



*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 Office of Emergency Management

Date Issued: September 1, 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**

September 1, 2006

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

Report of Internal Audit Section

Dear Mayor Purcell:

We have recently completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of the Office of Emergency Management (“OEM”). *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.

The findings and resulting audit recommendations described below were discussed with management during fieldwork with most audit recommendations implemented prior to the release of our report. As a result of the work completed during this audit engagement and other factors, Office of Financial Accountability performed additional procedures connected to the financial management of the Department of Homeland Security MMRS grants. Afterward, OEM

hired an additional FTE to assist with the overall grant management process. All responsibility for the Department of Homeland Security MMRS grants has been transferred to the Metro Health Department. A summary of the recommendations were:

- The two areas should outline their relationship and define performance expectations;
- The Metro Health Department should consult federal officials to identify and/or confirm the outstanding reporting issues;
- The Metro Health Department should make corrections to submitted grant performance reports and revise previously submitted budgets; and
- OEM should research the allocation of certain costs charged to the Department of Homeland Security MMRS grants.

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

Mayor's Office of Emergency Management

OEM is a division of the Mayor's Office. OEM's mission is to promote, coordinate, and direct a comprehensive emergency program which addresses mitigation, preparedness, response and recovery relative to disasters and major emergencies. OEM serves as the focal point for all such activities within the county. OEM 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.

Budgeted Financial Information

OEM had a total of 20 active positions for fiscal year 2005. The fiscal year 2005 administrative budget can be summarized below:

Expenditures and Transfers:

Personal Services	\$ 597,500
Other Services	242,100
Supplies and Materials	18,100
Other	<u>300</u>
Total Expenditures and Transfers	<u>\$ 858,000</u>

OEM had a total of 16 grants included in their budget for fiscal year 2005. The fiscal year 2005 budgeted grant receipts and expenditures can be summarized below:

Budgeted Grant Receipts	\$7,139,326
Budgeted Grant Expenditures	\$7,195,810

Objectives, Scope, and Methodology

The primary objectives of this audit engagement included the following:

- An examination of business processes employed at OEM 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 OEM 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 OEM. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of OEM 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. Additionally, we were free both in fact and appearance from personal, external, and organizational impairments to independence. 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.

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.

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

We reviewed 39 of the 282 expenditure transactions for the period of July 1, 2003 through September 30, 2004 from our central accounting system and compared them to departmental source documentation for compliance with Metro Procurement Regulations. Based on our review, we noted the following exceptions:

- Of the 39 tested, 26 (\$66,421.63) 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 39 tested, one (\$880.00 and \$795.00) appeared to be split to avoid processing the transaction through Purchasing which is clearly detailed as a breach in the Metro Procurement Regulations;
- Of the 39 tested, 12 (\$18,403.51) were coded to an inaccurate object account but were still classified correctly for the object account roll-up and financial reporting purposes. By not tracking expenditures as accurately as possible, effective financial analysis is limited; and
- Of the 39 tested, one (\$1,250.00) exceeded \$999.99 and OEM should have complied with Metro Procurement Regulations and utilized a purchase order.

Recommendations:

Improvements need to be made detailing the actual business purpose for each transaction. While OEM utilizes Metro Purchasing for contract compliance and competitive bidding, adequate information should be supplied to substantiate each purchase by either a sole source form or other supplemental documentation. We did identify a situation where transactions appeared to be split. In the finding identified above, two transactions were completed on successive days. In our opinion, making the second purchase was intentional by OEM.

We did note that 12 transactions were coded inaccurately. While these transactions will roll-up to the proper object account level, we believe that properly recording transactions will help with the entire financial management process.

When transactions exceed \$999.99, OEM should comply with Metro Procurement Regulations and complete the purchase requisition process.

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

2. Out-of-town travel accounting procedures need to be improved.

We reviewed 26 travel expenditures from July 1, 2003 through September 30, 2004 for compliance with the current Metro Travel Policy. Based on our review, we identified the following weaknesses:

- We identified three purchases of alcohol during a training event outside the state of Tennessee by two volunteers. The travel reimbursement claims were turned in to OEM by the Fire Department and reimbursed with grant funds. Neither Metro travel guidelines nor federal grant cost guidelines allow the purchase of or reimbursement for alcohol; and
- One volunteer turned in and received a reimbursement for \$203.52 from both OEM and the Fire Department, but returned the second check to the Fire Department when he received it.

Recommendations:

Reviews should be completed by appropriate individuals to provide reasonable assurance that all travel expenditures are appropriate and allowable. To further improve controls, only original detailed receipts should be accepted.

When processing claims from other departments, communication should be improved to prevent unauthorized claim reimbursements.

Before the completion of our fieldwork, OEM management received reimbursement for the alcohol purchases and started addressing the weaknesses identified above.

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 2003. Along with reviewing the payroll process, we tested the time and attendance records for ten of the 20 employees to the amounts entered into our central accounting system or supported by department records for accuracy and completeness. Of the ten employees tested, six were hourly. In addition, we reviewed the vacation payout for three former employees for accuracy. OEM generally adheres to Metro Civil Service Rules for all payroll and personnel related matters. Based on our review, we noted the following weaknesses:

- Employee vacation and sick accruals are not effectively managed by department staff. When source documentation was compared to department timekeeping records and our central accounting system, we identified a variance of 53 hours (23 overstated and 30 understated). In addition, several variances existed between leave request forms, department tracking worksheets, and our central accounting system;
- Of the six hourly employees, five were paid overtime in error for a total overpayment of approximately \$6,765.00. Additionally, five were paid an amount in excess of actual hours worked for a total overpayment of approximately \$4,387.00. The overpayment occurred by the payroll processor not basing overtime or regular hours worked calculations on a 40 hour work week. Instead, the total hours worked per pay period was used to assign regular pay and overtime pay amounts;
- A member of upper management received holiday pay of \$462.66. Civil Service Rules do not allow upper management to receive holiday pay;
- OEM did not comply with Civil Service Rules and allowed employees to exceed their maximum vacation amounts. We identified three terminated employees that received an additional \$10,946.00 (\$8,339 + \$2,476 + \$131) from their accrued vacation payout; and
- Current timekeeping procedures are not sufficient. Manual records are utilized to track all leave accruals creating an environment susceptible to errors. The individual responsible for processing payroll is receiving the timesheets and leave request forms and entering all the information into a columnar worksheet. Those totals are then entered into another manual tracking matrix where the leave amounts are aggregated again with manually computed balances. Then the amounts are entered into our central accounting system. In addition to the manual process, accuracy reviews are not completed by a supervisor to identify errors. Lastly, accrual amounts are not verified by employees on at least an annual basis to identify discrepancies.

Recommendations:

As evidenced by the variances identified above, current payroll tracking and processing procedures are not sufficiently tracking time and attendance. We recommend that current procedures be amended to include a formal leave request form detailing the type, date, amount, approval, and other necessary information. Reviews and/or reconciliations of accrued amounts should be performed and accrued time used be entered into our central accounting system. Simplified automated worksheets should be used for all calculations. By improving source documentation, verification procedures, processes, and complying with current department policies and Civil Service Rules, the accuracy and dependability of payroll information should improve.

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

We reviewed 22 of the 371 procurement card transactions for the period of January 1, 2004 through December 31, 2004 from PaymentNet (procurement card vendor software) and compared them to departmental source documentation for compliance with Metro Procurement Card Policies. Based on our review, we noted the following exceptions:

- The procurement card representative reviews and approves transactions online. By not having the department head approve transactions, OEM is not in compliance with Metro Procurement Card Policies and appropriate reviews are not completed;
- 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 head does not review transactions, review statements, or forward monthly detail to department procurement card representative for processing which is required by Metro Procurement Card Policies;
- 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 22 tested, 16 (\$4,068.57) 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 22 tested, 13 (\$4,211.87) did not have the appropriate department assigned individual providing approval;
- Of the 22 tested, 14 (\$3,594.24) receipts were not signed by cardholders as required by Metro Procurement Card Policies;
- Of the 22 tested, ten (\$869.63) 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, OEM is not in compliance with IRS regulations; and
- Of the 22 tested, nine did not use the OEM Purchase Authorization Form as required by departmental procedures.

Recommendations:

Transactions that are for food and/or entertainment should follow applicable IRS rules. Currently, OEM is only keeping a general description of the event leaving questions regarding the actual relationship the event has towards business or who attended. OEM 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.

The OEM Purchase Authorization form should be a required element of all procurement card transactions. As evidenced by our testing procedures, the OEM Purchase Authorization forms are not utilized on a consistent enough basis to compensate for the lack of proper management and cardholder review. To correct current procedures, OEM should follow Metro Procurement Card Policies for reviewing, approving, and processing transactions.

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

5. Deposit procedures are lacking adequate segregation of duties and overall deposit procedures need improvement.

We reviewed six of the 188 deposits and business related reimbursements 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:

- Of the six tested, none of the deposits were reviewed by someone independent of the deposit process prior to the deposit to prevent manipulation;
- Of the six tested, none of the deposits were reviewed against our central accounting system after the deposit is made by someone independent of the deposit process to detect misappropriations; and
- Of the six tested, five for \$3,698.74 had the support for the deposit maintained in the travel file (source of the reimbursement) and not in the deposit file. After discussions with the individual responsible for the deposit function, current procedures omit steps where the deposit receipt is supported by proper documentation verifying the amount deposited. By not keeping the support for the deposits with the deposits, the reviewer cannot verify the accuracy or detect theft.

Recommendations:

We recommend that support for all deposits be filed with the deposit detail. When deciding what exactly should be included, detailed summary information is sufficient. When depositing the reimbursements for travel expenses, the following should be attached to add authenticity:

- A copy of the check(s);

- Deposit slip;
- Central accounting system report; and
- The travel reimbursement claim form.

Additionally, we recommend that someone independent of the process review and approve the deposit both before and after the deposit is made.

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

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

We reviewed the only petty cash fund utilized by OEM 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:

- Two transactions exceeded the \$75.00 reimbursement ceiling;
- One transaction was reimbursed for out-of-town travel which is not allowed under current petty cash policies;
- None of the petty cash reimbursement receipts reviewed were approved by the petty cash custodian; and
- 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.

Recommendations:

To comply with petty cash policies, reimbursements should only be allowed for those expenditures less than \$75.00. All travel reimbursements should be processed through the regular travel reimbursement process. All reimbursement receipts should be reviewed and approved by the petty cash custodian to provide legitimacy to all reimbursements.

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

Due to the issues identified above, we recommend the petty cash fund be decreased from \$500.00 to \$100.00.

Before the completion of our fieldwork, OEM management lowered their petty cash from \$500.00 to \$100.00 and started addressing the weaknesses identified above.

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

We reviewed 16 of the 59 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. Also, we reviewed the controls over volunteer assigned vehicles and equipment, dual use items with a value less than \$5,000.00, and the pharmaceutical supply staged at several locations throughout Nashville. Based on our review, we noted the following weaknesses:

- We could not locate a 12,000 watt Honda generator with a value of \$6,995.00 and a desktop computer with a value of \$7,014.00;
- Inventory is not completed on a regular basis. Grant guidelines require at least an inventory be completed every two years;
- Assets purchased for other departments are not adequately tracked. For example, federal grant funds were used to purchase various pharmaceuticals for staging throughout Nashville. The pharmaceutical drugs purchased are not inventoried on a consistent basis by OEM or the department housing the drugs. If regular inventories are completed, shrinkage and/or spoilage could either be prevented or detected;
- Federal funds were used to purchase \$57,475.00 in assets for both OEM (\$50,000.00 trailer) and Water Services (\$7,475.00 security fence). The items purchased for both OEM and Water Services were not included on either OEM or Water Service fixed asset records;
- One volunteer using an assigned Metro vehicle has not completed the defensive driving class and five have not completed the substance abuse training class. Five OEM employees have not completed the substance abuse training class. We believe that all volunteers and employees driving Metro vehicles should comply with all applicable Metro policies;
- OEM does not maintain a formal list of items that are assigned to employees that could have a dual use (personal and work related) increasing the risk of loss or theft;
- A review of fleet needs should be completed to analyze the current cost structure versus overall operational performance. Of the 15 vehicles assigned to volunteers, we identified five (four Jeep Cherokees and one Ford Excursion) that are staged at their homes with a cash outflow for maintenance of approximately \$3,051.00 per year. Of the five vehicles, four were purchased for \$80,091 and one was leased. Measuring costs over a seven year period reveals a \$14,493.00 $((\$80,091 / 7) + \$3,051)$ operational cost each year to stage vehicles; and
- Vehicles utilized for operational needs should be reviewed. Of the 15 vehicles assigned to volunteers, three are Ford Excursions and four are Jeep Cherokees. These seven vehicles have a higher operational cost than other types of vehicles in their class.

Recommendations:

To correct the current asset list, a complete inventory should be completed for assets with a value of more than \$5,000.00 and assets with dual use (personal and work related) that are less than \$5,000.00. Data collected should include the description, Metro asset tag number, serial number, location, condition, ownership, funding source, security concerns, expiration date if applicable, purchase amount, carrying value, purchase date, maintenance performed, and any other detail that is considered necessary.

If the responsibility to track assets has been transferred to another agency, OEM should perform annual inspections to verify accuracy to previous collected data. If assets are purchased with OEM funds for other agencies, ownership should be clearly defined and should comply with funding source regulations.

OEM should inventory all assets on an annual basis and compare those results to Metro fixed asset listings and correct any discrepancies.

All employees should be required to attend the appropriate Metro training classes. Current interpretations of the adopted substance abuse policy, along with the defensive driving policy, should be reviewed by both Metro Legal and Metro Human Resources to determine if these policies apply to volunteers. If it is determined that the substance abuse and defensive driving policies do apply to volunteers, OEM should require that all volunteers successfully attend all required training sessions.

The current wholesale value for the four Jeep Cherokees is approximately \$21,400.00. Because these vehicles were purchased for \$80,091.00 and are almost five years old, we do not recommend they be sold or traded-in. Due to the total cost of these vehicles to both OEM and Metro, we recommend these vehicles be phased-out and not replaced at the end of their useful lives. If it is decided that vehicles are needed to perform OEM duties, fewer vehicles should be purchased. If OEM decides to turn-in the leased Ford Excursion, they should do so at the end of the fiscal year to avoid any financial penalty. In addition to the replacement savings, making these changes would also decrease the monthly fleet allocation.

Additional savings could be realized by utilizing smaller, more fuel efficient vehicles. For example, the current fleet has several mid-size to large sport utility vehicles that as a rule are more expensive to operate and have a higher purchase price. OEM should review their fleet needs and determine if their current fleet could be downsized in terms of both type and quantity of vehicles. If smaller sport utility vehicles were used, overall utility should not be diminished and overall operational costs would be reduced. During but not related to our fieldwork, the director of OEM assigned his Ford Expedition to another OEM employee and obtained a Dodge Stratus from Fleet Operations. We believe that if further steps like that are taken, additional cost savings could be realized.

* * * * *

We greatly appreciate the cooperation and help provided by all OEM personnel.

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

Signature on File

Don Dodson
Internal Audit Director

Copy: Bill Phillips, Deputy Mayor
Karl Dean, Director of Law
David L. Manning, Director of Finance
Eugene Nolan, Associate Director of Finance
Talia Lomax-O'dneal, Deputy Finance Director
Stephen Halford, Nashville Fire Department Director – Chief
Kevin Penney, OEM Acting Director
Metropolitan Council Audit Committee
Richard V. Norment, Assistant to the Comptroller for County Audit
KPMG, Independent Public Accountant



MAYOR'S OFFICE OF EMERGENCY MANAGEMENT

EMERGENCY OPERATIONS CENTER

Bill Purcell, Mayor

September 1, 2006

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

This letter is acknowledgement that we have received the audit report of the Mayor's Office of Emergency Management by Internal Audit.

We have reviewed the report, are in agreement with its findings and all recommended actions have been implemented.

In addition, with increased responsibility with homeland security grant funding, we have evaluated our financial operations and determined the need for a professional financial manager position within OEM. An individual was hired earlier this year prior to conclusion of the audit. Staff members responsible for managing grants and financial transactions are supervised by the financial manager. These changes have had -- and will continue to have -- a positive impact on all financial aspects of our operation.

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,

Kevin Penney
Acting OEM Director