

BILL PURCELL
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
DIVISION OF GRANTS MONITORING
222 THIRD AVENUE NORTH, SUITE 315
NASHVILLE, TENNESSEE 37201

September 26, 2003

Robert L. Clifton
State Fair Board
P.O. Box 40208
Nashville, Tennessee 37204

Dear Mr. Clifton:

Please find attached the final Procurement Monitoring Report for the State Fair Board regarding the review of procurement card and delegated authority purchases for the fiscal year ending June 30, 2003. You reviewed and responded to the findings identified in the preliminary report issued on July 15, 2003. The responses have been incorporated into this final report.

We appreciate the assistance provided by your agency during the course of the review. If you have any questions, please let me know.

Sincerely,

Fred Adom, CPA
Director

cc: David Manning, Director of Finance
Nancy Whittemore, Assistant Director of Finance
Kim McDoniel, Department of Finance, Internal Audit
Mitzi Martin, Department of Finance, Division of Accounts
Mae Booker, Division of Grants Monitoring



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◆ Procurement Monitoring Report of ◆

State Fair Board



Issued by



**Office of Support Services
Division of Grants Monitoring**

September 26, 2003

Fred Adom, CPA
Director

Mae Booker,
Lead Auditor

Our Vision: To be excellent and proficient in monitoring and management services.

EXECUTIVE SUMMARY

The Division of Grants Monitoring (hereinafter referred to as “DGM”) has completed a procurement monitoring review for the State Fair Board (hereinafter referred to as “the Board”) for the year ended June 30, 2003. The DGM is charged with the responsibility of monitoring the prompt payment performance, delegated purchasing authority, and purchasing card activity for the departments of Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”). The DGM is also responsible for monitoring the federal and state grants to Metro departments and to nonprofit organizations receiving direct appropriations from the Metro Council.

Overview of the Department

The State Fair Board, currently located in the fairground in South Nashville, is a central place of travel events, and space rental for exhibitions throughout the year. The fairground serves as host to a wide variety of events including the flea market, consumer shows, trade-shows, banquets, and many other special events. The Board estimates that 2,000,000 people visit the fairgrounds for one or more of these events annually.

Objectives, Scope, and Methodology

A monitoring review is substantially less in scope than an audit. The DGM did not audit the financial statements and accordingly, does not express an opinion or any assurance regarding the financial statements of the State Fair Board. The objectives for our procurement review were:

- To determine whether expenditures were allowable and necessary.
- To determine the agency’s compliance with Metro’s Procurement Code and the Policies and Procedures Manual For the Purchasing Card Program.
- To determine whether expenditures were properly recorded.
- To determine whether there was unauthorized uses of the VISA purchasing cards.
- To identify any patterns in expenditures and payment habits of the cardholders.
- To determine whether the Board has adequate and effective internal controls over its purchasing card program.

The review covered the purchasing activity for the procurement cards, purchase orders, and direct payment vouchers for the period of July 1, 2002 through June 30, 2003.

To accomplish the objectives of the monitoring review, the methodology encompassed various interviews and an objective review of fiscal transactions and supporting documentation, including employee training files and journal entries. We selected samples of the Board’s purchase orders and direct payment vouchers from FASTnet and purchasing card transactions from the monthly statements. In addition, analytical procedures were conducted for the total population of purchasing card activity, including a review of:

- Total payments by vendor
- Total payments by post date
- Review of dollar amounts per transactions

Results of the review

The purchase of goods and services for the Board is not centralized. In general, each cardholder is authorized to make purchases, up to their single transaction limit. The cardholders forward each purchasing card statement to an office support representative who then reconciles and consolidates the bank statements for the journal entry. The finance administrator codes the transactions and posts the journal entries to FASTnet.

Overall, tests revealed the Board’s cardholders did not exceed their respective credit limits and purchasing card transactions were recorded timely. However, violations of the procurement regulations were found.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S COMMENTS

Based on the DGM's review of the Board's procurement activity, it appears the agency is not fully complying with Metro's purchasing guidelines. We have determined the following deficiencies were significant and should be reported as findings.

1. **The Board violated Metro's purchasing card program policies and procedures.**

FINDING

During the review, several instances were identified where the State Fair Board did not follow Metro's policies and procedures for the purchasing card program. These charges are considered unallowable as they violate Metro's policies for expenditures for personal use and split purchases.

a. **Metro Purchasing Card was used for personal use.**

Unallowable charges for two hotel stays totaling \$380.13 were found. Each appear to be non-business related; a three-night stay in Nashville's Doubletree Hotel for the executive director in January 2003 and a one-night stay in the Cool Springs Marriott for a staff member. According to the Board, the executive director stayed at the Doubletree Hotel in Nashville to eliminate traveling to and from his residence in Murfreesboro, Tennessee for required early-morning meetings with another organization. The Board provided no explanation for the stay at the Cool Springs Marriott.

The Metropolitan Government of Nashville and Davidson County Policies and Procedures Manual for the Purchasing Card Program, Section 4, Limitation on Use of Purchasing Card, provides that cardholders may only use the purchasing card for Metro authorized purchases and the cards may not be used for any personal uses.

b. **Split purchases were made in violation of the Procurement Rules and Regulations.**

The review revealed the Fair Board split purchases to pay for large transactions. According to staff, the Board entered into agreements with certain vendors to make capital improvements to State Fair buildings and accumulated charges "on account", at the executive director's instruction. Once the total charges reached a certain level, the vendors required full payment. The Fair Board requested that invoices be split into several invoices below \$1,000, for which the executive director instructed a designated employee to collect all procurement cards to make payment. The vendor charged the maximum single transaction limit on each card until the total balance was paid. In some instances, this process was repeated on a weekly basis for over a two week period. This process called for invoices to be split between two or more cardholders. A designated employee was instructed to approve and sign the charges to all of the cards. For example, the following represents one instance of such a split purchase:

CARDHOLDER	VENDOR	DATE	AMOUNT	TOTAL DAY'S PURCHASE
Robert L. Clifton	Harris Electric Supply, Inc.	5/02/03	975.65	\$ 5,739.41
Shari L. Cronkhite	Harris Electric Supply, Inc.	5/02/03	545.34	
Deborah L. Dorman	Harris Electric Supply, Inc.	5/02/03	406.06	
Erin K. Elliott	Harris Electric Supply, Inc.	5/02/03	929.65	
Steven J. Heileman	Harris Electric Supply, Inc.	5/02/03	956.29	
David E. Lewis	Harris Electric Supply, Inc.	5/02/03	982.50	
Karen C. Samuel	Harris Electric Supply, Inc.	5/02/03	943.92	

The Metropolitan Government of Nashville and Davidson County Policies and Procedures Manual for the Purchasing Card Program, Section 4B-Prohibited Uses of the Purchasing Card states that the use of the card should not be to "circumvent the procurement process," which includes "splitting" purchases. In Section 4c of the manual, the policy further states that cardholders "may make one purchase of multiple items, but the total

FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S COMMENTS

purchase cannot exceed \$ 999.00, or that of the cardholder's limit if less than \$ 999.00.” By processing multiple charges to multiple cards for large purchases the Board violated these requirements. Finally, the guidelines also prohibit the card’s use by anyone other than the official cardholder, whose name is **embossed** on the card.

c. Charges exceeded the single transactions limits

Instances were found where individual cardholders exceeded the single transaction limit per the purchasing card guidelines. The following table provides examples where purchases were made on the same day or on consecutive days and the purchase exceeded the single transaction limit:

CARDHOLDER	VENDOR	INVOICE DATE	INVOICE AMOUNT	TOTAL DAY'S PURCHASE
David Lewis	Glass Contractor of LaVergne	1/13/03	980.00	\$1,614.00
David Lewis	Glass Contractor of LaVergne	1/13/03	634.00	
Steve Heileman	Sign Me Up	4/15/01	548.00	\$2,204.35
Steve Heileman	Sign Me Up	4/15/01	696.35	
Steve Heileman	Sign Me Up	4/15/01	960.00	
Shari Cronkhite	Warren Bros. Sash & Door	3/13/03	899.05	\$1,478.97
Shari Cronkhite	Warren Bros. Sash & Door	3/14/03	579.92	
Sharon Walker	All-Interiors Supply	2/26/03	891.96	\$3,865.96
Steve Heileman	All-Interiors Supply	2/26/03	994.00	
David Lewis	All-Interiors Supply	2/26/03	990.00	
Erin Elliott	All-Interiors Supply	2/26/03	990.00	

d. Missing Supporting Documentation for procurement Card transactions

Several instances were found where either no supporting documentation for purchases was provided or documentation was inadequate. The following documents were either missing or inadequate from the Board’s file:

Missing:

- Travel and automobile rental authorizations
- Travel Claim Forms
- Receiving reports of goods
- Packing slips
- Invoices and/or sales slips
- Quotes and bid records
- Requisition to purchase orders

Inadequate:

- Charge slips without the business reason documented on the sales slip
- Proper documentation of travel claims with related charge slips

In many cases, the Board was missing verifiable documentation as to the business purpose of the charges. For example, staff took trips to various major cities in Tennessee, for which the staff indicated the business purpose was ‘benchmarking expeditions’. These trips could not be verified as legitimate Board expenditures. Outside of the credit card charge slips, no supporting documentation was available for review.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S COMMENTS

It was noted that the Fair Board's staff also took several out-of-state trips. In some instances, there was documentation to establish the business purpose of the trips but no documentation to prove the travel authorization had been approved by the Finance Director.

RECOMMENDATIONS

- **The Board should take necessary measures to recoup those unallowable expenses at local hotels.**
- **The Board should ensure that all cardholders are fully aware of purchasing card guidelines.**
- **The Board must ensure that purchasing card use is restricted to expenditures for Metro official business only.**
- **The Board should immediately cease from establishing independent payment arrangements with vendors. In accordance with Metro's prompt payment initiative, the Board must pay all vendors according to payment terms. Particularly where the procurement card is used, vendors should be paid immediately.**
- **The Board should establish written internal policies and procedures to ensure the proper use of the procurement cards.**
- **The Board shall have employees reimburse Metro Government for procurement card purchases that are personal.**

MANAGEMENT'S RESPONSE

Finding 1.a: We concur

The events held at the Doubletree Hotel and the Cool Springs Marriott were business related; however, the lodging expenses for these events were not allowable under Metro's travel policies. An exception to the travel policies will be submitted to the Finance Director for consideration, immediately. If the exception is denied, reimbursement will be made to Metro Government for these expenses.

Finding 1.b: We concur.

The purchasing card policies were violated as discussed in the finding. The buildings at the Fairgrounds were in need of significant maintenance and repair upon my hire as Executive Director. Given our revenue projections for building sales, it was imperative that we move immediately to improve the condition of the buildings.

Significant repair and maintenance on three of our largest structures have been completed as of the date of this response. These buildings are now rent-worthy to a broader, more demanding clientele.

From this point forward, we will solicit the purchase of these types of supplies in strict compliance with Metro's procurement guidelines.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S COMMENTS

Finding 1.c: We concur.

We have inappropriately used the purchasing cards to condense the procurement process, as I have deemed necessary and appropriate to meet the project completion deadlines in advance of the show dates and the market requirements.

From this point forward, we will solicit the purchase of these types of items in strict compliance with Metro's procurement guidelines.

Finding 1.d: We concur

As we go forward, documentation to support all procurement card purchases will be on file. In addition, the Finance Director will properly authorize all out-of-state travel before the trips are scheduled.

Attached is a copy of the Procurement and Travel Policies Notebooks, which we produced in response to the audit findings, to ensure compliance in the coming years. All recommendations for finding number one will be implemented.

2. **The Board did not adhere to appropriate accounting standards.**

FINDING

As noted in Finding #1, the Board charged various employees' purchasing cards for building improvements during the review period. The staff indicated during an interview that no quotes or bids were taken for any of the building improvements; vendors were chosen at the Board's discretion. Based on our review, we found the following amounts paid to three (3) vendors for building improvements:

VENDOR	BUILDING IMPROVEMENT	TOTAL AMOUNT PAID
Harris Electric Supply, Inc.	Lighting	\$ 39,900.42
Hugh Bennett Productions	Sound System	\$ 45,396.98
Ozburn-Hessey Co. Carpet	Ceiling Tiles	\$ 6,942.50
	TOTAL	\$ 92,239.90

Upon review of expenditures in FASTnet, other expenditures for such building improvements were properly procured by purchase orders during the fiscal year. The total amounts expended by purchase order were \$10,535.71 for Harris Electric, Inc. and \$5,760.00 for Ozburn-Hessey Co. Carpet. The Board appears to have been aware of the purchase order procurement process since in most instances the proper procedures were not followed.

Metro purchasing policies requires the agencies to issue an Invitation to Bid or a Request for Proposals for any purchases over \$10,000.00 to the Metro Purchasing Division. As a result, the Board may have paid more than necessary for the goods and services. Further, by using the purchasing card rather than the official ITB or RFP process, potential capital expenditures were reduced to mere operational expenditures and formal procurement policies and procedures were violated.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S COMMENTS

RECOMMENDATION

The Board should ensure that each purchase is in compliance with Metro's procurement guidelines, including those for the purchasing card.

MANAGEMENT'S RESPONSE

Finding 2. We concur

From this point forward, we will solicit the purchase of these types of supplies and equipment in strict compliance with Metro's procurement guidelines.

3. **The Board failed to adhere to Metro's travel policies.**

FINDING

The State Fair Board did not comply with the Metro travel regulations promulgated by the Metro Finance Director in accordance with Section 8-103 of the Charter of Metropolitan Government of Nashville and Davidson County. The Charter grants the Finance Director the authority to "prescribe the accounts to be kept by all departments, offices and agencies of the Metropolitan Government, the form of receipts, vouchers, bills or claims, warrants, requisitions, purchase orders or any financial stationery to be used, and provide suitable instructions for the use thereof..." As such the *Comprehensive Travel Regulations* are considered the official policy for Metro travel and accordingly, all travel made and reimbursement claimed must align with these regulations.

Based on the review, the Board made several purchasing card expenditures for meals and hotel stays that did not comply with the policies set forth in the Comprehensive Travel Regulations.

- a. Tests revealed thirty-one (31) charges on procurement cards at local restaurants, within Nashville and Davidson County, for a total of \$1,055.37 and two (2) in Lebanon, Tennessee for \$24.80, however, there was **no** evidence to indicate an overnight stay or document official Metro business being conducted. In addition there were seven (7) charges for local hotel stays and one (1) in Franklin, Tennessee for almost \$750.00, in violation of the travel regulations.
- b. Tests also revealed the State Fair Board did not have the required Form F-300 on file to support the travel and reconcile the charges to the procurement card. We found 74 charges for travel on 5 different procurement cards, 62 of which were on only **two** (2) cards, to the following cities:

FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S COMMENTS

800-394-1454 Total	\$1,479.00
ADDISON Total	\$30.46
ASHLAND CITY Total	\$70.00
ATLANTA Total	\$87.82
CALHOUN Total	\$14.00
DALLAS Total	\$2,953.46
EAST RIDGE Total	\$10.06
FARRAGUT Total	\$20.56
FLORIDA Total	\$244.16
GERMANTOWN Total	\$90.00
JACKSON Total	\$23.38
KNOXVILLE Total	\$342.76
LAS VEGAS Total	\$1,580.03
MEMPHIS Total	\$1,199.74
PERRY Total	\$50.78
PLANT CITY Total	\$23.33
SEFFNER Total	\$45.74
TAMPA Total	\$1,347.58
Grand Total	\$9,612.86

Without the Form F-300 on file, the DGM could not determine the nature, appropriateness of the charges or compliance with the travel regulations. According to the travel regulations, Form F-300 should be used to report and account for all claims for travel expenses that include meals and hotel expenses.

RECOMMENDATIONS

The State Fair Board must take immediate measures to enforce compliance with the Metro Travel Regulations.

- **The Board shall have employees reimburse Metro Government all travel that was personal and not for official Metro Government business.**
- **Cardholders should indicate the business purpose of all charges on the charge slip, receipt, or invoice, along with supporting documentation of the stated purpose.**
- **The Board must obtain travel authorizations from the Finance Director before incurring travel expenditures borne by Metro, whether the expenditures are on the Metro card or out-of-pocket.**
- **The Board should ensure cardholders are accountable in the use of the Metro Procurement Card by immediately appointing a Purchasing Card Representative to monitor purchasing card activity for all State Fair Board cardholders.**

FINDINGS, RECOMMENDATIONS AND MANAGEMENT'S COMMENTS

MANAGEMENT'S RESPONSE

Finding 3: We concur

We entertain current and prospective event clients and other strategic alliances when appropriate. Supporting documentation was not available on all travel and travel-related expenses; however, all were for the conduct of Metro business.

An exception to the travel policies will be submitted to the Finance Director for consideration on unsupported travel expenses. If the exception is denied, reimbursement will be made to Metro Government for all unsupported travel expenses.

Going forward, all travel will be conducted in accordance with Metro's travel policies and procedures and properly documented accordingly. Recommendations for finding number three are being implemented.

As a result, we have designated a purchasing card representative to monitor activity of all cardholders. As of July 17, 2003, all staff members holding purchasing cards are given a binder containing the Metro Procurement Codes, Procurement Card Policies and Procedures, Travel Regulations, Expense Report Forms, and Purchasing Approval Forms.

Each employee signs a form acknowledging receipt of this notebook and a copy of the form is added to their personnel files. In addition, everyone is advised of the importance of following all Metro purchasing, travel and procurement policies and procedures.