



*METROPOLITAN GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY*

INTERNAL AUDIT SECTION

Professional Audit, Advisory, and Consulting Services

AUDIT REPORT

Financial Control and Compliance Audit of the Finance Department

Date Issued: August 25, 2006

Office Location and Phone Number

222 3rd Avenue North, Suite 401
Nashville, Tennessee 37201

615.862.6110

*METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON
COUNTY*

INTERNAL AUDIT SECTION

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**BILL PURCELL
MAYOR**



**DEPARTMENT OF FINANCE
INTERNAL AUDIT SECTION**

**METROPOLITAN
GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY**

**222 3RD AVENUE NORTH, SUITE 401
NASHVILLE, TENNESSEE 37201
Telephone: (615) 862-6110
FAX Number: (615) 862-6425**

August 25, 2006

Mr. David Manning
Metro City Hall
225 Polk Avenue
Nashville, Tennessee 37203

Report of Internal Audit Section

Dear Mr. Manning:

We have completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of the Department of Finance. *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States define performance audits as follows:

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability. Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results, economy and efficiency, internal control, compliance with legal or other requirements, and objectives related to providing prospective analyses, guidance, or summary information.

A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance. Internal control objectives relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance.

Auditors' Responsibility

In order to maintain and broaden public confidence, auditors need to perform all professional responsibilities with the highest degree of integrity, professionalism, and objectivity when dealing with audited entities and users of the auditors' reports. Additionally, auditors should be honest and candid with the audited entity and users of the auditors' work in the conduct of their work, within the constraints of the audited entity's confidentiality laws, rules, or policies.

Service and the public trust should not be subordinated to personal gain and advantage. Auditors should be objective and free of conflicts of interest in discharging their professional responsibilities. Auditors are also responsible for being independent in fact and appearance when providing audit and attestation services. Independence precludes relationships that may in fact or appearance impair auditors' objectivity in performing the audit or attestation engagement. The maintenance of objectivity and independence requires continuing assessment of relationships with the audited entities in the context of the auditors' responsibility to the public.

In applying *Generally Accepted Government Auditing Standards*, auditors are responsible for using professional judgment when establishing scope and methodologies for their work, determining the tests and procedures to be performed, conducting the work, and reporting the results. Auditors need to maintain integrity and objectivity when doing their work to make decisions that are consistent with the broader public interest in the program or activity under review. When reporting on the results of their work, auditors are responsible for disclosing all material or significant facts known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal improper or unlawful practices.

Management's Role

Department process owners and managers are entrusted to properly manage the resources under their control. To meet their obligations, process owners and managers are responsible for:

- Applying those resources efficiently, economically, effectively, and legally to achieve the purposes for which the resources were furnished or the program was established;
- Complying with applicable laws and regulations, including identifying the requirements with which the entity and the official must comply and implementing systems designed to achieve that compliance;
- Establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed;
- Providing appropriate reports to those who oversee their actions and to the public in order to be accountable for the resources used to carry out government programs and the results of these programs; and

- Addressing the findings and recommendations of the auditor’s work, and establish and maintain a process to track the status of such findings and recommendations.

Background

The mission of the Department of Finance is to provide financial management, information, and business products to policy makers, other Metro departments, investors, and the community so they can have confidence in the government, make informed decisions, and achieve their projected results. The Department of Finance is comprised of six divisions: Financial Operations, Office of Management and Budget, Office of the Treasurer, Real Property Services, Financial Accountability, and Internal Audit. A brief description of each is listed below.

Financial Operations

The vision of Financial Operations is to be recognized by customers, peers, and stakeholders as the model for fiscal, technological leadership, and customer service. Their mission is to provide Metro with fiscal leadership and sound stewardship of public resources by establishing fiscal policy, providing accurate and timely information, and facilitating the most effective and efficient delivery of services. Financial Operations is comprised of two sections, Accounting/Accounts Payable and Payroll. In addition to performing accounting, accounts payable, and payroll functions for Metro, Financial Operations also manages the completion of the Comprehensive Annual Financial Report (“CAFR”). The CAFR represents the culmination of all budgeting and accounting activities engaged in by management during the fiscal year. As such, it is the one of the most important documents prepared and released.

Office of Management and Budget

The vision of the Office of Management and Budget is that Metro's financial and strategic plans will be the best developed, communicated, implemented, and results-focused of any municipal government in the United States. Their mission is to drive financial planning and the strategic management processes across Metro departments by delivering management information, consulting, and implementation services. The Office of Management and Budget has six main programs: operational budgeting, capital budgeting, cost accounting, grants coordination, minority and small business assistance, purchasing, and performance measurement. The Office of Management and Budget prepares and releases several reports analyzing budget accountability, internal service fees, operational and capital budgeting, cost allocations, and releases the operation and capital spending plan for the entire Metro government and associated agencies.

Office of the Treasurer

The Office of the Treasurers’ vision is to be a world class model of efficiency by implementing Metro wide sound treasury policies and procedures. The mission of the Office of the Treasurer is to provide leadership as the stewards of Metro's cash, debt, and investments by implementing efficient cash management tools, prudent investing principles, effective debt management programs, and timely informative communications and reporting. The Office of the Treasurer has three main programs: Cash operations,

investor relations, and investment committees support. Products delivered range from pension performance reports to processing high volume cash transactions.

Real Property Services

Real Property Services vision is to deliver excellence in facility services. Their mission is to facilitate the planning, acquisition, design, construction and disposition of real property and furnishings for Metro. Real Property Services provides quality assurance in programming facilities, space planning, facilities modification and renovation, new building construction and construction oversight services to all Metro's agencies.

Financial Accountability

Financial Accountability conducts fiscal and programmatic monitoring of federal and state grants administered by the various Metro agencies to ensure compliance with federal, state and local laws, regulations, stated outcomes and results, and specific requirements of the grant program. Financial Accountability key responsibilities include monitoring Metro agencies that administer federal and state grants, monitoring not-for-profits that receive Metro assistance to operate various programs, monitors all Metro agencies for compliance with procurement policies, and monitoring Metro agencies for compliance with standards for timely vendor payments.

Internal Audit

Internal Audit is an objective assurance and consulting activity designed to add value and improve organization's operations. Internal Audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Through work completed as of June 30, 2005, Internal Audit has achieved cost savings/additional revenue of \$52.2 million for a return on investment of 1082 percent.

Budgeted Financial Information

The Department of Finance had a total of 133 budgeted positions for fiscal year 2005. The fiscal year 2005 budget can be summarized below:

	General Fund	Special Purpose Funds	Total
Revenues & Transfers			
Charges, Commissions, & Fees	\$0	\$9,367,600	\$9,367,600
Transfers from other Funds & Units		252,500	252,500
Total Revenue & Transfers	\$0	\$9,620,100	\$9,620,100
Expenditures			
Salaries and Fringes	\$901,600	\$8,197,800	\$9,099,400
Other Services	203,800	1,039,000	1,242,800
Other Expense	8,000	380,500	388,500
Pension, Annuity, Debt & Other Costs	0	1,800	1,800
Transfers to other Funds & Units	0	1,000	1,000
Total Expense & Transfers	\$1,113,400	\$9,620,100	\$10,733,500

Objectives, Scope, and Methodology

The primary objectives of this financial control and compliance audit included the following:

- An examination of business processes employed by the Department of Finance for purchasing and expenditures, payroll and personnel, petty cash, accounting processes, and fixed assets;
- Identification of weaknesses and strengths in the internal control environment and their impact on operations;
- Identification of the actual financial and/or operational impact on operations from weaknesses and strengths identified; and
- Provide recommendations to the Department of Finance management that supply a direction for improvement in the internal control structure.

Our work focused primarily on the period July 1, 2003 through September 30, 2004 financial balances, transactions, and performance on the processes in place during the time of the audit. Certain analyses required the consideration of financial results, performance, and operations outside that time period.

Real Property Services has been mainly excluded from the scope of our audit and will be covered by consultants completing a performance audit of Building and Grounds Maintenance. We have included some transactions and related processes as part of our audit.

The capital project funds and The Office of the Treasurer cash management processes were not reviewed as part of this engagement and either will be or are being completed by external consultants.

ADA Compliance, Surplus Property, and Customer Service were transferred to General Services and were not reviewed as part of this engagement.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the Department of Finance. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of the Department of Finance operations were directly observed.

In discharging our professional responsibilities, we observed the principles of serving the public interest and maintained the highest degree of integrity, objectivity, and made decisions that were consistent with the broader public interest. In applying *Generally Accepted Government Auditing Standards*, we used professional judgment when establishing scope and methodologies for our work, determining the tests and procedures to be performed, conducting our work, and reporting results. Because we are not located organizationally outside the staff or line management function of the agency under audit, we do not meet all three criteria as stated by *Generally Accepted Government Auditing Standards* for impairment. As a consequence, we cannot affirm that we were free both in fact and appearance from personal, external, and organizational impairments to independence.

Findings, Recommendations, and Management's Response

We have listed below the reportable findings, recommendations, and management's responses for the objectives listed above. If an objective is not discussed below, no issues were identified or the issues identified were not to the level of a reportable condition and were verbally communicated through the course of fieldwork.

1. The current Metro Travel Policy does not provide enough guidance for business related meals and entertainment expenses.

We reviewed two travel expenditures and three local meal reimbursements from July 1, 2003 through September 30, 2004 for compliance with the current Metro Travel Policy. Additionally, we reviewed the current Metro Travel Policy for compliance with Internal Revenue Service ("IRS") regulations for business related meal and entertainment expense reimbursements. Based on our review, we identified the following weaknesses:

- The published travel regulations currently used by Metro do not adequately address local travel and/or business related reimbursements. Lack of procedures for local travel and business related reimbursements expose Metro employees to federal tax issues. According to IRS Sec. 62(c) and IRS regulations 1.62-2., in order for

expenses to be deductible for a business and not considered income to the employee, the reimbursements are to be made under an accountable expense reimbursement plan. To be reimbursed under an accountable expense reimbursement plan, the reimbursement request must include the business connection of expenses, proper substantiation of expenses, written plan requiring that employees return to the employer reimbursed amounts in excess of actual expenses incurred, the actual return by employees within a reasonable time of reimbursed amounts in excess of actual expenses incurred, and any advance made by an employer to an employee must be reasonably calculated and must not be expected to exceed the amount of reasonably anticipated expenditures to which such advance relates. Additionally, the current Metro Travel Policy does not specifically address local travel or how business related meal reimbursements should be accounted for. Two of the three local meal reimbursements tested lacked a detail receipt. By not requiring a detail receipt for all purchases, we were unable to identifying what was actually purchased.

Recommendation

Comprehensive policies and procedures should be developed addressing the weaknesses identified above. Amendments should include reference to all applicable IRS regulations.

Management's Response

Agree. The travel policies are scheduled to be updated to incorporate all types of employee-incurred business expenses by December 2006. This is being done in conjunction with the Finance-wide effort to update and/or develop all necessary policies. The revised policy will include new procedures around procurement cards and expense reimbursements.

2. Fixed asset procedures need to be improved.

We reviewed eight of the approximate 136 fixed assets with a value of \$5,000.00 or more listed in our central accounting system and tested for existence, adequate safeguarding, and proper valuation. In addition, we reviewed the controls over asset acquisition and disposal. Based on our review, we noted the following weaknesses:

- The controls over the acquiring and disposing of assets are not sufficient to prevent Metro departments from circumventing policies and procedures. Current acquisition procedures require departments prepare an on-line form that notifies Financial Operations of the purchase. For transfers or disposals, an e-mail form obtained online is required to be completed notifying Financial Operations of the department receiving the asset transfer or reasons for disposal. We accessed the Inside Metro webpage and were unable to obtain the required transfer/disposal form. After receiving notification, Financial Operations will make the appropriate adjustments to the fixed asset master list. Based on our testing, we obtained a report dated December 2004 with 50 pages of assets that were sold at auction, and some that had a

value of at least \$5,000.00 that have not been removed from the fixed asset master list. Additionally, Financial Operations did not complete an annual fixed asset inventory for fiscal year 2004 and has not performed the three year rotating departmental confirmation of physical inventory as required by the current Metro Fixed Asset Policy;

- The list of fixed assets sold at auction sent to Financial Operations by General Services is not being provided timely and assets are not sufficiently organized preventing efficient updates to the fixed asset master listing. Currently, General Services is sending summary information of the assets sold every six months. Contained in the report are individual assets with a value of less than and greater than \$5,000.00. Because assets are not grouped by type, Financial Operations has to review each item with a value of at least \$5,000.00 and research the asset status. The verification performed by Financial Operations is needed because Metro departments are not consistently supplying timely asset status updates; and
- One of the fixed assets selected from the Metro fixed asset listing could not be found. The asset was traded in for a new piece of equipment without completing the necessary documentation required for the disposal of fixed assets. Also, two of the fixed assets selected were assigned to Finance Department business units but the equipment was being utilized by other Metro departments. In one case, a photo copier is being used by General Services (ADA Compliance) without completing the proper asset transfer procedures and the other case involved a LCD projector that was installed by Real Property Services as part of the renovation work in the Council Chambers and was charged to a Finance Department business unit used for capital projects. At the completion of the project, the asset was not transferred to the receiving department.

Recommendation

Financial Operations should comply with current procedures and perform annual inventories and the three year departmental confirmation of physical inventory. Financial Operations should review current processes utilized to update the fixed asset master listing and make appropriate corrections to improve the timeliness of updates and overall accuracy. Improvements should include working with General Services to increase the reporting frequency and format of assets sold at auction. Additional steps should be taken that will increase the awareness of the fixed asset reporting requirements for all Metro departments through training programs or other formal announcements to improve their awareness of responsibilities related to asset acquisitions, transfers, and disposals.

Management's Response

Agree. When the fixed asset policy is revised, the fixed asset confirmation rotation and the responsibility for periodic physical inventories of fixed assets will be revised in a manner that will safeguard Metro's fixed assets in a cost beneficial way. Additionally, General Services is in the process of developing an RFP for on-line auction services that

will provide us with improved information on assets sold on a monthly basis. Finally, departments will receive additional communication on fixed asset policies and record-keeping requirements when the policy is revised. We expect the policies to be updated before the end of 2006.

3. Payroll time and attendance functions need to be improved to increase efficiency and accuracy.

We reviewed the payroll process utilized for the calendar year 2004. Along with reviewing the payroll process, we tested the time and attendance records for 11 employees to the amounts supported by department records for accuracy and completeness. Based on our review, we noted the following weaknesses:

- The Finance Department does not have procedures documenting items given to and later collected from terminated employees or access to Metro financial and other information technology. By not tracking what items are provided employees, retrieval is virtually impossible. By not eliminating access to Metro financial and other information technology, overall security is decreased;
- Office of Management and Budget lost leave accounting records for the period January 2004 through May 2004 preventing adequate support in the event of future discrepancies;
- Leave records maintained by the Shared Business Office did not always include the leave type and/or amount of leave taken on the approval log. At the time of our audit, the Shared Business Office maintained the leave accounting records for Real Property Services, Office of Management and Budget, and Financial Accountability. Real Property Services used the leave accounting services of the Shared Business Office for the first half of fiscal year 2005 and noted numerous inaccuracies. As a result, Real Property Services withdrew from the service agreement with the Shared Business Office and is maintaining their own leave records;
- We could not locate the leave requests for four of 11 employees tested. In addition, leave request forms were found but not accounted for in the employee's leave accrual balances for four of the 11 employees tested. By not maintaining adequate documentation to support requested leave, future discrepancies may not be resolved in a satisfactory manner;
- One employee with known outside employment did not have a letter in their personnel file with the division. According to Section 3.8 of the Civil Service Rules, all Metro civil service employees with outside employment are to notify the appointing authority of the situation and document their situation. However, the employee did include the outside employment as part of the annual conflict of interest and financial disclosure;

- As of December 31, 2003, one employee selected for testing had 87.25 hours of compensatory time earned. Per Civil Service Rules (Section 5.7, C.), employees who have earned compensatory time at the end of the calendar year should have any remaining time cleared from the books by June 30 of the following year. The employee had not used the compensatory time earned and leave accrual balances still included the time earned in the previous calendar year as of July 2004; and
- One employee who earned and used compensatory time during the same 40 hour work period. Per Civil Service Rules (Section 5.7, D.), “computation of overtime and/or compensatory time shall be based on time worked in excess of 40 hours in a designated work period.” The Civil Service Rules further state that “time scheduled as vacation, holiday, jury duty, and injured on line-of-duty during a designated work period shall be construed for purposes of calculating overtime or compensatory time as time actually worked”. Compensatory time taken cannot be counted toward actual time worked during the work period allowing the employee to earn additional compensatory time at time and a half of the employees pay rate.

Recommendation

Access cards, parking passes, office keys, etc. should be collected and access to all computer information technology should be terminated immediately after an employee leaves employment with the Finance Department. Procedures should be developed that include forms and checklists documenting when the items are collected and by whom.

Policies and procedures should be implemented that guarantee employee leave accounting records will be secure. There should be a consistent policy throughout all Finance Department divisions as to how employee leave balances are maintained and for how long. One method should be selected (do in-house or through the Shared Business Office) preventing other divisions from having multiple methods of doing a central administrative function.

The Department of Finance should follow all Civil Service Rules.

Management’s Response

Agree. We will work with the Shared Business Office to ensure standard procedures and checklists are implemented surrounding terminated employees. Additionally, the Finance Department will be implementing a Metro-wide time and attendance tracking system during the 2006-2007 fiscal year. Uniform Finance procedures will be established at that time. The applicable managers have been made aware of each specific exception noted during this audit to ensure compliance with record keeping procedures and Civil Service Rules going forward.

4. The Treasurer's Office needs to improve cash and investment reporting processes.

We reviewed general cash flow and investment processes with the Treasurer's Office. Based on our review, we noted the following weaknesses:

- A daily cash projection was not being completed by the Treasurer's Office. Management cannot properly manage Metro's cash position without knowing what the cash requirements are for current and future dates. Not completing and analyzing the daily cash projection gives management an incomplete view of the cash requirements and is an inadequate management practice; and
- The Treasurer's Office incorrectly credited the Metro Investment Pool accounts that had negative balances with interest based on an incorrect formula. By multiplying a negative and a negative together, the resulting effect incorrectly increased the interest allocation to accounts that did not earn interest and reducing the amount of interest allocated to accounts that should have received interest.

Recommendation

The Treasurer's Office should prepare a daily cash projection. This will give management information needed for making cash related decisions. The Treasurer's Office should take steps to correct the Metro Investment Pool interest allocation formula. This will result in the proper allocation of interest to Metro Investment Pool accounts.

Management's Response

Agree. We are currently working with Treasury Strategies consultants to make sure our cash flow forecasting methodology meets industry Best Practice standards.

We concur that there were problems with the calculations and allocation of MIP interest earnings. The interest calculation error was detected and corrected during the year-end audit process. The responsibility for calculating and allocating interest earnings and charges was transferred to Financial Operations in early 2005.

5. The service agreements provided by the Shared Business Office were not current for some of the services offered to the divisions in the Finance Department.

We reviewed the Shared Business Office service agreements to identify any services that were not provided. Based on our review, we noted the following weakness:

- Copies of the service agreements with the Shared Business Office were reviewed to gain an understanding of the services provided by the Shared Business Office to the divisions of Finance. Although the service agreement with Financial Operations indicates that the Shared Business Office maintains the leave accounting records of the division, the leave accounting records are maintained by Financial Operations.

Recommendation

The Finance Department and Shared Business Office should review the service agreements to assure that services described are actually being performed. Reviewing the service agreement will provide an accurate expectation of the services that are to be provided by the Shared Business Office.

Management's Response

Agree. The Shared Business Office has been asked to update the agreement to reflect the current practice.

6. Financial Operations is not properly monitoring departmental checking accounts.

We reviewed the departmental checking accounts for general accounting controls. Based on our review, we noted the following weaknesses:

- The listing of departmental checking accounts that Financial Operations should be reviewing quarterly was not reviewed by management to determine if accounts listed are active or if additional checking accounts should be included or if contact information is current. If tracking information is not current, problems could arise from theft to a misappropriations of assets and not be detected;
- There were three central checking accounts that have not been reconciled timely. One checking account, the Metro operational checking account, had not been reconciled for eight months. The two other accounts, Injured On Duty and Medical Expense Plan Clearing account, had not been reconciled for six months and three months respectively; and
- Financial Operations has not been receiving some of the quarterly departmental reconciliations timely from Metro departments and in some cases no departmental checking accounts reconciliations were received. By not completing reconciliations on a timely basis, problems could arise from theft to a misappropriations of assets and not be detected.

Recommendation

Financial Operations should routinely update the listing of departmental checking accounts so that all active accounts are listed and contact information is current. Also, departments that are not submitting quarterly departmental reconciliations timely should be contacted as to the reason for delay.

Management's Response

Agree. The Finance Department, through the Treasury Division, is working with departments to consolidate all bank accounts to the fullest extent possible, which will

reduce the number of accounts and reconciliations being monitored. Quarterly bank reconciliations will continue to be reviewed for bank accounts that have not yet been closed or that cannot be closed for a valid business reason. An assigned accountant tracks the status of all quarterly bank reconciliations. Additionally, the external auditors confirm the balances of all central and departmental bank accounts directly with the banks annually.

For the 2005-2006 fiscal year, all central bank accounts, with the exception of the operational bank account, have been reconciled monthly and timely. The operational bank account continues to be behind - although not as far behind as the time of the audit work - due primarily to procedural and staffing changes. As of May 2006, we were approximately 5 months behind in having this account fully reconciled, and we have developed a plan to be caught up by August 2006. Additionally, we are in the process of redesigning the reconciliation process and have reassigned staffing to reduce the amount of time it takes to perform the reconciliation and to ensure reconciliations are appropriately prioritized at the supervisory level going forward.

7. Petty cash procedures are not being followed by the Finance Department.

We reviewed the petty cash fund utilized by the Finance Department to determine if the funds were properly safeguarded, expenditures were reasonable, and if transactions were properly approved. Based on our review, we noted the following weaknesses:

- The petty cash fund was reimbursed once during fiscal year 2004. The reimbursement rate appears low and the petty cash fund amount may be more than what is needed by the Finance Department;
- Individuals other than the petty cash custodian have access to the petty cash fund preventing adequate safeguarding of assets;
- The petty cash fund is not reconciled at least annually by someone other than the petty cash custodian. When independent reconciliations are not completed, the risk of misuse increases;
- Not all of the petty cash receipts included adequate supporting documentation. By not supporting reimbursements with adequate support, questions could be raised as to the actual business purpose;
- The petty cash custodian approved their own petty cash disbursements preventing adequate management review; and
- Not all of the petty cash receipts had the signature of the individual receiving the reimbursement.

Recommendation

Management should consider reducing the petty cash fund to a lower amount to match current spending. Having an excessive amount of petty cash may lead to cash being misappropriated. In addition, the Finance Department should follow the established petty cash procedures.

Management's Response

Agree. The Finance Department has closed its petty cash fund. Those type expenses are either paid through a procurement card or by reimbursing employees through accounts payable, upon presentation of appropriately approved supporting documentation.

8. Improvements need to be made in monitoring transactions and complying with current Metro procurement policies and procedures.

We reviewed 24 expenditure transactions for the period of July 1, 2003 through September 30, 2004 and compared them to departmental source documentation for compliance with Metro Procurement Policies. Based on our review, we noted the following exceptions:

- Purchasing does not maintain a listing of individuals who have been given delegated purchasing authority by department directors. Per the procurement policy, Purchasing has been given the responsibility to review all open market limited purchases orders for quantity of limited purchase orders issued by individual buyers;
- Procurement information on the Inside Metro website has not been updated for changes in procurement policy. The memorandum format that departments are to use for requesting delegated purchasing authority is not consistent with current Metro Code R4.08.060.02. The purchasing regulations published on Inside Metro website providing the number of quotes required at the various dollar thresholds contradicts the current Metro Procurement Code quote requirements. Inconsistent information will result in confusion among Metro departments;
- Credit card receipts submitted by a consultant for reimbursement did not include the detail of meal purchases. A consultant's invoice did not include a detail accounting of the number of hours spent on the Metro project. The invoice states it is a fixed fee amount, however, the fee schedule of the contract does not mention a fixed fee amount. Only hourly rates at different service levels are detailed as part of the contract pricing schedule;
- Two purchases reviewed did not provide adequate support to document the business purpose. By not supporting transactions with relevant support, questions could be raised about the business relationship that lacked details of the goods/services purchased; and

- An employee was reimbursed for an expense that was paid on a personal credit card of individual other than the employee. No explanation was noted on the reimbursement request submitted by the employee about why this expense was paid by someone other than the employee. Only appropriate expenses made by an employee should be reimbursed.

Recommendation

Purchasing should contact all departments with delegated purchasing authority to obtain a listing of all employees who have been given the responsibility of issuing purchase orders. A review of the open market purchase orders by individual should be performed as required current Metro procurement regulations.

The purchasing regulations should be updated to account for any changes in procurement practices and the updated regulations should be published to the Inside Metro website. This will provide metro departments with current information regarding procurement regulations.

Vendor invoices and supporting documentation should include adequate description of goods/services. This is needed to determine if contract terms are being adhered to.

Employee reimbursement requests should properly document the reason for the reimbursement and any other situations that may exist.

Management's Response

Purchasing does not currently maintain a list of individuals who have been given delegated purchasing authority by department directors, only departments that have delegated purchasing authority. However, in the eProcurement system (Ariba) now being implemented and due to go live by the end of July, 2006, a table of individuals and their dollar level of approval authority is maintained. That table will serve as the approved individual list while the listing of department heads who affirm their knowledge of and intent to abide by the Procurement Code will be maintained in the Division of Purchases. The responsibility for reviewing limited purchase orders has been delegated to the Office of Financial Accountability.

The Inside Metro web pages are currently under redesign to conform to the Codes, Regulations, and eProcurement. Several regulations were updated at the April and July 2006 Procurement Standards Board meetings to align with the eProcurement initiatives. Additional meetings are scheduled with the Department of Law to ensure all of the business practices within eProcurement conform to the Metro Code of Law.

All purchases, including open market limited purchase orders, will have complete visibility inside eProcurement. This will allow for both review and analysis of the purchasing activity.

The eProcurement system will go live with phase 1 on July 31, 2006. Phases two and three are scheduled to be completed by the end of October, 2006.

Real Property Services concurs with this recommendation.

The Office of the Treasurer concurs with your recommendation that employee reimbursement requests should document any unique situations as described. The cited exception was an approved legitimate expenditure; however, it could have been better documented.

9. Revenue and cash receipt processes need to be improved.

We reviewed the service fee calculation used by Real Property Services for capital projects and cash receipt journals for general internal controls. Based on our review, we noted the following exceptions:

- Real Property Services uses a formula to calculate the service fee that should be charged for projects. Adjustments are made to the fee calculation to account for budget issues and other factors. The adjustments made are not supported by documentation and do not provide adequate approval; and
- Cash receipt journals are not used throughout the Finance Department to record cash as it is received preventing an accurate recognition of funds received. We identified four transactions for \$90,337.26 where we could not determine when the funds were received. By not receipting funds received, errors, delays in recognizing revenue, or misappropriations could occur and may not be detected.

Recommendation

Adjustments to service fees should be documented and the process of recording cash receipts in cash receipt journals should be consistently applied.

Management's Response

Real Property Services concurs with this recommendation. On occasion, as a last resort and when no other source of additional funding could be identified, RPS reduced its service fee to assure a project was completed within its budget. In the future, if RPS finds it necessary to recommend a fee adjustment, it will be supported by documentation and adequate approval.

Concur. The Finance Department will develop a policy to address revenue recognition.

10. No evidence was found that the purchasing card rebate received by the Department was recalculated to determine if amount was correct.

We reviewed the procurement card rebate for general accounting and review controls. Based on our review, we noted the following weakness;

- Metro Government receives an annual rebate from the purchasing card vendor. The rebate is based on the amount of purchases made by all card holders for a 12 month period. No evidence was found that the purchasing card program administrator recalculated the rebate received to determine if the correct amount was being paid by the vendor. By not recalculating the procurement card rebate, Metro may not be receiving the full benefit that was agreed to in the request for proposal process and errors made by the procurement card vendor could go undetected.

Recommendation

The purchasing card rebate should be calculated to determine if the amount paid by the vendor is correct and is in compliance with the contract. This will assure that the Metro Government is receiving the correct rebate amount.

Management's Response

Agree. Future purchasing card rebates will be recalculated to verify the amount paid by the vendor is in compliance with the contract.

* * * * *

We appreciate the cooperation and help provided by all of the Finance Department staff.

This report is intended for the information and the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

Don Dodson
Internal Audit Director

Copy: Mayor Bill Purcell
Karl F. Dean, Director of Law
Eugene Nolan, Associate Director of Finance
Talia Lomax-O'dneal, Deputy Finance Director
Metropolitan Council Audit Committee
Richard V. Norment, Assistant to the Comptroller for County Audit
KPMG, Independent Public Accountant

