



**A Report to the
Audit Committee**

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**Audit of Metropolitan Nashville
Credit Card and Expense
Reimbursement Top Users**

December 26, 2013

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

December 26, 2013



Why We Did This Audit

The audit was initiated to determine whether processes designed to control credit card and employee expenses were working effectively for the significant users of these payment types.

What We Recommend

Management of the Department of Finance reiterates credit card delegated spending limits and requirements for pre-approval of purchases to department heads. Also, a comprehensive travel management solution that will add additional transparency to the process should be evaluated.

For more information on this or any of our reports, email Mark.Swann@nashville.gov

Audit of Metropolitan Nashville Credit Card and Expense Reimbursement Top Users

BACKGROUND

The purpose of the credit card program is to provide departments with an efficient and convenient way to make small purchases less than \$250, pay for training and travel related expenses, and facilitate emergency purchases.

Expense reports are submitted by employees to be reimbursed for expenses incurred while conducting business on behalf of Metropolitan Nashville. The expense reports are approved in the employee's department and then submitted to the Finance Department for payment. Travel related expenses are pre-approved using the Travel Authorization system.

OBJECTIVES AND SCOPE

The objectives of the audit were to:

- Determine if controls and procedures were in place to manage the "Credit Card Program" of Metropolitan Nashville.
- Determine if controls and procedures were in place to manage expense reports and traveling by Metropolitan Nashville Employees and non-Employees.

The audit scope included Metropolitan Nashville general government functions between June 1, 2011, and May 31, 2013.

	Total Amount	Amount Reviewed	Transactions Reviewed
Credit Cards	\$4,425,053	\$212,302	705
Reimbursements to Employees	2,065,523	128,904	259
Total	\$6,490,576	\$341,206	941

Test work was conducted on the top five departments and top ten employees with the highest total credit card purchases. Likewise, expense reports were selected for the top ten employees receiving the highest total reimbursements.

WHAT WE FOUND

In general, the Metropolitan Nashville Finance Department has controls in place to effectively manage the Credit Card Program and Employee Expense Reports. However, closer monitoring and enforcement could improve the overall compliance with the current rules and procedures.

GOVERNANCE

The use of a Metropolitan Nashville issued credit card is governed through Finance Department Policy #19 – Credit Card. The Metropolitan Treasurer has been tasked with administering the Credit Card Program. Department heads or their designee review and approve credit card purchases made by personnel in their department. Cardholders still follow normal procurement regulations.

Expense reports are governed at the departmental level. Each department develops their own method for submitting, reviewing, and approving employee expense reimbursement requests with the exception of travel related expenses. Travel is pre-approved using the Travel Authorization system and is directed by Finance Department Policy #18 – Travel. The Finance Department approves out-of-state traveling while department heads approve in-state traveling. Travel related expenses directly paid by the employee and paid using a Metropolitan Nashville issued credit card are documented using a Travel Expense Report. The Travel Expense Report is approved within the department and reviewed by the Finance Department for a valid matching travel authorization.

CREDIT CARDS—TOP USERS BY AMOUNT-JUNE 1, 2011 TO MAY 31, 2013

Exhibit A – Top Five Departments

	NUMBER OF CREDIT CARDS	NUMBER OF TRANSACTIONS	VALUE OF TRANSACTIONS
Police Department	45	3,160	\$ 862,555
Water Services	11	1,034	348,229
Parks & Recreation	9	2,037	318,679
Emergency Communication Center	3	670	244,439
Health Department	6	1,060	216,332
All Other Departments	141	12,251	2,434,819

Exhibit B – Top Ten Employees

	DEPARTMENT	NUMBER OF TRANSACTIONS	VALUE OF TRANSACTIONS
Employee 1	Police	570	\$269,100
Employee 2	Police	465	194,499
Employee 3	Emergency Communication Center	409	172,415
Employee 4	Water Services	426	133,861
Employee 5	Health	480	117,009
Employee 6	Metropolitan Action Commission	367	114,438
Employee 7	Fairgrounds	440	91,167
Employee 8	General Services	326	85,406
Employee 9	Parks and Recreation	422	77,898
Employee 10	Social Services	243	76,373

OBJECTIVES AND CONCLUSIONS

1. *Were cardholders properly trained before being issued a Metropolitan credit card?*

Yes. All employees that were issued a Metropolitan credit card had signed a Cardholder Responsibility Acknowledgement form. By signing the form, employees acknowledged they would comply with all regulations and policies related to the credit card.

2. *Were credit card purchases made in compliance with the Finance Department Policy #19 - Credit Card?*

Generally Yes. A review of 705 credit card purchases made by the top five departments and top ten employees based on total purchase amount demonstrated compliance with Finance Department Policy #19 – Credit Card could improve in the following areas:

- 95 purchases (13 percent) exceeding the \$250 limit. The purchases were non-emergency and not related to travel or class registration. (See Observation A.)
- 91 purchases (13 percent) were missing documentation supporting pre-approval of purchases. (See Observation B.)
- 11 purchases (1.5 percent) had missing receipts, lacked documentation stating business purpose, or included Tennessee sales tax.

EMPLOYEE EXPENSE REIMBURSEMENTS—TOP USERS BY AMOUNT—JUNE 1, 2011 TO MAY 31, 2013

Exhibit C – Top Employees

	DEPARTMENT	AMOUNT	PURPOSE
Sergeant	Police Department	\$23,121	Travel Reimbursement
*Contractor	Farmer’s Market	18,366	Contract work before employment
*Contractor	District Attorney	17,270	Contract work after employment
Director	Music City Center	13,143	Travel Reimbursements
Director	Nashville Career Advancement Center	11,798	Travel Reimbursements
Engineer Tech 3	Water Services	7,559	Education Reimbursements
Administrative Assistant 2	Soil and Water	6,839	Travel Reimbursements
Lead Librarian	Library	6,727	Travel Reimbursements
Art Teacher	Metro Nashville Public Schools	6,500	Contract work with Arts Commission
Assistant Director	Water Services	6,307	Travel Reimbursements
Technical Specialist 2	Police Department	5,719	Travel Reimbursements
Administrative Services Officer 3	Water Services	5,555	Education Reimbursements

*Payments were made to these individuals while they were not employed by Metro, however the system still recognize the payments as employee related.

OBJECTIVES AND CONCLUSIONS

1. *Were travel expense and reimbursement request to employees in compliance with Finance Department Policy #18 – Travel?*

Generally Yes. A review of 259 employee reimbursements related to travel and other expenses demonstrated compliance with Finance Department policy. However, some employees were submitting expense report for meal reimbursements based on daily CONUS meal reimbursement rate instead of actual expenses. (See Observation D.)

2. *Were parking and mileage reimbursements made through payroll properly approved, calculated, and documented?*

Yes. Parking and mileage reimbursements made through payroll were able to be traced back to supporting documentation when required by policy. However, some employees receiving mileage reimbursements were not current with defensive driving training requirements. (See Observation E.)

AUDIT OBSERVATIONS

The Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework, Control Environment component recommends management and the board of directors establish mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities across the organization and implement corrective action as necessary. The audit observations listed are offered to help management fulfill their internal control responsibilities.

Observation A: The Delegation of Purchasing Agent’s Authority’s spending limits for credit cards were exceeded.

Metropolitan Nashville has a Purchasing Agent who is responsible for making purchases. In order to be efficient, the Purchasing Agent has delegated some authority to department heads and their designees to make purchases for their departments. The Purchasing Agent, the department head, and their designee sign a “Notice of Delegation of Purchasing Agent’s Authority” to show the exact authority that has been granted. The authority delegated limits the use of Metropolitan issued credit cards to pre-approved travel, emergency purchases, conference registration, small purchases (Under \$250), or petty cash type purchases (Under \$250). A review of 705 credit card purchases made by the top five departments and top ten employees based on total purchase amount showed 95 purchases (13 percent) exceeding the \$250 limit which were non-emergency and not related to travel or class registration.

Recommendation for management of the Department of Finance:

Reiterate to department heads that they should ensure credit card transactions over \$250 comply with delegated purchasing authority.

Observation B: Credit Card Pre-Approvals not Documented.

The Metropolitan Nashville Code of Laws § 4.40.020 requires that written requisitions be approved on all purchases of supplies, services, and construction. A requisition is a formal written request for something needed and adds a layer of control for the office, department, or agency making the request. Without requisitions, the risk of unauthorized purchases could increase. A review of 705 credit card purchases made by the top five departments and top ten employees based on total purchase amount demonstrated 91 purchases (13 percent) were missing documentation supporting pre-approval of purchases.

Recommendation for management of the Department of Finance:

Reiterate to department heads that they should ensure all purchases are pre-approved including those purchases made with credit cards.

Observation C: Lack of congruent expense reporting system

Metropolitan Nashville relies on many sources of travel related expense information contained in different formats and systems (Travel Approval, EnterpriseOne, Excel tracking worksheets). This makes it difficult to obtain timely and comprehensive information on travel expenses. The current process leaves several areas of concern with tracking travel related expenses:

- The system does not allow tracking of expenses by employee.

- Expense reports may not be submitted to the Finance Department since the employee is not requesting reimbursements when all expenses are paid by credit card.
- If “Trav” or “Travel” is not included in the explanation/remark field, then the Finance Department does not review those travel expenses because there is no indication they are travel related.
- Credit card expenses could be left off the expense reports, which would understate the total cost of the trip.
- There is no way to verify if out-of-pocket expenses were covered by a Metropolitan Nashville issued credit card, as most major travel expenses like airfare, hotels, and rental cars are paid for by another person with a Metropolitan Nashville issued credit card. Departmental expense report approvers are responsible to insure all credit card expenses are included on the expense report.
- Travel advances, related expenses, and any funds due to the employee or Metropolitan Nashville are not easily reconciled because information is not stored together. The person tracking travel advances created their own spreadsheet so that all the information can be in one location.

Recommendation for management of the Department of Finance:

Evaluate the cost benefit of travel management solutions that will improve the process, strengthen controls, and add transparency to travel expenses.

Observation D: Meals are not being reimbursed based on actual expense.

The Metropolitan Nashville Finance Department Policy #18 – Travel requires that meals be reimbursed based on actual expenses not to exceed the daily CONUS meal reimbursement rate. Out of seven employees sampled with travel reimbursement, four (57 percent) employee travel expense reports included meal reimbursements based on the daily CONUS meal reimbursement rate instead of actual expenses.

Recommendation for management of the Department of Finance:

Reiterate to department heads that they should ensure requests for meals reimbursements are based on actual expenses or management of the Department of Finance should change the travel policy to state that meals will be reimbursed based on the daily CONUS meal reimbursement rate.

Observation E: Employees are being reimbursed for mileage but have not completed Defensive Driving Course as required.

The Metropolitan Nashville Code of Laws § 12.08.120 states that “no person shall operate a vehicle owned by the metropolitan government, or a vehicle the operation of which is reimbursable by the metropolitan government unless and until such person has completed the defensive driving course of the National Safety Council, or any equivalent program, and is in possession of proof of such completion.” Out of six employees reviewed with mileage claims all had taken a Defense Driving Course; however, three employee certifications had expired.

Recommendation for management of the Department of Finance:

Reiterate to department heads that every person receiving mileage reimbursements is required to complete defensive driving training and is up-to-date with the refresher courses.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel.
- Reviewed and analyzed documentation for compliance with Metropolitan Nashville’s Travel Policy and Credit Card Policy along with other applicable laws, regulations, and policies.
- Evaluated internal controls currently in place.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

AUDIT TEAM

Mark Swann, CPA, CIA, CISA, Metropolitan Auditor

Tracy Carter, CFE, Auditor-in-Charge

Kimberly Smith, Auditor

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



KARL F. DEAN
MAYOR

December 23, 2013

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Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
1417 Murfreesboro Pike
Nashville, TN 37217

Dear Mr. Swann:

This letter acknowledges the Finance Department receipt of the audit of credit card use and expense reimbursement. We have reviewed the findings and recommendations and have incorporated our responses in Appendix A to your report.

We appreciate the work you have done to help us improve processes and controls over these areas, and we appreciate the professionalism of the Internal Audit staff in conducting this work.

Sincerely,

A handwritten signature in blue ink, appearing to read "Richard M. Riebeling".

Richard M. Riebeling
Director of Finance

Copy: Ms. Kim McDoniel

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches and we encourage them to do so when providing their response to our recommendations.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
A.1 Reiterate to department heads that they should ensure credit card transactions over \$250 comply with delegated purchasing authority.	Agree. The Finance Director will send a memo to department heads.	February 1, 2014
B.1. Reiterate to department heads that they should ensure all purchases are pre-approved including those purchases made with credit cards.	Agree. See A.1. above.	February 1, 2014
C.1 Evaluate the cost benefit of travel management solutions that will improve the process, strengthen controls, and add transparency to travel expenses.	Agree. The Finance Department will work with ITS to assess this recommendation.	February 1, 2014
D.1 Reiterate to department heads that they should ensure requests for meals reimbursements are based on actual expenses or management of the Department of Finance should change the travel policy to state that meals will be reimbursed based on the daily CONUS meal reimbursement rate.	Agree. See A.1. above.	February 1, 2014
E.1 Reiterate to department heads that every person receiving mileage reimbursements is required to complete defensive driving training and is up-to-date with the refresher courses.	Agree. See A.1. above.	February 1, 2014