



*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 Procurement Card Process and Related Transactions at Social Services

Date Issued: September 22, 2006

Office Location and Phone Number

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METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

INTERNAL AUDIT SECTION

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September 22, 2006

Mrs. Gerri Robinson, Director
25 Middleton Street
Nashville, Tennessee 37210

Report of Internal Audit Section

Dear Mrs. Robinson:

We have completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of Social Services' Procurement Card process and related transactions. *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 an 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

Social Service process owners and managers are entrusted to properly manage the resources under their control. To meet their obligations, Social Service 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;
- Addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations; and
- Following sound procurement practices when contracting for audits and attestation engagements, including ensuring procedures are in place for monitoring contract performance.

Department Overview

The mission of Social Services is to promote quality living in our communities by linking people, information and resources. Social Services provide services to persons who are challenged by economic, social, physical or behavioral problems. Below are the programs utilized to assist the community:

Adult and Family Services

These services provide brief counseling, which includes short-term problem solving, budgeting, goal setting and home visits to strengthen and support families. Family centered casework strengthens and enhances the dynamics of the family by improving interaction and communication with the family. Extended family support, (for relative and caregivers and other multigenerational families with similar needs) includes life management skills training, decision making, setting goals, social/interpersonal skills, budgeting, life planning and work related challenges as well as assistance in negotiating a variety of systems with a goal of helping the customer become self-sufficient. This program also provides parenting skills training and homemaker support for relative caregivers. Community coordination is achieved as staff members lead and participate in community events and organizations working in partnership with community residents and other agencies to improve services.

Intake and Assessment

Assessments are completed to identify individual and family needs and the barriers to being self-supporting. The assessment will focus on the customer's ability, experience, and interests which will result in a service plan that could include services provided by Metro Social Services and/or referral to other agencies. Information and referrals are available to help customers identify and access other community resources to meet a variety of needs.

Homeless Services

Homeless Services provide specific supportive services appropriate to address the needs of homeless individuals and families. Burial assistance pays for and coordinates with funeral homes for the burial of deceased persons who did not leave sufficient resources to cover the cost of burial expenses.

The Nutrition Program

The Nutrition program serves mid-day meals and promotes organized social opportunities for senior and disabled citizens to help at-risk senior adults in their homes. Meal sites are located in community centers and high-rises around the Nashville area. Hot lunches are served five days a week containing at least 1/3 of the established nutritional daily allowance. The program also delivers meals to eligible seniors and disabled citizens in their homes, using a fleet of vans to deliver a combination of hot and frozen meals to the clients, based on their needs. In addition, they operate the Nutritional Supplemental Program providing the elderly with supplemental nutritional products at a significant savings over retail.

The Homemaker Program

This program serves the frail elderly, mentally and physically challenged adults who need help with household tasks in order to remain in their own homes. Services include such homemaking chores as preparing meals, light housekeeping, washing dishes, washing clothes, and shopping. Homemakers assist with simple health care routines such as reminders to maintain diet

restriction, medication regimen, recommended exercises, and observing and reporting changes in the client and within the home. Homemakers may also provide personal care, such as bathing, showering assistance, or sponge baths. Additionally, homemakers give emotional support and encouragement during periods of loneliness, depression, and bereavement.

Planning and Coordination Services

The Planning and Coordination unit identifies social services needs through collaborations with local providers, including community and government agencies. They review available community services in conjunction with assessed needs to identify gaps in service and develop systems to address these needs. . This unit also coordinates social service delivery to minimize overlap and administrative costs. They provide technical assistance and quality assurance support to enhance best practice in the delivery of services for all Davidson County social services agencies. Additionally, the Planning an Coordination unit provides community leadership and initiates planning efforts in specific social service areas to reflect evolving trends and current issues and needs.

Administrative Services

The administrative staff directs departmental policies and procedures. They also coordinate total quality management and ensure that the best practices are in place throughout the department. This division also supports department staff and operating programs. Included in this division are the areas of management, budget and finance, human resources, quality assurance, and data management.

Budgeted Financial Information

Social Services had a total of 100 budgeted positions for fiscal year 2007. The fiscal year 2007 budget can be summarized as below:

Revenues and Transfers:

Charges, Commissions, and Fees	\$	25, 800
Other Governments and Agencies		1, 234,100
Other Program Revenue		63,100
Transfer from Other Funds and Units		<u>34,000</u>
Total Revenues and Transfers	\$	<u><u>1,357,000</u></u>

Expenditures and Transfers:

GSD General Fund	\$	8,762,600
Special Purpose Fund		<u>800</u>
Total Expenditures and Transfers	\$	<u><u>8,763,400</u></u>

Objectives, Scope, and Methodology

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

- An examination of the business processes employed at Social Services for managing the procurement card process and related transactions;
- Identification of weakness and strengths in the internal control environment related to the procurement card process; and
- Provide recommendations to Social Services' management that can serve as a tool for improving the overall procurement card control environment.

Our work focused primarily on the period July 1, 2005 through July 30, 2006 procurement card transactions, and performance on the procurement card 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 Social Services. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of Social Services 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. 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

We reviewed 136 of the 375 procurement card transactions from the period August 1, 2005 through July 30, 2006 obtained from PaymentNet and compared them to departmental source documentation for compliance with Metro and Social Services procurement card policies. We have listed below the reportable findings and recommendations for the objectives listed above. Based on our review, we noted the following exceptions:

1. Of the 136 transactions tested, 30 (\$6,891.55) did not have the proper supervisor approval submitted as required by Social Services procurement card procedures. As stated by Social Services procurement card procedures, a procurement card transaction authorization form ("CTA") along with the appropriate supervisor or designee signature approval is required for all purchases. By not obtaining the proper supervisor approval, cardholders could use their

procurement cards inappropriately and Social Services might not detect the unauthorized transactions;

2. Of the 136 transactions tested, 87 (\$5,171.47) did not have a sales receipt submitted as required by Social Services and Metro's procurement card procedures. Although the cardholders are required to complete the Social Services missing receipt form, we believe that the number of receipts not turned in represents a more systemic problem related to management oversight and cardholder responsibility. For example, if receipts are not presented for each transaction, sufficient management review cannot be completed to determine if the goods or services purchased were appropriate or directly related to the stated goals of Social Services;
3. Of the 136 transactions tested, 126 (\$10,695.56) did not have enough support to document the business purpose. Of the 126, 49 (\$3,818.59) were spent on meals, ten (\$1,295.28) were spent on gifts, and three (\$863.48) were spent for employee appreciation. By not supporting transactions with the appropriate business purpose documentation that fully explains how the expenditures are related to the stated goals of Social Services, questions could be raised about the business relationship of each transaction;
4. Of the 136 transaction tested, 81 (\$3,953.23) did not complete and attach the CTA form or the missing receipt form for each transaction as required by Social Services procurement card procedures. Because of the large number of CTA and missing receipt forms are not completed, we believe a more systemic problem exists related to management oversight and cardholder responsibility. Because both cardholders and managers are not complying with stated procedures, deviations have occurred in the application of the procurement card procedures that clearly have lead to a less than desirable control environment surrounding procurement card transactions;
5. Of the 136 transactions tested, four (\$3,678.25) appear to be split transactions. According to Metro's purchasing card policies and procedures, "The purchasing card shall not be used to circumvent the procurement process. This includes "splitting" purchases";
6. Of the 136 transactions tested, two (\$272.56) appear to have been purchased by the Administrative Assistant, who used the Director's purchasing card. As stated in both Social Services and Metro Procurement Card policies, "employees may not loan their purchasing card to other employees to make purchases";
7. Of the 136 transactions tested, one (\$43.45) appears to have been personal in nature because it was shipped to the cardholder's home address and was not reimbursed to Metro. Items that are shipped to an address other than the business address are subject to question because there is no evidence of the item being received at the business location; and
8. Of the 136 transactions tested, 49 (\$1,200.20) all belonging to the Director, did not have a sales receipt, the CTA form, or the missing receipt form as required by Social Services purchasing card procedures. Since there was no supporting documentation for these purchases, they should not have made it through Social Services' review process.

Audit Recommendations

We recommend that Social Services follow all applicable Social Services and Metro Procurement Card procedures by filling out the purchasing card transaction authorization form for each purchase, obtaining the proper supervisor approval, and submitting all receipts along with the departmental purchasing card transaction authorization form as support for each purchase. We also recommend that the business purpose be clearly defined and documented for each transaction.

Individuals reviewing procurement card transactions should have the appropriate authority to manage the procurement card program. As evidenced above, required items are missing a majority of the time. It is clear that improvements should be made to improve the current procurement card control environment. When managers review transactions and identify that a required element is missing, cardholders should comply with stated performance standards and produce the missing procedural element. If it is identified that certain cardholders are consistently performing below desired standards, consideration should be made to suspend or terminate their procurement card authority.

All personal transactions should be reimbursed to Metro. Any transactions for gifts, food, and/or entertainment should follow applicable IRS rules. By not adequately documenting the event, questions can be raised as to the actual relationship the event has towards business. Social Services should exercise proper judgment and require the following for all meal and entertainment expenditures:

- Expense amount;
- Time and place of event;
- Full description of the 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 greatly appreciate the cooperation and help provided by all of Social Services management and staff. As the audit progressed, management and staff proactively addressed all issues identified and started developing a corrective action plan.

This report is intended for the management and policy makers 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
Social Services Commission
Metropolitan Council Audit Committee
Richard V. Norment, Assistant to the Comptroller for County Audit
KPMG, Independent Public Accountant

BILL PURCELL
MAYOR

GERRI ROBINSON
DIRECTOR

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



September 19, 2006

METROPOLITAN SOCIAL SERVICES
25 MIDDLETON STREET
NASHVILLE, TN 37210

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

Mr. Dodson:

This letter is acknowledgement that we have received the Audit Report of Metro Social Services by internal audit.

We have reviewed the report and are in agreement with the 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 instrument and management tool in our overall objective to improve policy implementation and procedures.

We appreciate the professionalism of your staff and their commitment to performing a thorough review.

Sincerely,

A handwritten signature in cursive script that reads "Gerri Robinson".

Gerri Robinson
Executive Director
Metro Social Services