

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



November 15, 2016

Daron Hall – Sheriff
Davidson County Sheriff's Office
506 Second Avenue North
Nashville, TN 37201

Dear Mr. Hall:

Please find attached the final report on the Davidson County Sheriff's Office's use of Metro credit cards. This report explains the results of our review of delegated purchasing authority and VISA and MasterCard credit card transactions from July 1, 2012 through February 29, 2016. You previously reviewed and responded to the preliminary report. Your responses to the preliminary report have been incorporated into this final report.

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

Sincerely,

Fred Adom, CPA, CGMA, CICA
Director, Office of Financial Accountability

cc: Pete Lutz, Davidson County Sheriff's Office
Talia Lomax-O'dneal, Director of Finance, Department of Finance
Gene Nolan, Deputy Director of Finance, Department of Finance
Kim McDoniel, Deputy Director of Finance, Department of Finance
Phil Carr, Chief of Accounts, Department of Finance
Tom Eddlemon, Metropolitan Treasurer, Department of Finance
Jeff Gossage, Purchasing Agent, Department of Finance
Mark Swann, Metropolitan Auditor, Office of Internal Audit

Kevin Brown, CMFO, CICA, Office of Financial Accountability
Essie Robertson, CPA, CMFO, CICA, Office of Financial Accountability
Matthew Fouad, Office of Financial Accountability



◆ Monitoring Report of ◆

Davidson County Sheriff's Office

Conducted by



Office of Financial Accountability

November 15, 2016

MONITORING REPORT

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INTRODUCTION

The Office of Financial Accountability (hereinafter referred to as "OFA") has completed a credit card review of the Davidson County Sheriff's Office's compliance with the *Metro Code of Law Title 4, Procurement Code* and compliance with the *Metro Finance Policy #19: Credit Card Policy*.

A 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 assurances regarding the financial statements of Metro or any of its component units.

The OFA is responsible for the internal monitoring of Metro agencies that receive federal and state financial assistance, including cooperative agreements and non-profit organizations that receive appropriations from Metro government. The OFA also conducts prompt pay performance, delegated purchasing authority, and procurement reviews, including credit card usage by Metro departments. In summary, any agreement that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

This review was conducted as part of the comprehensive review of credit cards use by all Metro Departments as requested by the Metro Council. At the conclusion of the review of all applicable Metro departments, the OFA will compile a summary report of the results of the review of all departments.

Agency Background

The Davidson County Sheriff's Office's mission is "to be the leader in the field of corrections, service of civil process, and innovative community based programs, emphasizing: Accountability, Diversity, Integrity, and Professionalism." Per the Fiscal Year 2016 Operating Budget Book, the Davidson County Sheriff's Office had 883 total budgeted positions and an operating budget of \$84,812,500.00.

OBJECTIVES, SCOPE AND METHODOLOGY

The scope of the credit card review period covered July 1, 2012 through February 29, 2016. There were eleven (11) cardholders in the Davidson County Sheriff's Office during the review period. See the table below for details:

| Cardholder Name | Number of Transactions | Dollar Value of Transactions |
|------------------------|-------------------------------|-------------------------------------|
| Cardholder A | 82 | \$10,874.50 |
| Cardholder B | 26 | \$2,780.54 |
| Cardholder C | 394 | \$134,614.71 |
| Cardholder D | 41 | \$12,325.28 |
| Cardholder E | 78 | \$25,716.08 |
| Cardholder F | 552 | \$157,161.47 |
| Cardholder G | 20 | \$5,801.20 |
| Cardholder H | 371 | \$134,493.88 |
| Cardholder I | 110 | \$23,610.65 |
| Cardholder J | 24 | \$3,525.34 |
| Cardholder K | 27 | \$3,901.91 |
| Totals | 1,725 | \$514,805.56 |

The Office of Financial Accountability reviewed 284 transactions (16%) of the credit card activity.

The objectives of our review were:

- 1) To determine the agency's compliance with M.C.L. Title 4, Procurement Code.
- 2) To determine the agency's compliance with Metro Finance Policy #19: Credit Cards.
- 3) To determine whether credit card expenditures were allowable and necessary.
- 4) To determine whether purchasing transactions were authorized and sufficiently documented.
- 5) To determine whether the agency has adequate and effective internal controls over its credit card program.

Our review procedures included meeting with agency management and staff, reviewing internal controls over credit card use, and examining certain financial records and supporting documentation to ensure compliance with requirements set forth in Metro's official procurement policies. Specific procedures included:

- Comparing credit card charges with original receipts, supporting documentation and travel authorizations.
- Reviewing supporting documentation for accuracy, necessity and reasonableness.
- Identifying split purchases and unauthorized or fraudulent transactions.
- Investigating discrepancies and following up as necessary.

RESULTS OF REVIEW

Overall Findings and Major Review Highlights

Our review revealed the following issues of non-compliance with M.C.L. Title 4, Procurement Code and Metro Finance Policy #19: Credit Card. The Davidson County Sheriff's Office:

1. Failed to maintain adequate supporting documentation,
2. Used cards for contracted purchases,
3. Used cards for monthly recurring expenses,
4. Failed to adequately document the business purpose of the transactions,
5. Failed to exercise exempt status by improperly paying sales tax.

The section that follows provides more detailed information for the items listed above. Management is given an opportunity to respond to the findings.

FINDINGS AND RECOMMENDATIONS

1. Failed to maintain adequate supporting documentation.

FINDING

The Davidson County Sheriff's Office failed to maintain invoices and/or sales receipts to support 39 out of 284 (27%) of the transactions tested. Without supporting documentation, the Davidson County Sheriff's Office was unable to support the business purpose of the transactions. Per *Metro Finance Policy #19 Credit Cards 3) Expectations of Cardholders b) "Cardholders should collect and maintain proper sales receipts and invoices to support all charges. Proper sales receipts should include adequate description of the items purchased and the individual benefitting (when applicable). Credit card charge slips are not sufficient support."*

The OFA also noted that 45% of the transactions for which the supporting documentation was provided was not signed or initialed by the cardholder. Cardholder's signature is a vital part of the necessary documentation to support the credit card charges. It serves two purposes, 1) it shows that the cardholder was in fact the person who used the card to complete the transaction and 2) it identifies the individual authorized the use of the credit card. Per *Metro Finance Policy #19 2) Card Authorization a) "Only the employee whose name is embossed on a credit card may use the card. No other person is authorized to use the card. The use of the card shall not be delegated to any other person. Cardholder shall use the credit card for Metro authorized purchases only."* In addition, per the *Metro Credit Card Cardholder Responsibility Acknowledgement*, "the card issued to me must not be used by anyone other than myself. (This includes other Metro employees)."

RECOMMENDATION

The Davidson County Sheriff's Office should ensure that cardholders maintain adequate supporting documentation to support credit card transactions.

The Davidson County Sheriff's Office should further ensure that the cardholders review and sign the credit card supporting documentation to ensure that no one other than the cardholder is utilizing the Metro credit card.

MANAGEMENT'S COMMENTS

We concur and have had conversations with current cardholders, emphasizing what constitutes as proper documentation and the need for their signature on every charge.

2. Used cards for contracted purchases.

FINDING

The Davidson County Sheriff's Office utilized Metro credit cards to make four (4) transactions for the purchase of office supplies. While office supplies are a legitimate business expense, the purchase of office supplies with a metro credit card is a violation of metro policy. The Procurement Division within the Finance Department has secured a contract with a Vendor for office supplies at a discounted rate. Therefore, while the purchasing of office supplies, off metro contract, is for legitimate business, it is considered wasteful in the aspect that the department is failing to take advantage of the discounted pricing that is available through the Metro contract. Per *Metro Finance Policy #19: Credit Cards 1) General Policies a) "the credit card can be used to purchase and make payment for approved transactions only including travel and related cost (hotels, car rentals, food, and ancillary items), petty cash type purchases, conference registrations, subscriptions and emergency purchases (as defined by the Purchasing Agent). **Note: All purchases are subject to established purchasing regulations. The credit card is not a payment/purchasing card and is not to be used for routine procurements from contracted suppliers."***

RECOMMENDATION

The Davidson County Sheriff's Office should ensure that needed office supplies are purchased from the Metro contracted vendor. In the extraordinary circumstances that would necessitate the Davidson County Sheriff's Office to purchase off contract, the Davidson County Sheriff's Office should ensure compliance with the guidelines requirements for Emergency Purchases as required by M.C.L. 4.12.070 Emergency procurements.

MANAGEMENT'S COMMENTS

We concur in part. The DCSO utilizes contracted vendor for office supplies on a regular basis. The card would have been used only if something was needed faster

than contractor could have delivered it, or if it wasn't available through the contractor at that time. In the future, we will ensure that the extenuating circumstance (i.e. emergency purchase) is fully detailed and that it is explained why we didn't use the contracted vendor.

3. Used cards for monthly recurring expenses..

FINDING

The Davidson County Sheriff's Office utilized Metro credit cards to make monthly recurring expenditures, to Adobe Creative Cloud and BC Base Camp, in violation of the Metro Credit Card Cardholder Responsibility Acknowledgement for which was required to be reviewed and signed prior to the cardholder being used the Metro credit card. While the monthly expenditures were a legitimate business expense, the process of allowing the vendors to store the credit card number "on file" is violation of metro policy. The Metro Credit Card Cardholder Responsibility Acknowledgement states, "*I will not allow the card number to be held "on file" by anyone. Recurring charges are not to be made on the card.*" The practice of having monthly recurring charges; weakens internal controls in regards to accounts payable.

RECOMMENDATION

The Davidson County Sheriff's Office should ensure that cardholders are not allowing anyone to store "on file" the Metro credit card numbers. The Davidson County Sheriff's Office should further ensure that all invoices are reviewed for accuracy prior to payment being submitted.

MANAGEMENT'S COMMENTS

We concur and have had this practice stopped immediately.

4. Failed to adequately document the business purpose of the transactions.

FINDING

The Davidson County Sheriff's Office failed to adequately document the business purposes for ten (10) credit card transactions totaling \$1,082.28. The OFA noted that

those transactions, mainly to restaurants, appeared to be associated with a group of participants, without any indication of the business necessity for the expenditures. Upon further inquiry into the ten (10) transactions, the Davidson County Sheriff's Office was able to provide additional information in regards to the business purpose; therefore, the ten (10) transactions at local restaurants were not questioned or deemed personal.

*Per Metro Finance Policy #19: Credit Cards states under Section 5) Prohibited Uses, "a) The credit card generally should not be used to purchase meals unless the cardholder is on an approved travel status. (Please see the Travel Policy for details). When it is necessary to use the card for payment for a planned office event, the cardholder should ensure that there is proper documentation, approved by the Department or designee authorizing the use of the card." Metro Finance Policy #19 further states, under Section 6) Documentation Requirements, "b) Use of the Metro credit card for meals at local restaurants is generally not allowable. When charges for meals at local restaurants are necessary, the cardholder shall maintain detailed documentation to justify the charges. The documentation at a **minimum** include detailed information such as (a) the list of individuals that participated/attended the meeting/luncheon, (b) time, (c) place, (d) and an agenda or document that describes the business purpose of the meeting and meal."*

RECOMMENDATIONS

The Davidson County Sheriff's Office should take the necessary actions to ensure that adequate documentation is maintained to support all credit card transactions. The documentation should include clear and concise notation as to the business purpose of all transactions.

The Davidson County Sheriff's Office should ensure that at a minimum the following information is maintained to justify the business purpose of meals purchased from a local restaurant.

- a) the list of individuals that participated/attended the meeting/luncheon,
- b) time,
- c) place,
- d) an agenda or document that describes the business purpose of the meeting and meal.

MANAGEMENT'S COMMENTS

We concur and have had discussions with cardholders to ensure that items a-d mentioned above are included when the purchase is requested through the DCSO

internal Purchase Requisition process, therefore showing proof of approval as well as the business purpose of the meals purchased.

5. Failed to exercise exempt status by improperly paying sales tax.

FINDING

The Davidson County Sheriff's Office improperly paid sales tax on fourteen (14) transactions totaling \$137.68. Per *Metro Finance Policy #19 3) Expectations of Cardholders d) "Cardholders are also responsible for identifying and disputing erroneous charges, including Tennessee sales tax charges, to their assigned cards. It is the responsibility of the cardholder to dispute the charges as specified in the cardholder agreement."* In addition, *e) "Cardholders should not pay Tennessee sales tax. It is the cardholder's responsibility to dispute Tennessee sales tax charges."*

RECOMMENDATION

The Davidson County Sheriff's Office should ensure that Metro Cardholders review and dispute charges associated with Tennessee sales tax. The Davidson County Sheriff's Office should also ensure that Metro credit card cardholders adhere to Metro Finance Policy #19.

MANAGEMENT'S COMMENTS

We concur and have had discussions with cardholders in order to prevent this in the future.