

BILL PURCELL
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

DEPARTMENT OF FINANCE
OFFICE OF FINANCIAL ACCOUNTABILITY
222 3RD AVENUE NORTH, SUITE 650
NASHVILLE, TN 37201

May 24, 2006

Mr. Don Jones, Director of Council Staff
Metro Nashville Council
225 Polk Avenue, Suite 102
Nashville, Tennessee 37203

Dear Mr. Jones:

Please find attached the final Procurement Monitoring Report for the Metropolitan Government of Nashville & Davidson County. This report explains the results of our review of delegated authority purchases and procurement card use from January 1, 2004 through June 30, 2005. Staff from The Office of Financial Accountability conducted the fieldwork for this review on April 5, 2006. You previously reviewed and responded to the findings in the preliminary report issued on May 8th. Your responses were considered in revising and issuing this final report.

We appreciate the staffs' cooperation and assistance provided us during the review. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom

Fred Adom, CPA
Director

cc: David Manning, Director of Finance
Talia Lomax-O'dneal, Deputy Director of Finance
Don Dodson, Director of Internal Audit
Kim McDoniel, Assistant Director of Finance
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◆ Procurement Monitoring Report of ◆

Metropolitan Council of Nashville & Davidson County

Issued by



The Office of Financial Accountability

May 24, 2006

Fred Adom, CPA
Director

Bill Walker, CPA
Auditor

**MONITORING REPORT
FOR THE
METROPOLITAN COUNCIL OF NASHVILLE AND DAVIDSON COUNTY**

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OBJECTIVES, SCOPE, AND METHODOLOGY

The Office of Financial Accountability (hereinafter referred to as OFA) is charged with the responsibility of monitoring the prompt pay performance, delegated purchasing authority and procurement cards for departments of the Metropolitan Government of Nashville and Davidson County. The OFA is also responsible for monitoring the Federal and State grants to Metro departments and to nonprofit organizations receiving direct appropriations.

We have completed a monitoring review of the procurements for the Metropolitan Council of Nashville and Davidson County (hereinafter referred to as the Metropolitan Council) for the year ended June 30, 2005. A monitoring review is substantially less in scope than an audit. The OFA did not audit the financial statements and accordingly, does not express an opinion or any assurance regarding the financial statements of the Metropolitan Council. The OFA's role in this review was to monitor the performance of the department in their established practices and procedures for procuring goods and services for the operations of the Metro Nashville Government.

Our objectives for the review were:

- To determine whether costs were allowable and necessary
- To determine compliance with Metro Procurement regulations
- To determine compliance with Metro Policies and Procedures for the Purchasing Card Program
- To determine whether costs were recorded appropriately
- To determine that no unauthorized uses of the VISA purchasing cards were committed
- To analyze the payment habits of the department

The scope of the monitoring review included an overview of the department's procurement practices and testing of completed transactions for the period of January 1, 2004 – June 30, 2005. The testing was centered on the compliance of the department's purchase orders, direct payment vouchers, and their procurement card transactions to the requirements of the *Regulations to the 1992 Procurement Code* and the *Policies and Procedures for Procurement Card Purchases of the Metropolitan Government of Nashville and Davidson County*.

A random sample was selected from the EBS Prompt Pay System for testing of the department's purchase orders and direct payment vouchers transactions. In addition, a random sample of the procurement card transactions was tested.

The methodology used by OFA included an objective review of fiscal resources:

- Interviewed the department's designee and the procurement card representative
- Reviewed controls and supporting documentation of expenditures for allowability, necessity, and reasonableness of cost

EXECUTIVE SUMMARY

The Metropolitan Council of Nashville & Davidson County consists of 40 members. There are 5 members who are elected at large from the Nashville/Davidson County area and 35 members who are elected from their respective districts. The Metropolitan Council is the legislative body for the Nashville and Davidson County areas. Their primary responsibility is to enact ordinances and resolutions that create public policy for the Metropolitan Government.

The Metropolitan Council had an operating budget of \$1,596,500 for fiscal year 2005. From 01/01/2004 thru 06/30/2005, the Metropolitan Council processed over 185 transactions using procurement cards. The department also processed 11 transactions using the department's delegated authority. The OFA noted that the department only has one cardholder.

The review covered the activities for the one procurement card and the total population of the department's purchase orders and direct payment vouchers for the accounting periods of January 1, 2004 through June 30, 2005. The test sample consisted of 11 transactions from direct vouchers, 4 purchase orders and 45 transactions from the procurement cards.

The following areas need improvement for better efficiency and compliance:

1. Some Charges Violated the Split Purchase Regulations.

The section that follows provides more detailed information for each of the above findings. Management is given an opportunity to respond to each finding. Each response is included herein immediately following the respective finding.

FINDINGS AND RECOMMENDATIONS

2. Some Charges Violated The Split Purchase Regulations

FINDING

The OFA noted that several instances the Metropolitan Council did not comply with the Procurement Card Regulations by engaging in “split purchasing”. Under the Procurement Card Program, each cardholder has a pre-established limit regarding the amount that can be purchased on a single transaction. Split purchasing occurs when an item or group of items is purchased and the amount exceeds the single transaction limit. To purchase the item, the cardholder has the vendor split the cost of the items into multiple invoices. The amount of the individual invoices is less than the cardholder transaction limit; however the sum of the multiple invoices, which represents the cost of the items being purchased, exceeds the transaction limits. The transaction limit for the Metropolitan Council sole cardholder is \$1,000.00, however as shown below the cardholder violated the regulations on split purchases multiple times in the sample reviewed:

MERCHANT	DATE	AMOUNT
Millennium Alaskan	06/23/2005	\$174.09
Millennium Alaskan	06/23/2005	\$999.00
	Total	\$1,173.09
Pulley’s Graphic	11/08/2004	\$950.00
Pulley’s Graphic	11/08/2004	\$123.00
	Total	\$1,073.00
R.J. Young	08/12/2004	\$493.00
R.J. Young	08/12/2004	\$668.12
R.J. Young	08/12/2004	\$668.12
R.J. Young	08/12/2004	\$668.12
	Total	\$2,497.34
Swett’s Restaurant	04/21/2004	\$862.50
Swett’s Restaurant	04/21/2004	\$862.50
	Total	\$1,725.00

RECOMMENDATIONS

The OFA recommends that the Council ensure that procurement cards purchases are within the cardholders established limits. The cardholders should cease splitting purchases. For those transactions that exceed the cardholder’s limit, the cardholder should follow the guidelines set forth in the Card Rules and Regulations. The cardholder should consult the Card Program Administrator for further assistance and training.

MANAGEMENT’S COMMENTS

We concur and have instructed vendors who submit split invoices to discontinue this practice and no longer request split invoices. We do believe the \$1,000 limit on the procurement card is inadequate to provide orderly and efficient travel expenses for the Vice Mayor and Members of Council.