

AMERICAN RECOVERY AND REINVESTMENT ACT OF 2008
INTERNAL CONTROL PLAN
METRO NASHVILLE AND DAVIDSON COUNTY, TENNESSEE
JULY 2009

In an effort to comply with the requirements of the American Recovery and Reinvestment Act of 2008 (ARRA), the Metropolitan Government of Nashville and Davidson County (Metro) has developed this internal control plan to document the progress made toward compliance with ARRA requirements.

The Metropolitan government of the City of Nashville and Davidson County, consolidated in 1963, has vested the executive and administrative powers in the office of the Mayor. The Mayor is elected to a 4-year term and is authorized to administer, supervise and control all departments and to appoint members of boards and commissions. The charter also provides for a Vice-Mayor, who is elected to a 4-year term and serves as the presiding officer over a 40-member elected Council.

Given the current economic situation, the Mayor and the Council are supportive of the ARRA funding initiatives and have taken steps to ensure compliance and effective governance, while promoting transparency and accountability. To that end, this internal control plan has been developed to document Metro's existing internal control structure, which provides for adequate separation of duties and specific measures to avoid and/or minimize fraud, waste and abuse, and to comply with the requirements set forth by ARRA.

Currently, Metro includes 77 departments, boards, commissions and elected offices, 57 of which are under the direct oversight of the Mayor; the rest are led by elected or appointed officials. As of July 2009, eleven (11) departments have received or applied for ARRA funding, most of which constitutes pass-thru funding from the State of Tennessee.

1. PURPOSE

Internal control is a management process for keeping an entity (agency, board, commission, department, division, institution, or program) on course in achieving its organizational objectives. A management control system, including comprehensive internal controls, should provide reasonable assurance that entity objectives are being met. A good internal control system is necessary not only to

comply with ARRA requirements, but also to assist in meeting other financial and programmatic responsibilities.

The objectives of this internal control plan fall into the following three separate but related categories:

- a) Effectiveness and efficiency of operations
- b) Reliability of financial reporting
- c) Compliance with applicable laws and regulations, specifically ARRA.

Control objectives focus the management control system toward those activities designed to minimize the risks of not achieving entity goals. Safeguarding of assets is an example of a control objective that, when in place and effective, aids in the achievement of all three entity objective categories.

The purpose of this internal control plan is to document Metro's plan to ensure accountability for financial control purposes with regard to the delegation of authority to qualified persons to initiate, approve, process and review business transactions, security measures and records on behalf of the Nashville and Davidson County Mayor.

2. OBJECTIVES OF THE INTERNAL CONTROL PLAN

The objective of this plan is to structure an internal control system that outlines the methods and procedures which serve to safeguard Metro's assets; ensure the accuracy, reliability and timeliness of financial reporting; promote compliance with policies, procedures, regulations, and laws; and further effectiveness and efficiency of operations. It is the intent of Metro that internal controls be properly employed to provide reasonable assurance that only appropriate transactions are authorized, executed and recorded and that any errors are detected in a timely manner.

Metro recognizes that internal controls are one means by which a government can achieve its objectives. They are checks and balances to support operations and to help prevent fraud, waste, and abuse. In fact, internal controls are the first line of defense to prevent and detect fraud. Metro's internal controls are established to meet the following objectives:

- a) Ensure mission accomplishment
- b) Reduce opportunities for fraud
- c) Prevent loss of funds or other resources
- d) Establish standards of performance
- e) Assure compliance with laws, regulations, policies, and procedures
- f) Preserve integrity
- g) Eliminate adverse publicity
- h) Assure public confidence
- i) Protect assets
- j) Promote effectiveness and efficiency of operations
- k) Ensure reliability of financial reporting
- l) Comply with applicable laws and regulations

3. KEY ELEMENTS OF METRO'S INTERNAL CONTROL PLAN

Metro has instituted several measures that promote effective and efficient controls that are applied consistently across all departments. The effectiveness of these measures is evidenced by internal monitoring and annual audits conducted by external independent auditors.

Internal Controls

Control activities include segregation of duties, controls over authorization and approval, custodial and security agreements, periodic review and reconciliation, physical controls, training and supervision, documentation and cost/benefit analysis. Several measures have already been instituted in day to day operations. For example, Metro has adopted internal control practices and procedures to ensure segregation of duties within the procurement process which require that authorization and approval functions be performed independent of the requisition and use functions. Metro also has effective internal control practices and procedures over cash receipts, cash disbursements, payroll and other financial transactions. Additional control measures include independent review and reconciliation, physical access controls and training.

Risk Assessment

The second component of Metro's Internal Control Plan involves Risk Assessment, which is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risk should be managed. This process is used to identify risks and analyze their likelihood of occurrence and their impact. Metro has developed a risk assessment tool specifically to assess potential risks against full and efficient implementation of the ARRA funding to Metro. The risk assessment will be applied to every ARRA grant to preempt problems before they develop.

Control Activities

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to the achievement of objectives. Control activities occur throughout the organization, at all levels and in all functions. Control activities include procedures established to monitor the approved financial policies in order to ensure all employees act in compliance with these policies. Policies are generally adopted to control the various risks and, in some instances, in order to comply with various Metro laws, rules and regulations.

Monitoring

After the risk potential of the various processes is identified, a schedule of financial monitoring reviews is developed. This monitoring covers the various financial policies that have been adopted by Metro. The Office of Financial Accountability conducts monitoring of federal and state grants to Metro departments for compliance with the grantor requirements on a three-year cycle. However, this office will monitor every ARRA grant to Metro in the first year of operation, FY 2010.

4. Key Roles for ARRA Administration and Oversight

Senior Accountable Official - The Mayor is the senior accountable official for ARRA funds, but may delegate this duty to other individuals. The Mayor has appointed the Director of Finance to oversee the management of all recovery activities.

Department Senior Accountable Official - Each department administering ARRA funds has identified a senior executive to serve as their senior accountable official

and who is responsible for coordinating ARRA grant activities and compliance within the department. The department may have other fiscal persons designated for financial reporting on the ARRA grants.

Other roles within Metro for administering the ARRA funding are identified in this document: [ARRA Roles \(2\).doc](#)

In addition to the individual ARRA roles, there are some agencies within Metro that play important roles ensuring that key elements are in place to achieve the objectives of the ARRA grants. The main agencies within Metro government that impact the administration of these grants are:

Grant Administering Department – refers to the Metro departments and agencies that operate, manage, or oversee a federal or state grant program. The departments are headed by individuals who are either appointed by the Mayor or by an elected official or other governing body. These departments are usually responsible for the ARRA application and day-to-day operations. The department operates the programs, makes purchases, receives and reviews invoices, recommends payments, requests reimbursements or drawdowns, prepares and submits reports to the grantor as required by ARRA.

Each department is required to appoint a senior accountable official to head and coordinate the activities of all ARRA grants for the department. This individual may delegate the daily activities to others but remain responsible for the ARRA operations within that department. In addition to the senior accountable official, there may be a program manager that serves as the key person for program information and a principle fiscal contact for the grant that may be responsible for the draw down of funds and the financial reporting as well. These two roles are usually segregated within departments.

Finance Department – most financial operations are centralized under the leadership of the Director of Finance.

Office of Management and Budget – is responsible for budget planning, preparation and oversight in Metro. The Metro Charter (8.104) also requires the following:

“The budget officer, with the advice and assistance of the chief accountant, shall write, revise and maintain a proper standard procedure instruction manual to be followed by all officers, departments, boards and other agencies of the government to insure uniform accounting and budgetary procedures”.

On at least an annual basis, all financial policies are reviewed and assessed in order to determine whether or not they are working as intended or should be modified.

Division of Accounts – is responsible for establishing accounting policy (in consultation with the Budget Officer), providing accurate and timely information, and facilitating the most effective and efficient delivery of accounting, accounts payable, payroll and fixed assets management for all Metro departments.

Enterprise Business Solutions (EBS) – is responsible for managing the controls over the central accounting and financial EnterpriseOne system used by all metro agencies. This office is responsible for managing access to various aspects of the accounting system based on roles, authorized access, seniority, training, employment status and a host of other criteria. This office plays a critical role ensuring segregation of duties.

Procurement – oversees the procurement, management, control and disposal of all supplies, services and construction to be procured by Metro. The procurement division, under the leadership of the Procurement Standards Board, has the power to audit and monitor the implementation of its regulations and the requirements of the procurement code, but it does not exercise authority over the award or administration of any particular contract or over any dispute, claim or litigation.

Cash Management - The Office of the Treasurer provides leadership as the steward of Metro's cash, debt, and investments by implementing efficient cash management tools, prudent investing principles, effective debt management programs, and timely informative communications and reporting. The grant administering departments usually have a representative responsible for drawing down needed funds. These funds are controlled by the Treasurer and directed to accounts, dictated by policy established by the Treasurer.

Grants Coordination – Nashville has a well structured grants approval process that serves to support the objectives of the ARRA grants. The Division of Grants Coordination coordinates the process for tracking and reviewing grants from Federal and State grantors to Metro. It assists departments in identifying funding opportunities and developing sound proposals. The division serves as a "gatekeeper", tracking grants as they move through the Metro approval process. Grants Coordination also develops and implements policies & procedures for grants to Metro and provides technical assistance and training to departments, including training on ARRA requirements. It maintains a database of Metro's

grants and acts as a liaison between user departments and the Finance Department on all grant-related matters.

Grants Coordination has been spearheading the Metro efforts for complying with ARRA requirements.

Office of Financial Accountability (Grants Monitoring) –was established in 2001 to conduct fiscal and programmatic monitoring of Federal and State grants administered by the various Metro agencies. Its mission is to ensure that Metro departments that administer grants remain continuously and consistently in compliance with federal, state and local laws, regulations and the specific requirements of grant programs, while meeting the stated outcomes and results.

The ARRA grant requirements mandate recipients to maintain similar offices to provide ongoing monitoring of the grants. The Office of Financial Accountability will provide support and technical assistance to the ARRA grant administrators and also monitor every ARRA grant recipient for compliance with the ARRA grant requirements.

Internal Audit Department - The Office of Internal Audit is an independent agency established to ensure and enhance the integrity, equality, accountability, effectiveness, and efficiency of service activities, and to pursue an atmosphere of honesty and mutual trust within the Metropolitan Government of Nashville and Davidson County. With regard to ARRA grants, Internal Audit’s role is to review the internal control and the ARRA Plan.

External Audit – Metro is audited by external independent auditors annually in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller of the United States. **The Single Audit plan is being revised to include ARRA grants.**

Selected Policies that are in place to support administration of ARRA grants in Metro Nashville

Metro has also established several policies that regulate various operations. Metro Charter requires the Budget Officer, with the Assistance of the Chief Accountant, to maintain all financial policies. Metro has Policy Review Steering Committee that meets on quarterly basis to review all policies. The complete list of policies is available to staff at:

http://imtoo.nashville.org/finance/omb/financial_policies.asp

Grants Polices and Procedures Manual (see Grants Management below)

Grants

- Disallowed Costs
- Grants Drawdown and Reimbursement
- Grants Management

Procurement

- Procurement Regulations
- Procurement Policy

Accounting

- Prompt Pay
- Recognition of Revenue

Cash Management

- ACH Debit Policy
- Cash Deposit
- Credit Card Policy
- Department Bank Accounts

Budget

- Cash Balances
- Indirect Cost

Conclusion

These controls collectively offer a good internal control environment, adequate to support the objectives of the ARRA and to ensure Metro's compliance with the requirements of the ARRA grants.