



*METROPOLITAN GOVERNMENT OF NASHVILLE AND
DAVIDSON COUNTY*

INTERNAL AUDIT SECTION

Professional Audit, Advisory, and Consulting Services

AUDIT REPORT

Follow-Up Audit of the Planning Departments' Cash Receipting Process

Date Issued: July 18, 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**

**METROPOLITAN
GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY**



**DEPARTMENT OF FINANCE
INTERNAL AUDIT SECTION**

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July 18, 2006

Mr. Rick Bernhardt, Executive Director
800 Second Avenue South
Nashville, Tennessee 37210

Report of Internal Audit Section

Dear Mr. Bernhardt:

We have completed a follow-up audit related to the internal control environment of the revenue receipting process utilized by the Planning Department, specifically the revenue collection areas at the Mapping Area Desk and the Intake Desk.

Follow-up audit procedures are significantly less in scope than a performance audit. While some procedures may be similar, 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 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.

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.

In planning a follow-up engagement, auditors should obtain a sufficient understanding of internal control as it relates to the subject matter to which the auditors are examining. The subject matter or assertion may be of financial or non-financial nature, and internal control material to the subject matter the auditor is testing may relate to:

- a. effectiveness and efficiency of operations, including the use of an entity's resources;
- b. reliability of financial reporting, including reports on budget execution and other reports for internal and external use;
- c. compliance with applicable laws and regulations, provisions of contract, or general agreements; and
- d. safeguarding assets.

Subject Matter

Our work was precipitated by a fraudulent act uncovered during a previous performance audit completed in 2003. Due to the identification of the fraud, we are performing follow-up procedures to examine the current internal control environment utilized by the Mapping Area Desk and the Intake Desk in order to provide reasonable assurance that the events uncovered in the previous audit will be prevented from reoccurring.

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.

Budgeted Financial Information

The Planning Department had a total of 52 budgeted positions for fiscal year 2006. The fiscal year 2006 budget can be summarized below:

Revenues and Transfers:

Charges, Commissions, and Fees	\$ 438,800
Other Governments and Agencies	1,375,000
Other Program Revenue	0
Non-Program Revenue	<u>0</u>
Total Revenues and Transfers	<u>\$ 1,813,800</u>

Expenditures and Transfers:

GSD General Fund	\$ 4,550,900
Special Purpose Fund	<u>1,480,900</u>
Total Expenditures and Transfers	<u>\$ 6,031,800</u>

Objectives, Scope, and Methodology

The primary objectives of this follow-up audit included the following:

- An examination of business processes employed at the Planning Department for receiving, maintaining, reconciling, depositing, reporting revenue received, and following-up on previous audit findings and recommendations;
- Identification of weaknesses and strengths of 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 guidance and deliver recommendations to management that supply a direction for improvement in the internal control structure, if necessary.

Our work focused primarily on the period July 1, 2005 through April 30, 2006, financial balances, transactions, and processes in place during the time of the engagement. 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 Planning Department. Management, administrative and operational personnel were interviewed, and various aspects of

the Planning Department 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. Additionally, we were free both in fact and appearance from personal, external, and organizational impairments to independence. Additionally, we did not have any reservations about the engagement, the subject matter, or the assertion related thereto. 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.

Audit Findings and Recommendations

Through the course of our examination, we reviewed the financial transactions and internal controls within the revenue receipting process without exception. We determined that the Planning Department has implemented proper internal controls that will provide reasonable assurance against the misappropriation of assets.

Follow-Up on Previous Audit Findings

The following significant findings were noted in the previous performance audit. Along with the previous significant findings, we have included the procedures designed to test compliance with the current cash handling procedures:

<i>Previous Audit Finding</i>	<i>Audit Procedures Performed and Summation</i>
<i>Deposits are not being verified by management or someone independent of the deposit function.</i>	Through our testing procedures, we analyzed several deposits specifically to determine if the proper approval from management was obtained. We determined that the appropriate management approval is currently being obtained for each deposit and a signature is now required for approval before the deposit is sent to the bank. By having someone independent of the deposit function approving prepared deposits, the manipulation and possible misappropriation of assets can be prevented.
<i>Proper control over receipt books is not monitored.</i>	It was determined in the previous audit that receipt books were handed out in random order and were not tracked for missing receipts, which can lead to the misappropriation of assets during the initial stages of the revenue receipting process. Through our observations it was noted that

	a computerized receipting system is now in place. The computerized receipt system generates receipts in sequential order, and keeps a copy of voided receipts. The implementation of this control can prevent misappropriation of assets at the beginning of the revenue receipting process.
<i>Deposits are not made on a regular basis.</i>	In the previous audit it was noted that deposits were not taken to the bank on a regular basis. Through our observations it was noted that prepared deposits are taken to the bank on a regular basis.

* * * * *

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

This report is intended for 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: Mayor Bill Purcell
 Karl Dean, Director of Law
 David L. Manning, Director of Finance
 Eugene Nolan, Associate Director of Finance
 Talia Lomax-O'dneal, Deputy Finance Director
 Jeff Lawrence, Assistant Executive Director of Planning
 Metropolitan Council Audit Committee
 Jim Milam, Assistant District Attorney General
 Richard V. Norment, Assistant to the Comptroller for County Audit
 KPMG, Independent Public Accountant



**METROPOLITAN GOVERNMENT
OF NASHVILLE AND DAVIDSON COUNTY**

Planning Department
Metro Office Building, 2nd Floor
800 Second Avenue South
Nashville, Tennessee 37201

July 7, 2006

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

Dear Mr. Dodson:

This is to acknowledge that we have received the Audit Report of the Planning Department's cash receipting process. We see the audit report as a valuable asset and management tool in our overall objective to improve our services. We appreciate the professionalism demonstrated by the auditing staff during the engagement and your continued interest in the Planning Department.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard C. Bernhardt", with a long horizontal flourish extending to the right.

Richard C. Bernhardt, FAICP, CNU
Executive Director

cc: Tony Neumaier, Internal Audit
Jane Terry, Internal Audit