



**A Report to the
Audit Committee**

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Audit of Finance Department's Credit Card Purchases

July 18, 2016

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

July 18, 2016



Why We Did This Audit

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

What We Recommend

The Finance Department should:

- Maintain documentation supporting charges to all cards authorized for six years.
- Provide periodic training related to card usage and updated policies.

Audit of Finance Department's Credit Card Purchases

BACKGROUND

Metropolitan Nashville Government's Finance Department consists of seven subgroups based on their functions, the Finance Director's Office, Division of Accounts, Office of Management and Budget, Purchasing, Treasurer's Office, Public Property, and Office of Financial Accountability. Except for Public Property and Office of Financial Accountability, employees in five of the subgroups have credit cards. The purchasing agent also has been issued a credit card for emergency purchases only.

Exhibit 1 – Credit Card Purchases by Finance Department Area between July 2012 and March 2016 (First Tennessee and Fifth Third Credit Cards)

Finance Department Area	Count	Amount
Treasury	446	\$167,430
Management & Budget	191	36,473
Operations	124	27,831
Purchasing	69	15,710
Director's Office	34	6,405
Totals	864	\$253,849

Source: Metropolitan Nashville Government EnterpriseOne Financial System and Fifth Third Bank Credit Card System

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Credit card usage is in compliance with Metropolitan Nashville Government code and policies.
- Finance Department has adequate and effective controls over its credit card program.

The audit scope includes 864 credit card purchases totaling \$253,849 during the 45 months audit scope between July 2012 and March 2016.

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 could be improved. Management control over eligible types of card purchases could be tightened.

GOVERNANCE

The Metropolitan Nashville Government's credit card program is administered by the Treasurer in the Finance Department. The administrator has the responsibility and control over the issuance of credit cards. The Finance Department, Treasury Policy #19, Credit Card provides guidance on the usage of credit cards for purchases. Other guidance includes Metropolitan Code of Laws § 4.08.060, Notice of Delegation of Purchasing Agent's Authority, and Finance Department Policy # 18, Travel. As of April 2014, the previous Purchasing Agent's delegations for petty cash type and small purchases limit of \$250, no longer applies.

ADDITIONAL INFORMATION

Exhibit 2 – Finance Department Credit Card Purchases Top Ten Merchant Code Description between November 2013 and March 2016 - Fifth Third Credit Card Purchases Only

Merchant Code Description	Amount
Southwest Airlines	\$18,164
Organizations, Memberships-Not Elsewhere Classified	16,941
Westin Hotel	12,753
Associations-Civic, Social, and Fraternal	12,235
Business Services-Not Elsewhere Classified	11,444
Lodging- Hotels, Motels, Resorts – Not Elsewhere Classified	9,444
Delta Airlines	9,009
Direct Marketing-Continuity/Subscription Merchants	7,407
Professional Services-Not Elsewhere Classified	6,600
Schools & Educational Services-Not Elsewhere Classified	6,590

Source: Fifth Third Bank Credit Card System

OBJECTIVES AND CONCLUSIONS

1. Are credit card usages in compliance with Metropolitan Nashville Government's credit card policy, purchasing policy, and travel policy?

Generally yes. The management of the Finance Department has processes and controls in place to assure credit card usage is in compliance with applicable regulations and policies.

Supporting Objectives and Conclusions

- a) Is the purchase for a valid business purpose, with detailed receipt, and supporting documentation?

Generally yes. There is sufficient documentation to support the business purpose for the majority of purchases. However, nine percent (15 out of 173) of purchases receipts are not available. (See Observation A.)

- b) Is the purchase for petty cash, travel, conference registration, subscriptions, or emergency related? Is the purchase from non-contracted suppliers?

Generally yes. Out of the 173 sample transactions, 95 percent of the purchases are for petty cash, travel, conference registration, subscriptions, or emergency related. The control over eligible purchase types could be tightened. (See Observation A.)

c) *Is Tennessee's sales tax exempt where applicable?*

Generally yes. There are 49 purchases in the sample where this requirement applied. Tennessee's sales tax was exempt on 73 percent of those purchases. Applying the exempt status for Tennessee's sales tax where applicable could be more diligent. (See Observation A.)

2. *Are controls in place to ensure proper management of the credit card program?*

Yes. Finance Department has a signed cardholder acknowledgment form on file for each card holder.

AUDIT OBSERVATIONS

Observation A - Improve Compliance with Credit Card Procedures

Management control to prevent potential abuse of credit card usage should be improved. The Finance Department made 864 credit card purchases totaling \$253,849 during the 45-month audit scope. A review of 173 purchases showed compliance with existing Finance policy could be improved in the following areas:

- **Supporting Documentation:** Nine percent (15 out of 173) of purchase receipts are not available. Also, four percent (7 out of 173) of the sample purchases did not have sufficient documentation to support a valid business purpose.
- **Recurring Payments:** Recurring monthly wireless service payments are being paid to AT&T.
- **Tennessee Sales Tax:** Out of 49 applicable purchases reviewed, 7 included Tennessee's sales tax along with another 6 purchases missing receipts, so it could not be determined whether the purchase includes Tennessee's sales tax.

Criteria:

- COSO, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Metropolitan Nashville Government Finance Policy #19 – Credit Card Section 6 states:
“e) Documentation supporting charges to the credit card should be readily available for review by the Internal Audit Staff and/or the Department of Finance's Office of Financial Accountability staff or their designees.”
- Metropolitan Nashville Government General Records Schedule 221- Procurement Card Files states: “Records related to purchase made by Procurement Card issued by Finance has retention of six years.”

Recommendations for management of the Finance Department to:

1. Ensure all receipts and relevant supporting documentations are retained for the duration of the records retention schedule.
2. Reiterate to card holders the credit card policy related to recurring payments, maintaining credit card numbers on internet sites, and requesting sales tax exemptions.

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 the Finance Department.
- 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.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

Nan Wen, CPA, In-Charge Auditor

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



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July 14, 2016

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

Re: Audit of Finance Department's Credit Card Purchases

Dear Mr. Swann

This letter acknowledges receipt of the Finance Department's Credit Card Purchases audit report. We have reviewed and concur with the audit comments and recommendations, as noted in Appendix A.

We appreciate the professional and thorough manner in which the Internal Audit staff conducted this audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "Talla Lomax-O'Neal", written over a horizontal line.

Talla Lomax-O'Neal
Director of Finance

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
<i>Recommendations for management of the Finance Department to:</i>		
A.1: Ensure all receipts and relevant supporting documentations are retained for the duration of the records retention schedule.	Agree: Finance has begun storing all department credit card receipts and support documentation in a centralized location in the Finance Director’s Office and will retain this documentation for six years, in accordance with the records retention schedule.	Implementation began July 2016
A.2: Reiterate to cardholders the credit card policy related to recurring payments, maintaining credit card numbers on internet sites, and requesting sales tax exemptions.	Agree: Recurring charges on credit cards have ceased. Finance Policy: Treasury #19 (credit card policy) will be provided to each new cardholder at the time the card is issued. The policy will be sent to current cardholders as a reminder.	Implementation began July 2016