



**A Report to the
Audit Committee**

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**Audit of the Metropolitan Public
Health Department Finance and
Administration Bureau – Public
Report**

May 3, 2017

Metropolitan
Nashville
Office of
Internal Audit

Audit of the Metropolitan Public Health Department Finance and Administration Bureau

EXECUTIVE SUMMARY

May 3, 2017



Why We Did This Audit

The audit was requested by the Metropolitan Public Health Department to assess key processes within the Bureau of Health and Administration.

What We Recommend

Leverage technology for revenue collections.

Strengthen controls for cash receipts, segregation of duties, and capital asset inventory.

Update and communicate the MPHD Cash Deposits policy with staff.

BACKGROUND

The Metropolitan Public Health Department (MPHD) aims to protect, improve, and sustain the health and well-being of all people in Metropolitan Nashville through a variety of services and programs. The funding for these programs is generated from state and federal grants, the general fund, and services provided by the various bureaus within the department. This audit focused on the functions within the Finance and Administration with an emphasis on non-grant revenue generated from services.

OBJECTIVES AND SCOPE

The objectives of this audit are to determine if:

- Controls ensure the MPHD's non-grant revenue is complete, accurate, and recorded.
- Controls ensure that expenditures are for a valid service delivery purpose, accurately calculated, and solicited in accordance with Metropolitan Nashville Government's procurement code.
- Controls ensure payroll and timekeeping activities are for work performed and in accordance with Metropolitan Nashville Board of Health Civil Service Rules.
- Capital and tracked assets are safeguarded.
- Information and technology assets and access privileges are protected from unauthorized use.

WHAT WE FOUND

Strong controls were in place for payroll and procurement functions. The MPHD should utilize technology to improve internal controls around the revenue process. Detailed policies and procedures should be developed and periodically updated and communicated to employees.

GOVERNANCE

The six-member Board of Health administers and controls public health for the Metropolitan Nashville Government. The Board of Health appoints a chief medical director for the MPHD, and each of the five bureaus within the MPHD is overseen by a bureau director. This audit focused on the functions within the Finance and Administration Bureau.

FINANCIAL ENVIRONMENT

Non-grant revenue sources made up 22 percent of total MPHD revenue in fiscal year 2016.

Exhibit 1 – Non-Grant Revenue by Bureau

Bureau	FY2014	FY2015	FY2016
Environmental	\$ 4,018,671	\$ 3,863,240	\$ 4,751,253
Administration & Finance	1,302,421	1,229,904	1,652,093
Community Health	424,626	449,334	433,263
Communicable Diseases	117,742	89,396	96,313
Population Health	13,238	3,196	-
Total Non-Grant Revenue	\$ 5,876,699	\$ 5,635,069	\$ 6,932,922
Total Revenue	\$ 31,409,128	\$ 28,844,019	\$ 31,218,997
Non-Grant Percentage of Total Revenue	19%	20%	22%

Source: Metropolitan Nashville Government's EnterpriseOne Financial System

Cash, checks, and credit cards are accepted at several locations within the MPHD. Within the Lentz Public Health building payments are accepted at the public health clinic, sexually transmitted disease clinic, tuberculosis clinic, dental clinic, pharmacy, vital records office, and a payment window for the Environmental Bureau. Payments are also accepted at the East Public Health Center, Woodbine Public Health Center, and Metropolitan Nashville Animal Care and Control.

The clinics use the Patient Tracking and Billing Management Information System for billing and receipts and Metropolitan Animal Care and Control uses Chameleon Software for fee calculation and payment receipting. However, revenue collection is a manual process within the remaining revenue centers. Manual receipts are issued to customers, and receivable warrants are filled out each day and delivered with payments to the business office for verification and deposit.

The majority of revenue is collected within the Environmental and Finance and Administration Bureaus. Within the Environmental Bureau revenues are generated from vehicle inspections and permitting for food establishments and other public facilities. Revenue within the Finance and Administration Bureau is generated from Metropolitan Animal Care and Control, the vital records office, and the Forensic Medical Examiner's Office. Details regarding the non-grant revenue-producing programs are listed below in the Exhibit 2.

Exhibit 2 – Fiscal Year 2016 Budget and Actual Non-Grant Revenue by Bureau/Program

Bureau	Program	Budget	Actual
Environmental	Air Quality	\$1,900,000	\$2,060,457
Environmental	Air Pollution	125,000	447,417
Environmental	Food Protection Services	923,400	1,658,054 *
Environmental	Environmental Engineering Investigations	30,000	41,350
Environmental	Environmental Monitoring - Public Facilities	342,500	543,976 *
Finance and Administration	Animal Control	595,800	579,534
Finance and Administration	Records Management Services	400,000	875,094 **
Finance and Administration	Forensic Medical Examiner's Office	120,000	197,465
Community Health	Oral Health Services	42,000	79,455
Community Health	Bridges to Care - Pharmacy	15,000	46,971
Community Health	Public Health Clinic	382,000	306,836
Communicable Diseases	Tuberculosis Elimination (TB)	4,000	1,060
Communicable Diseases	STD/HIV Prevention & Intervention	95,000	95,253
Population Health	Children's Special Services	10,000	-
TOTAL		\$4,984,700	\$6,932,923

Source: Metropolitan Nashville Government's EnterpriseOne Financial System

*Revenue over budget due to MPHD increasing collection responsibility previously handled by State of Tennessee.

** Revenue over budget due to the State of Tennessee raising fees after budget preparation.

OBJECTIVES AND CONCLUSIONS

1. Are controls in place to ensure the MPHD's non-grant revenue is complete, accurate, and recorded within two business days of deposit?

Generally, yes. A random sample of revenue deposits from 12 MPHD programs were vouched back to supporting documentation to ensure completeness, accuracy, timeliness, and compliance with the MPHD Cash Deposits Policy. The Air Quality program was not reviewed because an agreed-upon procedures engagement by a certified public accounting firm was recently conducted by a third party provider. The following policy performance concerns were observed:

- Out of the 144 bank deposits reviewed, 112 (78 percent) were not deposited in the bank within one business day of receipt (see Observation F.)
- The business office employee who prepares deposits had incompatible computer access privileges to record deposits within the EnterpriseOne Financial System and the Patient Tracking and Billing Management Information System (see Observation C.)
- Only two out of four programs using manual receipts were following the MPHD Cash Deposits Policy in regards to maintaining a daily deposit log (see Observation A and D.)
- Controls around the maintenance of receipt books were lacking as four books were not accounted for, and the receipt book log did not include the individual who obtained custody of the receipt book from the business office (see Observation B.)

Existing policies and procedures should be more detailed and specific. Each program should have specific procedures in place to guide employees on the collection of cash receipts and ensure proper internal controls are in place (see Observation D.)

2. *Are expenditures for a valid service delivery purpose, accurately calculated, and solicited in accordance with Metropolitan Nashville Government's procurement code?*

Yes. All sample items tested were for a valid service delivery purpose, approved, goods/services received, and accurately calculated. Controls were also in place to ensure the petty cash fund is protected and expenditures from the fund are approved.

3. *Are controls in place to ensure payroll and timekeeping activities are for work performed in accordance with Metropolitan Nashville Board of Health Civil Service Rules?*

Yes. Leave time is being accrued, deducted, and approved. Overtime pay is approved and monitored.

4. *Are capital and tracked assets accounted for and monitored in accordance with Metropolitan Nashville Government's Capital Asset Policy?*

Generally, yes. There is an inventory control supervisor within the Finance and Administration Bureau that serves as the process owner for the inventory functions. An inventory is being conducted each year for administrative, janitorial, and medical supplies. Tracked assets (assets with a cost under \$10,000) are monitored with a program called Asset Tracker. However, the inventory control supervisor does not have access to the fixed asset module within the EnterpriseOne Financial System, and an inventory of the capital assets within that system has not been conducted (see Observation E.)

5. *Are information and technology assets and access privileges protected from unauthorized access?*

Generally, yes. Controls were lacking around user access for the Patient Tracking and Billing Management Information System. Five terminated employees still had computer access privileges to the Patient Tracking and Billing Information System. Additionally, one employee accepted payments, entered the information into the Patient Tracking and Billing Information System, and prepared deposits (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*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A – Leveraging of Technology

Technology is not used to maximize the effectiveness and efficiency of financial operations. The majority of the cash receipt processes are manual within the MPH. Each program uses receipt books to write receipts for any payments made, the exception of the Public Health Clinics and Metropolitan Animal Care and Control. The business office maintains the entire inventory of receipt books and keeps a log of the books that have been issued out. Copies of receipts issued are reconciled to the cash collected at the end of each day.

The current manual cash receipt system makes it challenging to generate and analyze information and increases the risk of error, loss, and fraud.

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.

Recommendations for management of the Metropolitan Public Health Department to:

1. Leverage technologies that will maximize the effectiveness and efficiency of financial operations. The technology should have strong general and application controls, audit trails, and the ability to generate reports that facilitate financial and operational analysis.
2. Consider procuring check scanners or a smart safe for the deposit of daily collections.

Observation B – Receipt Book Inventory

Controls are lacking around the inventory and monitoring of receipt books. The payment receipt process at the MPH involves the use of manual receipt books for collecting and recording payments. Two receipt books could not be located, and an additional seven were returned to the business office without being logged into the inventory records. Additionally, the employees that pick up receipt books from the business office are not documented on the log, only the area in which they work.

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.

Recommendations for management of the Metropolitan Public Health Department to:

1. Periodically conduct an inventory of receipt books.
2. Document the employees that are issued receipt books from the business office.

Observation C – Segregation of Duties

Effective segregation of duties exceptions for revenue collections existed. There is one employee that authorizes, receives, and records payments. The employee prepares deposits in the business office, collects self-payments for the Public Health Clinics, and enters the payment information into the Patient Tracking and Billing Management Information System. The employee does not enter their own deposits but does have recording capabilities within the EnterpriseOne Financial System.

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.

Recommendation for management of the Metropolitan Public Health Department to:

Ensure that incompatible revenue collection duties such as payment handling, deposit preparation, recordkeeping, and authorization are segregated.

Observation D – Monitoring of Controls over Cash Deposits are Lacking

Only two of the program areas were maintaining a deposit log as prescribed in the MPHD Cash Deposits Policy. Procedures for documenting key information on cash deposit logs were not followed in the Air Pollution and Vital Records programs. The policy states that a supervisor outside of the cash receipts process should maintain a cash deposit log that includes the following:

- Receivable warrant number
- Date of deposit
- Receipt numbers included in the deposit
- Amount of the deposit
- Initials for the supervisor verifying the deposit
- Initials for the business office employee verifying the deposit

Neither of the program areas where cash deposit logs existed contained all the above six items, and none were being maintained and completed by a supervisor outside of the cash receipts process.

Due to the lack of communication of cash receipt procedures, each area reviewed was recording payments and performing reconciliations differently. Some employees maintained a Microsoft Excel spreadsheet of transactions while others did not. Some supervisors reconciled deposits daily while another performed reconciliations on a quarterly basis.

Additionally, one employee had trouble locating documentation due to the recent retirement of an employee. Procedures for the retention and maintenance of cash receipt documents are not available in the MPHD Cash Deposits policy.

The information required to be documented is to provide assurance that all payments received by the MPHD are being recorded and deposited in the bank account. Failure to capture such information increases the risk of loss, theft, or fraud.

Criteria:

- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- MPHD Cash Deposits Policy

Recommendations for management of the Metropolitan Public Health Department to:

1. Ensure that critical information related to cash receipt deposits is being captured by applicable personnel.
2. Ensure that supervisors outside of the cash receipts process are reconciling deposits and maintaining the cash deposit log.
3. Job specific procedures should be written for each position involved in the cash receipt process.
4. Ensure policies and procedures are periodically reviewed and communicated to employees.

Observation E – Inventory of Capital Assets

Periodic inventories of capital assets are not conducted and reconciled with the Master Asset Listing within the Enterprise One financial system. Also, the Inventory Control Supervisor does not have access to the fixed asset module within the Enterprise One financial system.

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.
- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Metropolitan Nashville Government’s Finance Department Policy – Division of Accounts #14 – Capital Assets

Recommendations for management of the Metropolitan Public Health Department to:

1. A periodic inventory of capital assets should be conducted and reconciled with the Master Asset Listing within the EnterpriseOne financial system on at least a triennial basis.
2. The inventory control supervisor should be granted read-only access to the fixed asset module within the EnterpriseOne Financial System.

Observation F – Timeliness of Cash Deposits

The risk of revenue being lost, misplaced, or lost investment opportunity is enhanced because cash receipts are not consistently deposited in the bank within one business day of receipt. Out of 144 deposits reviewed, 112 (78 percent) were not made within one business day. With the current process in place, cash receipts are generally deposited two business days after receipt.

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.

- MPHD Cash Deposits Policy
- Metropolitan Nashville Government’s Finance Department Policy – Treasury #9 – Cash Deposits, cash receipts are to be deposited within one business day and recorded within two business days of deposit.

Recommendation for management of the Metropolitan Public Health Department to:
Ensure cash receipts are deposited within one business day of receipt.

Observation G – Access Privileges for Information Systems

Terminated employees are not being deactivated from the Patient Tracking and Billing Management System in a timely manner. The Information Technology Division is responsible for the information systems used by the MPHD, including granting and disabling access to employees. The Division stated they are not always notified when an employee is terminated, and that terminated employee’s access will remain active for 120 days, where access is then deactivated.

Criteria:

COSO, Control Activities—Principle 11—The organization selects and develops general control activities over technology to support the achievement of objectives.

Recommendation for management of the Metropolitan Public Health Department to:

Implement a procedure for the notification of the MPHD Information Technology division when an employee is terminated.

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 Metropolitan Public Health 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

Seth Hatfield, CPA, CIA, CFE, In-Charge Auditor

Laura Henry, CFE, Staff Auditor

Bill Walker, CPA, CIA, Quality Assurance

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN



Megan Barry, Mayor

William S. Paul, MD, MPH, FACP
Director of Health

Board of Health

Samuel L. Felker, JD, Chair
Carol Etherington, MSN, RN, Vice Chair
Thomas W. Campbell, MD
Henry W. Foster, Jr., MD
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May 2, 2017

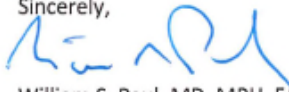
Mr. Mark Swann
Metropolitan Nashville Office of Internal Audit
P.O. Box 196300
Nashville, TN 37219-6300
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Dear Mr. Swann:

The appropriate personnel of the Metro Public Health Department have reviewed your department's audit of our Finance and Administration Bureau and have accepted all of your recommendations. We have provided a response to your findings and established a timeline for corrective action.

We look forward to working with you further regarding this matter.

Sincerely,



William S. Paul, MD, MPH, FACP
Director of Health

Enclosure

cc: Peter Fontaine

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 Metropolitan Public Health Department to:</i>		
<p>A.1: Leverage technologies that will maximize the effectiveness and efficiency of financial operations. The technology should have strong general and application controls, audit trails, and the ability to generate reports that facilitate financial and operational analysis.</p>	<p>Accept. MPHD has already made significant progress toward this goal through initiation of online customer self-payment options. Further progress on that process is currently deferred, pending conclusion on upcoming re-bidding of Metro payment processor contract. Along with the RDC mentioned in A.2, MPHD will continue to investigate other ways to leverage technology including receivables module in EBS and other systems such as QuickBooks and Sage.</p>	<p>Partially implemented already and subject to continuous improvement. Expect expansion of online payment options in FY17-18.</p>
<p>A.2: Consider procuring check scanners or a smart safe for the deposit of daily collections.</p>	<p>Accept. Working towards a RDC (Remote Deposit Capture) solution with Metro Treasury. The service is currently offered with First TN Bank, but Metro is about to re-bid its banking contract, so delays in getting system implemented are possible.</p>	<p>9/30/2017</p>
<p>B.1: Periodically conduct an inventory of receipt books.</p>	<p>Accept. MPHD Finance will keep an audit task workbook with tabs for each audit function, to include review of the receipt books. As noted in action Plan A.1. Other automated systems for receivables will be explored.</p>	<p>6/30/2017</p>
<p>B.2: Document the employees that are issued receipt books from the business office.</p>	<p>Accept. A new column will be added to the receipt book log for “issued to” signature.</p>	<p>5/30/2017</p>
<p>C.1: Ensure that incompatible revenue collection duties such as payment handling, deposit preparation, recordkeeping, and authorization are properly segregated.</p>	<p>Accept. Job responsibilities will be reassigned to provide necessary segregation of duties. Cashier will have read-only capabilities within the EnterpriseOne Financial System.</p>	<p>6/30/2017</p>

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>D.1: Ensure that critical information related to cash receipt deposits is being captured by applicable personnel.</p>	<p>Accept. A standardized procedure for recording payments and reconciliation will be developed. Procedures will include retention and maintenance of cash receipt documents. Training will be provided to appropriate staff and supervisors. Quarterly monitoring will occur by Finance staff.</p>	<p>8/1/2017</p>
<p>D.2: Ensure that supervisors outside of the cash receipts process are reconciling deposits and maintaining the cash deposit log.</p>	<p>Accept. Supervisors are required to confirm the information and amount of the receivable warrant is correct by initials. The policy and procedure will be reviewed with all supervisors at least annually or as needed.</p>	<p>8/1/2017</p>
<p>D.3: Job specific procedures should be written for each position involved in the cash receipt process.</p>	<p>Accept. Finance will coordinate with each department collecting funds for job specific procedures.</p>	<p>8/1/2017</p>
<p>D.4: Ensure policies and procedures are periodically reviewed and communicated to employees.</p>	<p>Accept. Finance Manager will conduct an annual review of all MPHD Finance policies and procedures. Policies are available to all staff on the Financial Management Intranet page. Annually, an e-mail will be sent to appropriate staff asking them to review. Training will be offered on an as-needed basis.</p>	<p>8/1/2017</p>
<p>E.1: A periodic inventory of capital assets should be conducted and reconciled with the Master Asset Listing within the EnterpriseOne Financial System on at least a triennial basis.</p>	<p>Accept. Finance Manager will conduct a review of the report on a triennial basis.</p>	<p>8/1/2017</p>
<p>E.2: The inventory control supervisor should be granted read-only access to the fixed asset module within the EnterpriseOne Financial System.</p>	<p>Accept. Inventory Control Supervisor and Finance Manager will attend the next EBS Fixed Asset Class for reading and reporting.</p>	<p>8/1/2017</p>

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>G.1: Implement a procedure for the notification of the MPHD Information Technology division when an employee is terminated.</p>	<p>Accept. The department has an employee exit clearance procedure which includes notification to the Information Technology division of employee's termination. Where this process fell short was with temporary labor and contractors who are not considered employees, so when they left, IT was not notified of their not needing access any longer since they did not proceed through the employee exit process. Now when a supervisor requests system access for a temp or a contractor, IT asks how long the employee will need access so that they can be removed from the system after that period. If the duration is unknown at the time of the request to add to the system, the supervisor is asked to notify IT when the temp or contractor no longer needs access so that it can be deactivated. IT will also do periodic checks with the requesting supervisor to verify that the temp or contractor is still working and needing access.</p>	<p>6/30/2017</p>