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MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
OFFICE OF FINANCIAL ACCOUNTABILITY
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NASHVILLE, TENNESSEE 37201

I

November 16, 2004

Dr. Stephanie Bailey
Metro Public Health Department of Nashville and Davidson County
311 23rd Avenue North
Nashville, TN 37203

Dear Dr. Stephanie Bailey:

Please find attached the final Procurement Monitoring Report for the Metro Public Health Department of Nashville and Davidson County. This report explains the results of our review of delegated authority purchases and procurement card use from March 2003 through March 2004. Staff from the Office of Financial Accountability conducted the fieldwork for this review from May 19, 2004 through June 4, 2004. You previously reviewed and responded to each finding in the preliminary report dated March 15th. Your responses have been incorporated in this final report under "Management's Comments".

We appreciate the staffs' cooperation and assistance provided us during the review. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom, CPA
Director

cc: David L. Manning, Director of Finance
Bob Eadie, Metro Public Health Department of Nashville and Davidson County
Jim Diamond, Metro Public Health Department of Nashville and Davidson County
Holly Rice, Metro Public Health Department of Nashville and Davidson County
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◆ Procurement Monitoring Report of ◆

Metro Public Health Department



Issued by



Department of Finance Office of Financial Accountability

November 16, 2004

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Director

LaShawn Barber,
Lead Auditor

Bill Walker, CPA
Assistant Auditor

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

PROCUREMENT MONITORING REPORT
FOR THE
METROPOLITAN PUBLIC HEALTH DEPARTMENT

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EXECUTIVE SUMMARY

The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a procurement monitoring review for the Metro Health Department of Nashville and Davidson County (hereinafter referred to as “MPH”). The OFA is charged with the responsibility of monitoring the prompt pay performance, delegated purchasing authority, and purchasing card activity for the departments of the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”). The OFA 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 MPH has a mission “to provide health protection, promotion, and information products to everyone in Nashville so they can enjoy healthy living free from disease, injury, and disability.” For the department’s purchasing function, almost 40 VISA procurement cards have been issued to MPH staff. In addition to this, the department also has delegated authority. From March 1, 2003 through March 31, 2004, the agency purchased over 1,400 items in good and services using the VISA purchasing card and approximately 5,600 in goods and services using purchase vouchers.

Objectives, Scope, and Methodology

A monitoring review is substantially less in scope than an audit. The OFA did not audit Metro’s financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of Metro. The objectives for our procurement review were as follows:

- To determine whether expenditures were allowable and necessary.
- To determine the department’s compliance with Metro’s Procurement Code and the Policies and Procedures Manual for the Purchasing Card Program
- To determine whether expenses 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 purchases were made in accordance with OMB Circular A-87, the minimum federal, state and local requirements, and grantor guidelines
- To determine whether the department has adequate and effective internal controls over its purchasing card program.

The review covered the activity for the purchasing cards, purchase orders, and direct payment vouchers for the period of March 1, 2003 through March 31, 2004. Although the review focused on this specific time period, certain analyses required the consideration of financial activity outside of this time period.

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 department’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 posting date
- Review of dollar amounts per transaction

RESULTS OF MONITORING REVIEW

Overall Findings and Major Review Highlights

Based on the tests performed, the MPH has implemented good internal controls for the procurement processes. Overall, we found purchases made on behalf of Metro were adequately supported by the appropriate documentation and authorizations. As such, the department's procurement operations are strengthened and face less potential for fraud and misuse. Our review did, however, reveal non compliance with Metro's policies and procedures:

1. The department improperly engaged in a split purchase.

The "Findings, Recommendations, and Management's Comments" section that follows provides more detailed information for this finding. Management is given an opportunity to formally respond to any finding presented in the monitoring report. Each response is included herein immediately following the respective finding.

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S COMMENTS

1. **The department engaged in split purchasing.**

FINDING

During the course of the review, the OFA noted that the MPH had engaged in a “split purchase” for 2 out of the 160 items (1%) tested. The two purchases were made from the same vendor on 6/27/03 for a total amount of \$1,658.16, while the cardholder’s single transaction limit was only \$999. The specific detail is as follows:

MERCHANT	POSTING DATE	AMOUNT
A to Z Office Resources	06/27/03	\$ 977.47
A to Z Office Resources	06/27/03	\$ 680.69
Total		\$ 1,658.16

Under the Procurement Card Program, each Cardholder has a pre-established single transaction limit. Split purchasing occurs when the Cardholder has the vendor split the cost of an item or group of items into multiple invoices/payments to circumvent the single transaction limitation. The credit card company then processes the transaction because, in form, the individual invoice amounts are less than the transaction limit. Sound business practices dictates that controls and reasonable limits be placed on an employee’s ability to incur liabilities on behalf of the MPH. This ensures that expenditures are appropriate, reasonable, and in the best interest of the public.

RECOMMENDATION

Management should take the necessary measures to ensure that:

- MPH cardholders conform to the Operating Procedures for the Purchasing Card Program Metro Procurement Code or other internal purchasing guidelines for those transactions that exceed the Cardholder’s limit.
- MPH cardholders only use the purchasing cards for purchases that are within the established transaction limits.

MANAGEMENT'S COMMENTS

We concur with the recommendations of the OFA. While it may not be possible to completely eliminate the possibility of a split purchase being made on a procurement card, we will emphasize to all of our procurement card holders the necessity of strictly complying with the Metro Procurement Code. If an individual violates this policy a second time, we will cancel his or her card privileges. This discrepancy appears to be an isolated situation and most likely occurred because the purchase was made from a contract vendor and would have been acceptable if made by an MPHD employee with a higher transaction limit.