The Office of Internal Audit issued 127 audit reports since being reorganized as an independent audit organization in March 2007. Internal audits in the 2015 reporting period identified 234 recommendations for improvement, with 182 **(78%) of the recommendations being accepted** when the report was issued. The Association of Local Government Auditors **benchmark is a 95% acceptance rate**.



Departments were asked to provide implementation status for the accepted audit report recommendations as of February 1, 2016. Out of the **1,108 accepted recommendations, 940 (85%) were implemented** and 122 recommendations were still in-progress pending corrective action tasks. In-progress recommendations that have been open in excess of one year totaled 62. 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 Government Waste and Abuse Hotline

Waste? Fraud? Abuse?



Your Call Matters

Report Any Problems Toll-Free

You Don't Have To Give Your Name

1-855-252-7606 or

www.hotline-services.com

Use Organization Name: Metro Nashville

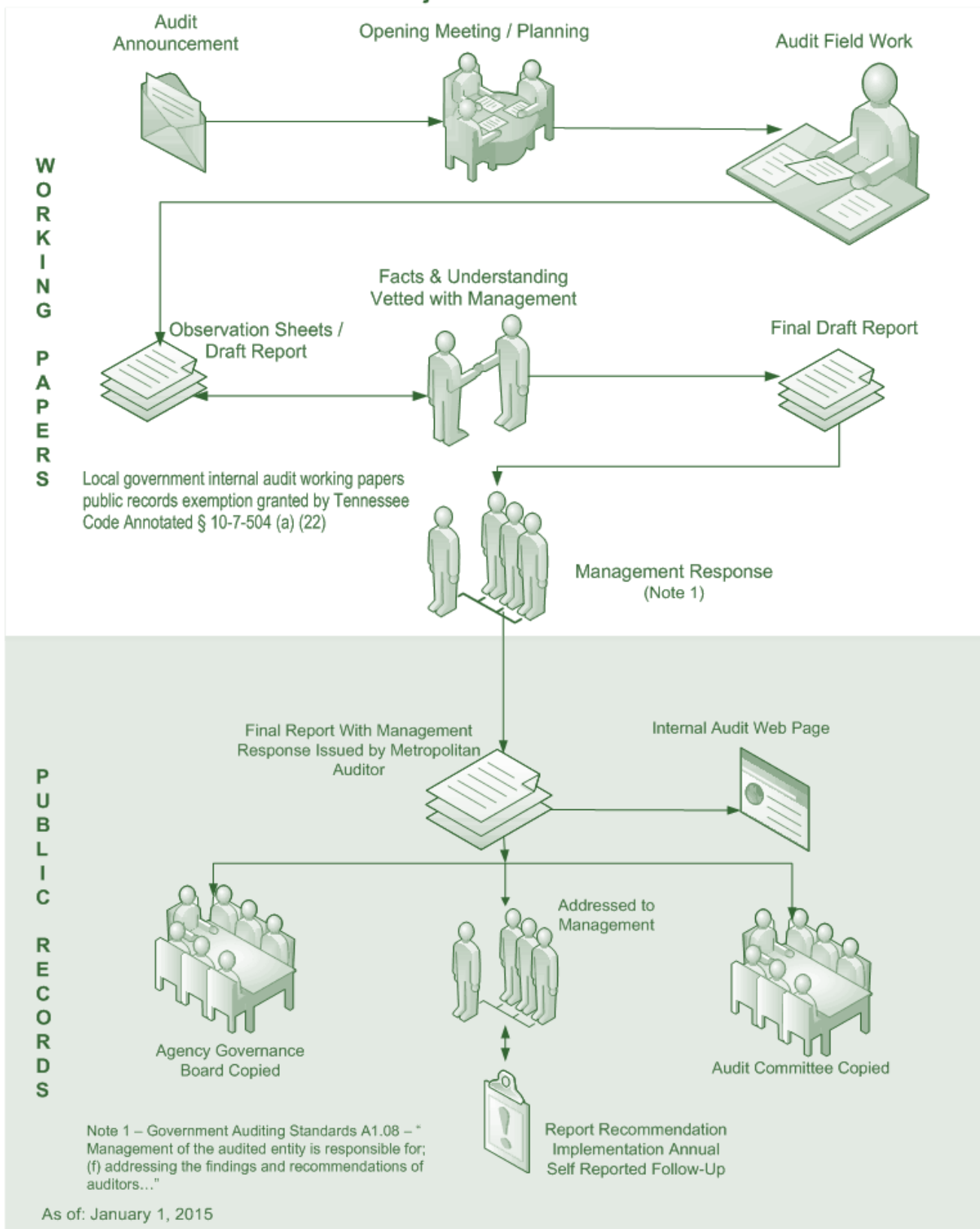
We Can't Do It Without You

Metro Nashville Hotline Statistics

From November 1, 2014, through October 31, 2015, the Office of Internal Audit received two calls on the Metro Nashville Waste and Abuse Hotline that required further attention.



Metropolitan Nashville Office of Internal Audit Audit Project Process Overview





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. Additionally, the Metro Nashville Waste and Abuse Hotline can be accessed through this website or www.hotline-services.com (Use Organization Name: Metro Nashville) or by calling 855-252-7606, 24 hours a day, 7 days a week.

WEBSITE

Visit us online: www.nashville.gov/internal_audit

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- The various professional organizations.
- The United States Government Photos and Images.
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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.