



**A Report to the
Audit Committee**

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Audit of the Community Education Commission



October 31, 2014

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

October 31, 2014



Why We Did This Audit

The audit was initiated based on the number of years that have elapsed since the last audit was conducted by this office.

What We Recommend

Community Education Commission should strengthen controls around revenues including cash handling, deposits, and reconciliations.

Community Education Commission should ensure that all users of Metro Nashville information technology assets have read and signed the Acceptable Use of Information Technology Assets Policy.

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

COMMUNITY EDUCATION COMMISSION AUDIT

BACKGROUND

Community Education Commission's mission is to provide adult education opportunities and resources to the Nashville-Davidson County community. Its vision is to provide a place where the community can access a network of education services to improve their quality of life. The department offers classes to all age groups from various walks of life. Classes focus on eight categories: technology, career, fitness and health, home, language, create, specialty, and arts.

OBJECTIVES AND SCOPE

The objectives of the audit were to determine the following:

- Controls were in place to ensure proper management of fiscal resources.
- Community Education Commission employees were aware of and acknowledged the Acceptable Use of Information Assets Policy, as well as completed the Basic Security Awareness Training.

The audit scope included May 1, 2012, through April 30, 2014.

	FY 2011-12 (Actuals)	FY 2012-13 (Actuals)	FY 2013-14 (Budget)
Revenues & Subsidy			
Revenues	\$ 36,144	\$ 45,230	\$ 65,000
Metro Subsidy	342,600	342,500	346,500
<i>Total Revenues & Subsidy</i>	<i>\$348,744</i>	<i>\$387,730</i>	<i>\$411,500</i>
Expenditures			
Salary and Fringe Benefits	\$134,425	\$176,401	\$230,100
Other	187,747	218,802	181,400
<i>Total Expenditures</i>	<i>\$322,172</i>	<i>\$395,203</i>	<i>\$411,500</i>

Source: Metropolitan Nashville's EnterpriseOne Financial System

WHAT WE FOUND

The Community Education Commission had some policies and procedures in place. However, controls could be strengthened in such areas as revenue monitoring, cash handling, deposits, and reconciliations. Timekeeping procedures could also be enhanced.

GOVERNANCE

Nashville Community Education, hereinafter referred to as “Community Education Commission”, was formed on November 1, 2009, and is governed by seven Metropolitan Nashville Commissioners. Community Education Commission is managed by the executive director, who oversees the program coordinator, communications coordinator, and one site coordinator.

Funding for the Community Education Commission comes from two sources: fees generated by classes provided and Metropolitan Nashville Government’s subsidy. These funds provide salaries for fulltime employees, administrative costs, and county-wide program support and promotion.

OBJECTIVES AND CONCLUSIONS

1. *Were controls in place to ensure proper management of fiscal resources?*

Generally no. The Community Education Commission lacked reasonable controls to effectively manage fiscal resources in accordance with Metro Nashville policies. Several improvements to current processes were needed to enhance overall controls related to cash handling, deposits, and revenue recognition. Supporting objectives listed below provide further details related to this objective (see Observations B and C).

Supporting Objectives and Conclusions

a. *Were reported revenues complete, accurate, and recorded timely?*

No and Undeterminable. Based on the test work conducted, receipts were not deposited timely, and revenues could not be determined complete or accurate due to a lack of controls surrounding the registration system and procedures performed (see Observations A and B).

b. *Was the Community Education Commission following payroll and timekeeping policies and procedures?*

Generally yes. The Community Education Commission followed payroll and timekeeping policies and procedures in accordance with Civil Services Rules. Some exceptions were noted during testing (see Observations D and E).

c. *Were controls in place to ensure that expenditures were made for legitimate purposes and were in compliance with Metro Nashville’s Procurement Code?*

Generally Yes. Purchases made by the Community Education Commission had controls in place to ensure compliance with Metro Nashville’s Procurement Code. However, some areas of improvement were identified (see Observation F).

2. *Were the Community Education Commission's tracked assets properly accounted for and adequately safeguarded?*

Generally yes. Based on the review of inventory records maintained by Community Education Commission, tracked assets were accounted for and adequately safeguarded. However, classroom inventories were inaccurate due to a lack of controls (see Observations H).

3. *Had all Community Education Commission employees acknowledged the Acceptable Use of Information Technology Assets Policy and completed Basic Security Awareness Training?*

Generally no. Metropolitan Nashville Government requires for all employees to read and sign the Acceptable Use Policy, in addition to completing the Basic Security Awareness Training. Not all employees had completed the forms and security training (see Observation G).

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control – Integrated Framework (2013 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 and implement corrective action as necessary.

Observation A: Registration System Access

Access to registration records was not sufficiently restricted to ensure the integrity of the SBSI Software, Inc. Registration Management system, hereinafter referred to as “SBSI”. All Community Education Commission employees had administrative rights to SBSI, as well as the ability to accept fee payments. Administrative rights allow employees to make modifications within the registration system. Cashiers with these rights have the ability to modify and/or delete payment and enrollment information.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 10

Recommendation for management of Community Education Commission to:

Adjust security privileges to ensure that information contained in SBSI is restricted based on specific job function. Staff with administrative rights should not have access to revenue receipts and/or accounting records.

Observation B: Revenues and Cash Handling

Several observations around cash handling were noted throughout the audit:

- Segregation of custodial, recordkeeping, and authorization duties were lacking in collection of class fees during the audit period. The same designated employee that collected class fees also prepared the deposits and posted accounting entries to the general ledger. Additionally, no deposit log was maintained by the department making it difficult to determine who prepared the deposits in the absence of the designated employee.

- Due to the lack of controls around the SBSI system used by the Community Education Commission, reliance could not be placed on the registration information entered into the system. Other class records were not maintained, and in an attempt to determine reasonableness of revenues, a comparison using SBSI revenues and *EnterpriseOne* deposit records was conducted and showed SBSI recording between \$1,578 and \$9,203 more than *EnterpriseOne*. The range represents the difference calculated by Community Education Commission (\$1,578) and the difference as calculated and verified by the Office of Internal Audit (\$9,203). No misappropriation of funds was suspected by the Office of Internal Audit.
- Deposits were not secured. Additionally, all employees had access to funds collected, which increased the risk of cash mishandling.
- Refunds and petty cash were issued from the cash collections for registrations; however, documentation of cash used was maintained. The amount of cash on hand was not known by management. Reconciliations were not being performed on a regular basis.
- Deposit of cash receipts and posts to the general ledger were not timely. Community Education Commission did not abide by the Metro Nashville Cash Deposits Policy requiring checks be deposited in one business day and recorded within two business days. For the first five transactions sampled, three (60 percent) of the transactions were not deposited within one business day and five (100 percent) were not recorded in *EnterpriseOne* within two business days. The three deposit transactions ranged from 6 to 18 days, while five transactions not recorded in *EnterpriseOne* ranged from 7 to 28 days.

Criteria:

Metropolitan Government of Nashville and Davidson County Cash Deposits – Treasury Policy #9

Recommendations for management of Community Education Commission to:

1. Ensure that incompatible revenue collection duties such as cash handling, deposit preparation, recordkeeping, and authorization are properly segregated.
2. Maintain attendance logs of every class offered by the Community Education Commission as supporting documentation of revenues collected to SBSI and deposits posted to the general ledger.
3. Ensure that deposits are safeguarded at all times and keys are stored in a secure location. Only the respective cashier should have access.
4. Request the establishment of a petty cash fund from the Metro Treasurer or obtain a Metro Nashville credit card for small purchases. Issue refunds only through Metro Nashville’s Finance Department.
5. Ensure that cash deposits are made within one business day of receipt and recorded in *EnterpriseOne* within two business days of receipt.

Observation C: Departmental Policies and Procedures

Community Education Commission did not have Metro Nashville policies incorporated into their current business practices. Written policies and procedures existed for much of the operational functions, but many of Metro Nashville’s financial policies were not taken into account or implemented into the daily operations of the department.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 12

Recommendation for management of Community Education Commission to:

Revise existing policies and procedures manual to incorporate guidelines for safeguarding revenues as stated by the Metropolitan Nashville Government through its financial policies.

Observation D: Employee Leave Tracking

The Community Education Commission voluntarily follows the Metropolitan Nashville Civil Service Rules as it pertains to attendance and leave policies. Per the Vacation and Sick Accrual Report, Employee Absence Request Forms, emails, and text messages maintained by the department, vacation and sick leave were inaccurate for the two full-time employees reviewed. For example, leave time was requested by an employee that was not properly recorded, which resulted in inaccurate leave balances.

No evidence of employee agreement with accrued and taken leave time maintained by management was identified.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Information and Communication – Principle 13

Recommendations for management of Community Education Commission to:

Confirm all leave balances annually. Any discrepancies should be resolved at that time and the record signed and dated by the employee upon agreement of the leave balance.

Observation E: Instructor Documentation

Upon reviewing 30 random instructor payments, there were weaknesses noted in the following areas:

- Stipends of instructors that teach classes for the Community Education Commission were determined by management’s professional judgment. The stipend amounts were not documented in a fee schedule to allow for consistency. This increases the risk that instructors may believe they were not compensated fairly in comparison to other instructors or that excess resources were spent by paying above reasonable compensation requirements. Five (17 percent) of the instructor payments were calculated based upon class fee amounts that did not agree with the amounts that students paid to take the course.
- Stipend calculations lacked consistency. Seven (23 percent) of the instructor payments did not agree with the amounts due to instructors based on the revenue collected for the class.
- Instructors were employees of a third party vendor retained by Community Education Commission. However, Community Education Commission collected and distributed new hire documentation, such as I-9s and W-4s, on behalf of the vendor. In doing so, Community Education Commission was at risk of being held liable for the personal, confidential information collected for individuals who were not employees of the department.

- Instructors set, collected, and tracked their classroom supplies costs. Supplies fees were required in addition to class fees. Management did not review or document whether supplies fees were accurate and justified.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 10

Recommendations for management of Community Education Commission to:

1. Establish and document consistent stipend percentages for instructors as well as procedures for calculating stipend amounts.
2. Discontinue the duties related to collecting and delivering new hire documentation on the behalf of third party vendor providing payroll services to instructors for Community Education Commission. This process should be conducted by the vendor.
3. Maintain receipts for all purchases made by instructors for classroom supplies to ensure that students are not charged excessively for materials or the fees collected by instructors are not being used for personal gain.

Observation F: Expenditure Controls

While testing the controls around 47 random expenditure transactions, several observations were noted that signal a weakness in the department's procedures. The observations noted were as follows:

- Seven (15 percent) of the invoices were not paid on time per the invoice due date.
- Eight (17 percent) of the purchases were allocated to the incorrect object account.
- Contracts were not located for two vendors used by Community Education Commission for purchases made exceeding \$10,000 in a given year's time.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities – Principle 12

Recommendations for management of Community Education Commission to:

1. Ensure management reviews, approves, and signs off on expenditures prior to payment.
2. Submit invoices timely for payment as stated in Metro Nashville's Prompt Pay Policy.
3. Verify that all transactions are distributed appropriately to the correct object account.
4. Ensure that expenditures exceeding \$10,000 within a year with a significant vendor are supported by contract terms as stated in Metro Nashville's Procurement Code.

Observation G: Acceptable Use of Information Technology Assets Policy

The Acceptable Use of Information Technology Assets Policy denotes those actions that are acceptable when using Metro Nashville information technology assets. Employees and third parties are required to review and understand this policy and sign a form stating such. The following observations were made when reviewing adherence to information technology policies:

- One out of four employees (25 percent) had not submitted a signed copy of the Acceptable Use of Information Technology Assets Policy form.
- Three third-party users (100 percent) had not submitted a signed copy of the Acceptable Use of Information Technology Assets Policy form.
- Two out of four employees (50 percent) had not completed the Basic Security Awareness Training required as a Metro Nashville employee.

Criteria:

Metropolitan Government of Nashville and Davidson County Information Security Policy – Acceptable Use of Information Technology Assets Policy

Recommendation for management of Community Education Commission to:

Ensure that all required staff are aware of and acknowledge the Acceptable Use of Information Technology Assets policy, as well as complete the Basic Security Awareness Training.

Observation H: Inventory and Tracked Assets

Community Education Commission classroom equipment inventory records did not match inventory observed. Of the 25 items sampled, 5 (20 percent) of the classroom items had inaccurate inventory amounts recorded. In addition, there was one classroom being used by the Community Education Commission where inventory had not been conducted or documented.

A listing of computer workstations and laptops assigned to the department was available from Metro Nashville Information Technology Services Department. Ownership of some classroom computers that were being used by students had not been clearly defined between the Metropolitan Nashville Public Schools and Community Education Commission.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework (2013 Framework)*, Control Activities-Principle 12

Recommendations for management of Community Education Commission to:

1. Conduct a physical inventory of all classroom items at the beginning or end of each session. Due to inventory turnover taking place throughout the session, item quantities should be periodically updated on the classroom inventory logs.
2. Clarify and formally document the ownership of the classroom computers with Metropolitan Nashville Public Schools, and establish a formal procedure to maintain the computers.

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 within Community Education Commission.
- Reviewed and analyzed documentation for compliance with the Tennessee Code Annotated, Metropolitan Nashville Code of Laws, and other applicable laws, regulations, and policies.
- Evaluated internal controls currently in place.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

AUDIT TEAM

Mark Swann, CPA, CISA, CIA, ACDA, Metropolitan Auditor

Kimberly Smith, In Charge Auditor

Lauren Riley, CPA, ACDA, Quality Assurance Auditor



Metropolitan Government of Nashville and Davidson County
Nashville Community Education Commission

From the desk of the Executive Director
Lovette C. Curry, Esq.

Mr. Mark Swann
Metropolitan Auditor
Metropolitan Nashville Office of Internal Audit
404 James Robertson Parkway, Suite 190
Nashville, TN 37219

Mr. Swann:

This letter acknowledges Nashville Community Education Commissions receipt of our audit report that began May 2014. We have thoroughly reviewed the findings and recommendations from your team. Our responses have been included in Appendix A of your report.

I would like to thank your office, especially Kimberly Smith, for her diligence during this audit process. Her professionalism and dedication were greatly appreciated. The recommendations found in the report will assist our office in improving our service delivery to our clients and stakeholders.

Sincerely,


Lovette Curry, Esq.
Executive Director


Rev. Vernon Dixon
Commission Chair

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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
Management of Community Education Commission should:		
<p>A. Adjust security privileges to ensure that information contained in SBSI is restricted based on specific job function. Staff with administrative rights should not have access to revenue receipts and/or accounting records.</p>	<p>Partially Agree. Due to the limited staff in the department it is difficult to restrict access or segregate duties as suggested. All employees need the ability to accept payment and all employees need the ability manage the accounting records. However, audits will be done each session. We will allow only one employee to have the ability to change classes once registration begins. Additionally, as employees increase we can adjust registration/ cash management duties.</p>	1-1-15
<p>B.1 Ensure that incompatible revenue collection duties such as cash handling, deposit preparation, recordkeeping, and authorization are properly segregated. Specifically, the employee responsible for collecting class fees should not also be recording or making deposits.</p>	<p>Agree. This has been corrected and implemented as of July 1, 2014.</p>	7-1-14
<p>B.2 Maintain attendance logs of every class offered by the Community Education Commission as supporting documentation of revenues collected to SBSI and deposits posted to the general ledger.</p>	<p>Partially Agree. We have begun tracking attendance of all classes as of September 2, 2014 to provide departmental data on attendance rates by class and by semester for student satisfaction. However, NCE offers non credit classes, thus attendance is not a good way to reconcile revenue. NCE will not attendance data for this purpose.</p>	9-2-14
<p>B.3 Ensure that deposits are safeguarded at all times and keys are stored in a secure location. Only the respective cashier should have access.</p>	<p>Partially Agree. The cash box has been secured. However, we do not have a respective cashier as all employees are cashiers.</p>	7-1-14
<p>B.4 Request the establishment of a petty cash fund from the Metro Treasurer or obtain a Metro Nashville credit card for small purchases. Issue refunds only through Metro Nashville's Finance Department.</p>	<p>Agree. Completed. The change fund was established through division of accounts.</p>	10-24-14

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>B.5 Ensure that cash deposits are made within one business day of receipt and recorded in EnterpriseOne within two business days of receipt.</p>	<p>Partially Agree. NCE has begun to despoit daily and enter into EBS within 2 business days. However, due to our limited staff we have set a \$100 threshold for daily deposits. If the deposit amount does not meet the minimum we will deposit weekly. NCE accepts the risk as a department for this deviation from the recommendation.</p>	<p>7-1-14</p>
<p>C. Revise existing policies and procedures manual to incorporate guidelines for safeguarding revenues as stated by the Metropolitan Nashville Government through its financial policies.</p>	<p>Agree. Completed</p>	<p>9-1-14</p>
<p>D. Confirm all leave balances annually. Any discrepancies should be resolved at that time and the record signed and dated by the employee upon agreement of the leave balance.</p>	<p>Agree. Completed. Leave balances are reviewed bi-monthly at each Commission meeting. Addittionally, staff will be asked to sign a leave balance form at the end of the fiscal year.</p>	<p>7-1-14</p>
<p>E.1 Establish and document consistent stipend percentages for instructors as well as procedures for calculating stipend amounts.</p>	<p>Agree. We will create a stipend payment rubric to build consistency. Any adjustments to the rubric will be placed in writing and signed by the ED, with a maximum number of (2) adjustment allowed for a particular instructor per year.</p>	<p>1-1-15</p>
<p>E.2 Discontinue the duties related to collecting and delivering new hire documentation on the behalf of third party vendor providing payroll services to instructors for Community Education Commission. This process should be conducted by the vendor.</p>	<p>Disagree. Our relationship with our instructors allows our department to collect this information in a timely and effiecent manner. Requiring them to submit this information directly to the vendor would likely prove to be a hardship for our instructors. We are working with payroll to see if we can pay our instructors through Metro. If this is not an option we will continue to use Tailored Buisness. However, we will shred all documents with sensitive information after sending. Addittionally, we are researching alternative payroll options</p>	

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
E.3 Maintain receipts for all purchases made by instructors for classroom supplies to ensure that students are not charged excessively for materials or the fees collected by instructors are not being used for personal gain.	Agree. Completed for classes where we reimburse instructors directly. We will reduce the number of classes where students reimburse instructors, and require receipts in those instances where appropriate.	10-24-14
F.1 Ensure management reviews, approves, and signs off on expenditures prior to payment.	Agree. This is our current practice	7-1-14
F.2 Submit invoices timely for payment as stated in Metro Nashville’s Prompt Pay Policy.	Agree. This is our current practice	7-1-14
F.3 Verify that all transactions are distributed appropriately to the correct object account.	Agree. This is our current practice	7-1-14
F.4 Ensure that expenditures exceeding \$10,000 within a year with a significant vendor are supported by contract terms as stated in Metro Nashville’s Procurement Code.	Agree. This is our current practice	7-1-14
G. Ensure that all required staff are aware of and acknowledge the Acceptable Use of Information Technology Assets policy, as well as complete the Basic Security Awareness Training.	Agree. Completed	7-1-14
H.1 Conduct a physical inventory of all classroom items at the beginning or end of each session. Due to inventory turnover taking place throughout the session, item quantities should be periodically updated on the classroom inventory logs.	Agree.	1-1-15
H.2 Clarify and formally document the ownership of the classroom computers with Metropolitan Nashville Public Schools, and establish a formal procedure to identify and inventory the computers.	Agree. We have been working on this issue for over two years. We plan to have a resolution by December 2014.	1-1-15