



*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 Mayor's Office**

Date Issued: August 25, 2006

Office Location and Phone Number

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*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**

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August 25, 2006

Honorable Mayor Bill Purcell  
Metro City Hall  
225 Polk Avenue  
Nashville, Tennessee 37203

### **Report of Internal Audit Section**

Dear Mayor Purcell:

We have completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of the Mayor's Office and three associated divisions (Office of Children and Youth, Office of Neighborhoods, and Economic and Community Development). The Mayor's Office of Emergency Management will be covered in a separate report. *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 Mayor

The function of the Mayor is to officially speak for both the government and the community as a whole, act as presiding officer at meetings, identify and discuss issues impacting Metro, receive and consider public input, make appropriate decisions in a manner which encourages full and open discussion, and exercise all the powers that the statutes and Metro Charter empowers to the City, Mayor and Council Members. In addition, the Mayor serves as the city's representative before the Tennessee Legislature, federal agencies, other local governments, and other official meetings. Other functions that the Mayor is responsible for include but are not limited to performing ceremonial duties on behalf of the community, greet important visitors, develop programs to improve the overall financial position of Metro, give formal and informal talks, and take part in public events. The Mayor must be prepared to explain and defend city issues and programs and exert leadership in city affairs. Lastly, the Mayor is responsible for executing official documents, ordinances, contracts, and other documents authorized by the council.

### Mayor's Office of Children and Youth

The mission of the Mayor's Office of Children and Youth is to work in partnership with public and private entities to ensure that Nashville's children are healthy, safe, successful in school, and connected to caring adults, allowing them the opportunity to contribute to the progress of our city. The creation of the Mayor's Office of Children and Youth was a key recommendation of the Madeline Initiative, a 75-member community task force composed of city leaders, program administrators, service providers, and advocates. After two years of work funded by a grant from Danforth Foundation, the Steering Committee of the Madeline Initiative presented their report to the Mayor in December 2001. With a proposed Mayor's Office of Children and Youth recommended by the Mayor and adopted by the Metro Council the new Office was officially created on July 18, 2002.

### Mayor's Office of Neighborhoods

Since its inception in September 1999, the Mayor's Office of Neighborhoods has worked to bring citizens and government together through various initiatives. Those initiatives include a Community Enhancement Grant, a Neighborhood Conference, Neighborhood Liaisons, Mayor's Night Out/In, Neighborhood Response Team, and Neighborhood Training Institute.

### Mayor's Office of Emergency Management (Separate Report)

The Mayor's Office of Emergency Management mission is to promote, coordinate, and direct a comprehensive emergency program which addresses mitigation, preparedness, response and recovery relative to disasters and major emergencies. The Mayor's Office of Emergency Management shall serve as the focal point for all such activities within the county. The Mayor's Office of Emergency Management has several centers/functions addressing various emergency situations. Nashville began its work in homeland security in 1998 under a national initiative referred to as Domestic Preparedness. The program provided funds for training, equipment and exercises for the nation's 120 largest cities. The program was to improve our capabilities to respond to and recover from a terrorist attack involving weapons of mass destruction.

### Mayor's Office of Economic and Community Development

The Mayor’s Office of Economic and Community Development was created to ensure a positive local government climate for private sector investment which is critical for future expansion of the tax base, growth in the number of quality jobs, and the creation of wealth in our community. One way the Mayor’s Office of Economic and Community Development accomplishes their stated goals is by providing a Foreign-Trade Zone (“FTZ”). FTZ's are areas designated by the U.S. Department of Commerce considered to be outside the U.S. Customs territory. Its purpose is to stimulate and expedite international commerce by exempting goods from tariffs while they are in the zone. Another way that the Mayor’s Office of Economic and Community Development accomplishes its goals is by providing business services ranging from assistance programs to helpful guides for planning, zoning, safety, and how to do business with Metro to employment services and Public Works issues. The Mayor’s Office of Economic and Community Development also has information for entrepreneurs seeking information on how to start, expand, and improve private business.

### **Budgeted Financial Information**

The Mayor’s Office and associated divisions (excluding OEM) had a total of 29 budgeted positions for fiscal year 2005. The fiscal year 2005 budget, including OEM, can be summarized below:

Revenues and Transfers:

Charges, Commissions, and Fees	\$ 6,000
Other Governments and Agencies	7,021,700
Other Program Revenue	5,000
Non-Program Revenue	<u>4,800</u>
Total Revenues and Transfers	<u>\$ 7,037,500</u>

Expenditures and Transfers:

GSD General Fund	\$ 3,764,500
Special Purpose Fund	<u>7,027,100</u>
Total Expenditures and Transfers	<u>\$10,791,600</u>

### **Objectives, Scope, and Methodology**

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

- An examination of business processes employed at the Mayor’s Office for purchasing and expenditures, payroll and personnel, petty cash, 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 Mayor’s Office 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.

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 Mayor’s Office and associated divisions. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of the Mayor’s Office and associated divisions operations were directly observed. We performed our procedures in accordance with generally accepted government auditing standards.

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 and Recommendations**

We have listed below the reportable findings and recommendations 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. Because of financial and managerial responsibilities, we have grouped together the findings from the Mayor’s Administrative Office with the Mayor’s Office of Children and Youth and the Mayor’s Office of Neighborhoods (“MO”). The Mayor’s Office of Economic and Community Development (“ECD”), is presented below as an independent functional division and the Mayor’s Office of Emergency Management (“OEM”) will be presented in a separate report.

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*Administrative Office, Office of Children and Youth, and Office of Neighborhoods*

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1. Improvements need to be made in monitoring transactions and complying with current Metro Procurement Policies and Procedures.

We reviewed 19 of the 245 expenditure transactions for the period of July 1, 2003 through September 30, 2004 from FASTnet and compared them to departmental source documentation for compliance with Metro Procurement Policies. Based on our review, we noted the following exceptions:

- Documentation supporting the transactions is not being maintained with the transaction detail preventing efficient review. Instead, partial support is maintained in a separate file. By not allowing each transaction to be presented on its own merit, record keeping is not efficient and transactions are not properly supported;
- Of the 19 tested, three (\$3,568.80) 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;
- Of the 19 tested, four (\$18,693.10) were approved by someone exceeding their department delegated purchasing limit of \$999.99;
- Of the 19 tested, three (\$14,430.10) exceeded \$999.99 and the MO should have complied with Metro procurement regulations and utilized a purchase order; and
- Of the 19 tested, one (\$4,260.00) exceeded the \$4,000.00 limit and should have complied with Metro procurement regulations and been competitively bid.

#### Recommendations:

We recommended that all detail be attached to each transaction to improve transaction integrity and decrease the risk of losing important information.

Improvements need to be made detailing the actual business purpose for each transaction. While the MO utilizes Metro Purchasing for contract compliance, adequate information should be supplied to substantiate each purchase by either a sole source form or other supplemental documentation.

When transactions exceed \$999.99, the MO should comply with Metro procurement regulations and complete the purchase requisition process.

Before the completion of our fieldwork, the MO started addressing all of the weaknesses identified above and implementing our recommendations.

#### 2. Improvements need to be made to current procurement card procedures.

We reviewed 15 of the 398 procurement card transactions for the period of January 1, 2004 through December 31, 2004 from PaymentNet and compared them to departmental source documentation for compliance with Metro Procurement Card Policies. Based on our review, we noted the following exceptions:

- Management utilizes the honor system for providing adequate business purpose. If authoritative regulations are not followed, large variances with procurement card procedural compliance occur among cardholders which can lead to an overall lack of compliance and internal control;
- The department head or designated individual does not review and approve the consolidated departmental statement as required by Metro Procurement Card Policies;



- The department procurement card representative reviews individual transactions and approves for final payment instead of the department head or designated individual providing approval. By not having the department head or designated individual approve transactions, the MO is not in compliance with Metro Procurement Card Policies;
- Of the 15 tested, 11 (\$1,624.98) did not have enough support to document the business purpose. By not supporting transactions with relevant support, questions could be raised about the business relationship of each transaction;
- Of the 15 tested, 10 (\$1,344.48) receipts were not signed by cardholders as required by Metro Procurement Card Policies;
- Of the 15 tested, two (\$119.63) appear to be personal in nature and were not reimbursed to Metro. Upon further investigation, one was a gift for a quest speaker and the other was a gift for a departing employee;
- Of the 15 tested, five (\$1,303.19) did not provide enough information to determine if the meals purchased had an appropriate business purpose or if they were personal in nature. By not supporting transactions with relevant support, questions could be raised as to the business relationship. Additionally, by not providing information to support the transaction, the MO is not in compliance with IRS regulations; and
- We could not find the support for one transaction (\$23.82) to a local eatery.

#### Recommendations:

We recommend the MO alter the current procurement card purchasing environment from one of casual review and trust to appropriate management review and individual cardholder responsibility. To illustrate our point, of the 15 transactions tested, we identified 29 exceptions for a total of \$4,416.10. In addition, two of the transactions at first glance appeared to be personal in nature and should not have made it through the review process, 11 did not have adequate support, and 10 receipts did not have the cardholder signature.

For the division director transactions, the Administrative Office should provide proper review and approval.

All personal transactions should be reimbursed to Metro. Transactions for food and/or entertainment should follow applicable IRS rules. Currently, the MO is only keeping a general description of the event leaving questions regarding the actual relationship the event has towards business or who attended. The MO should exercise prudent judgment and require the following for all meal or entertainment expenditures:

- Expense amount;
- Time and place of event;
- Full description of business purpose; and
- Business relationship to each person entertained or receiving benefit.

Before the completion of our fieldwork, the MO started addressing all of the weaknesses identified above and implementing our recommendations.

### 3. Improvements need to be made to the petty cash and stamp fund processes.

We reviewed the petty cash fund and stamp fund utilized by the MO 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 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;
- Generally, receipts do not provide enough information to determine if the meals purchased had an appropriate business purpose or if they were personal in nature. After further review, approximately 70 percent of all petty cash reimbursement were for host and hostess expenditures; and
- An independent stamp fund was created and utilized by MO staff for various business purposes. We were unable to determine if the stamps purchased were used for personal or business use.

#### Recommendations:

To improve controls, reconciliations should be completed on a regular, random basis by someone other than the petty cash custodian.

To increase efficiency and improve recordkeeping, procurement cards should be utilized as often as possible. If the procurement cards are not going to be utilized, the petty cash fund amount should be analyzed and compared to usage to set the appropriate limit.

Transactions that are for food and/or entertainment should follow applicable IRS rules. Currently, the MO is only keeping a general description of the event leaving questions regarding the actual relationship the event has towards business or who attended. The MO should exercise prudent judgment and require the following for all meal or entertainment expenditures:

- Expense amount;
- Time and place of event;
- Full description of business purpose; and
- Business relationship to each person entertained or receiving benefit.

We recommend the MO discontinue utilizing external sources for general mailings. Because we were unable to determine who used the stamps or the reason, we recommend the MO utilize the Metro Postal Service for all mailings. If stamps are purchased in the future, they should be properly controlled and accounted for with the amount purchased more closely tied to the amount needed.

Before the completion of our fieldwork, the MO started addressing all of the weaknesses identified above and implementing our recommendations.

4. Fixed assets on departmental records are not properly accounted for and tracking procedures need to be improved.

We reviewed all four fixed assets with a value of \$5,000.00 or more listed in FASTnet and tested for existence, adequate safeguarding, and proper valuation. Based on our review, we noted the following weaknesses:

- Modular furniture with a value of \$9,314.62 was classified as disposed by the MO but was listed as a current fixed asset in FASTnet; and
- One copier listed on the MO department inventory count was actually located at ECD.

Recommendations:

MO management should contact Financial Operations and resolve the current status of the modular furniture. Lastly, the MO should update their department records to reflect the location of the copier located at ECD.

Before the completion of our fieldwork, the MO started addressing all of the weaknesses identified above and implementing our recommendations.

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*Economic and Community Development*

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

We reviewed seven of the 86 expenditure transactions for the period of July 1, 2003 through September 30, 2004 from FASTnet and compared them to departmental source documentation for compliance with Metro Procurement Policies. Based on our review, we noted the following exception:

- Of the seven tested, one (\$2,000.00) was approved by someone exceeding their department delegated purchasing limit of \$999.99.

Recommendation:

We discussed the exceptions with ECD management and they stated closer attention will be paid to future transactions.

6. Improvements need to be made to current procurement card procedures.

We reviewed six of the 65 procurement card transactions for the period of January 1, 2004 through December 31, 2004 from PaymentNet and compared them to departmental source documentation for compliance with Metro Procurement Policies. Based on our review, we noted the following exceptions:

- Cardholders do not review transactions on their monthly statement. As required by Metro Procurement Card Policies, cardholders are to review transactions on their monthly statement;
- The department procurement card representative maintains all cardholder receipts during the billing cycle. As required by Metro Procurement Card Policies, cardholders are to maintain their receipts and match them to their monthly credit card statement;

- Of the six tested, six (\$375.23) did not have enough support to document the business purpose. By not supporting transactions with relevant support, questions could be raised about the business relationship;
- Of the six tested, five (\$359.01) receipts were not signed by cardholders as required by Metro Procurement Card Policies; and
- Of the six tested, five (\$306.92) did not provide enough information to determine if the meals purchased had an appropriate business purpose or if they were personal in nature. By not supporting transactions with relevant support, questions could be raised as to the business relationship. Additionally, by not providing information to support the transaction, ECD is not in compliance with IRS regulations.

Recommendations:

Due to the size of the department, we suggested the department coordinator review transactions and have the director approve.

Transactions for food and/or entertainment should follow applicable IRS rules. Currently, ECD is only keeping a general description of the event leaving questions regarding the actual relationship the event has towards business or who attended. ECD should exercise prudent judgment and require the following for all meal or entertainment expenditures:

- Expense amount;
- Time and place of event;
- Full description of business purpose; and
- Business relationship to each person entertained or receiving benefit.

Before the completion of our fieldwork, ECD management started addressing the weaknesses identified above.

7. Revenue and deposit procedures need to be improved.

We reviewed the nine deposits from July 1, 2003 through September 30, 2004 to determine if accounting records were accurate, revenues and cash receipts were properly receipted and coded, and verified that deposits were completed within one business day. Based on our review, we noted the following weaknesses:

- Deposits are not reviewed prior to or after by someone independent of the deposit function to prevent or detect errors or irregularities; and
- Procedural detail was not prepared to sufficiently document how Foreign Trade Zone billings are to be processed.

Recommendations:

We recommend that someone independent of the deposit process review and approve both before and after the deposit is made. To improve back-up procedures, adequate detail should be provided to support the entire billing and receipting process for all types of revenue.

Before the completion of our fieldwork, ECD management started addressing both of the weaknesses identified above.

8. Improvements need to be made to the petty cash process.

We reviewed the petty cash fund utilized by ECD 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:

- One reimbursement exceeded the \$75.00 reimbursement ceiling;
- 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;
- Generally, receipts do not provide enough information to determine if the meals purchased had an appropriate business purpose or if they were personal in nature. After further review, approximately 40 percent of all petty cash reimbursement were for host and hostess expenditures; and
- One parking reimbursement for \$28.00 did not provide the actual receipts preventing appropriate transaction review.

Recommendations:

To improve controls, reconciliations should be completed on a regular, random basis by someone other than the petty cash custodian.

To increase efficiency and improve recordkeeping, procurement cards should be utilized as often as possible. If the procurement cards are not going to be utilized, the petty cash fund amount should be analyzed and compared to usage to set the appropriate limit.

Transactions for food and/or entertainment should follow applicable IRS rules. Currently, ECD is only keeping a general description of the events leaving questions regarding the actual relationship the event has towards business or who attended. ECD should exercise prudent judgment and require the following for all meal or entertainment expenditures:

- Expense amount;
- Time and place of event;
- Full description of business purpose; and
- Business relationship to each person entertained or receiving benefit.

All reimbursements should be accompanied by actual receipts. When receipts are not provided, adequate support with a proper explanation should be supplied.

\* \* \* \* \*

We appreciate the cooperation and help provided by all of the Mayors' Office staff.

This report is intended for the information of 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: Bill Phillips, Deputy Mayor  
Karl F. Dean, Director of Law  
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Metropolitan  
Government of  
Nashville and  
Davidson  
County

**Bill Purcell** Mayor

August 25, 2006

Mr. Don Dodson  
Metro Department of Finance  
Internal Audit Director  
222 Third Avenue North, Suite 401  
Nashville, TN 37201

Dear Mr. Dodson:

This letter is acknowledgement that we have received the Audit Report of the Mayor's Office by Internal Audit.

We have reviewed the report and are in agreement with its findings. We began implementing all suggested changes in policies and procedures prior to completion of the audit.

We see the audit report as a valuable asset and management tool in our overall objective to improve policy implementation and procedures.

We appreciate the professionalism demonstrated by the auditing staff.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill R. Phillips".

Bill R. Phillips  
Deputy Mayor and  
Chief of Staff

BRP:sg

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