

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



December 6, 2016

Doug Sloan, Director
Metropolitan Planning Department
Howard Office Building
700 Second Avenue South, STE 210
P.O. Box 196305
Nashville, TN 37219

Dear Mr. Sloan:

Please find attached the final report on the Metropolitan Planning Department's use of Metro credit cards conducted by the Office of Financial Accountability. 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: Jeffrey Leach, Metropolitan Planning Department
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
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◆ Monitoring Report of ◆

Metropolitan Planning Department

Conducted by



Office of Financial Accountability

December 6, 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 Metropolitan Planning Department'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 Metropolitan Planning Department mission is "to guide growth and development as Nashville and Davidson County evolve into a more socially, economically and environmentally sustainable community, with a commitment to the preservation of important assets, efficient use of public infrastructure, distinctive and diverse neighborhood character, free and open civic life, and choices in housing and transportation." Per the Fiscal Year 2016 Operating Budget Book, the Metropolitan Planning Department had 57 total budgeted positions and an operating budget of \$10,298,500.

OBJECTIVES, SCOPE AND METHODOLOGY

The scope of the credit card review period covered July 1, 2012 through February 29, 2016. There were six (6) cardholders in the Metropolitan Planning Department during the review period. See the table below for details:

Cardholder Name	Number of Transactions	Dollar Value of Transactions
Cardholder A	187	\$28,084.70
Cardholder B	218	\$32,633.76
Cardholder C	60	\$12,990.45
Cardholder D	286	\$49,615.18
Cardholder E	355	\$50,810.66
Cardholder F	17	\$845.34
Totals	1123	\$174,980.09

The Office of Financial Accountability reviewed 107 transactions (9%) 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 Metropolitan Planning Department:

1. Improperly used Metro credit card for non-business (personal) items,
2. Improperly paid sales tax,
3. Failed to maintain adequate supporting documentation,
4. Failed to follow the Metro Code of Law Title 4, Procurement Code,
5. Failed to adhere to Metro Finance Policy #18: Travel.

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. Improperly used Metro credit card for non-business (personal) items

FINDING

Based on test work completed, the Metropolitan Planning Department improperly used the Metro credit card to purchase items which appear to have been personal in nature and not for authorized Metro business. The charges included expenditures for computer tablets and computer accessories. Our review revealed four (4) transactions totaling \$2,202.93 that appears to be for non-Metro business use. The OFA was informed that the cardholder, who purchased the computer tablet and software, is no longer employed by the Metropolitan Planning Department; however, he took the computer equipment with him to his new employer's office. The cost of the computer equipment is therefore deemed as personal; for non-Metro business.

Per Metro Finance Policy #19: Credit Card Section 3) Expectations of Cardholders c) "Use of the credit card for personal expenses is a misappropriation of Metro Funds. Any use of the credit card for personal expenses will result in cancellation of the card and may result in disciplinary action. Any cardholder who uses the card for personal charges will be barred from future use of a Metro card." In addition, per the Metro Credit Card Cardholder Responsibility Acknowledgement that details the responsibilities of the cardholder, for which is reviewed and signed by the cardholder prior to taking physical possession of the Metro credit card, states "I will not use the card for any non-Metro purpose including personal expenses."

RECOMMENDATION

The Metropolitan Planning Department should take immediate measures to either obtain reimbursement for the non-Metro business transactions or should ensure that the computer equipment is returned to Metro Nashville Government as soon as possible.

The Metropolitan Planning Department should also take the necessary steps to ensure that cardholders of a Metro Credit card comply with rules and regulations as stated within their Notice of Purchasing Delegation, the M.C.L. Title 4 Procurement Code, and Metro Finance Policy #19: Credit Card Policy, and the Cardholder Responsibility Acknowledgement Agreement.

In addition to Finance training already provided, The Metropolitan Planning Department should offer additional training to the department's cardholders on credit card use and to emphasize the potential that they can be held personally liable for their use of the Metro credit card for personal items charged to the card. Continued violations of the credit card usage regulations and policies shall result in the cancellation of their Metro credit card privileges and other disciplinary actions deemed appropriate.

MANAGEMENT'S COMMENTS

We do not concur with this finding. While the individual is the current user of this computer, he is not the owner. It was not a personal expense at the time of purchase and his "new employer" is a member of the MPO and is under contract to provide services to the MPO.

The laptop in question was purchased by the Nashville Area MPO Executive Director with MPO grant funds and is still the property of the Nashville Area MPO, thus accounted for by the MPO's equipment inventory. When this individual was hired by the Greater Nashville Regional Council (GNRC), he became member of the MPO's board and assumed the responsibilities outlined in the MPO's existing contract with the GNRC (Contract L-3665). The GNRC is under contract with the MPO to conduct planning services outlined in the approved Unified Planning Work Program (UPWP). These tasks include assisting MPO staff in carrying out regional transportation and land use planning activities within the MPO's designated seven county planning area and assisting in the development of recommendations for improving regional governance and cooperation across Middle Tennessee as related to the enhancement of transportation planning. Specific tasks which this individual is assisting with through this contract and use of this computer include:

- ⊙ Regional research and GIS support within
- ⊙ Regional Land use modeling support
- ⊙ Regional transportation/ capital improvement project tracking
- ⊙ Coordination and outreach of the Mayors Caucus
- ⊙ Execution of the Memorandum of Agreement (MOA) to improve regional cooperation.

As the current user, he has approved VPN access to MPO's server files and databases through this computer.

The Metro credit was used to purchase the computer, however, it is important to note that MPO grant funds paid for the machine. The cost principles outlined in 2 CRF 200 10 outline the necessary and reasonable costs allowable for federal awards. This was a general purpose equipment purchase which by definition (2 CFR 200.48) is not limited to technical activities. The UPWP contract with GNRC runs through Sept 30, 2017.

When the computer is no longer being used for the services provided, the computer will be returned to the Metropolitan Planning Organization.

AUDITORS' REBUTTAL

The laptop was purchased with grant funds on a grant between the State of Tennessee, Department of Transportation and Metro Planning Commission (MPC) and not the Metro Planning Organization (MPO) as referred to above. Though the primary contact on the grant was an MPO employee, the responsible party is Metro Nashville Government. See contract L-3062. The equipment should have been tagged as belonging to Metro Nashville Government (MPC) and not listed on the MPO inventory.

When the individual transferred to GNRC, there should have been an agreement between GNRC and the MPC granting the use of the equipment to the GNRC. It is important to note the grant called for 80/20 matching funds, therefore not only does Metro Planning Commission own it, but it also accountable and responsible for protecting the grantor's interest in the equipment.

Finally, the OFA is agreeable to the plan to return the equipment at the end of the contract as outlined in the response however it is important to note that there was no documentation or explanation presented to the auditors during the fieldwork.

2. Improperly paid sales tax.

FINDING

The Metropolitan Planning Department improperly paid sales tax on seven (7) transactions totaling \$157.26. 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 Metropolitan Planning Department should ensure that Metro cardholders review and dispute charges associated with Tennessee sales tax. The Metropolitan Planning Department should also ensure that Metro credit card cardholders adhere to Metro Finance Policy #19.

MANAGEMENT'S COMMENTS

We concur with this finding. The Metro Planning Department will require Metro Credit Card training for those employees using the Metro Credit Card to emphasize the fact that the Metropolitan Government of Nashville does not pay TN State Sales Tax.

3. Failed to maintain adequate supporting documentation.

FINDING

The Metropolitan Planning Department failed to maintain invoices and/or sales receipts to support 4 out of 107 (4%) of the transactions tested. Without supporting documentation, the Metropolitan Planning Department 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 69% 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 Metropolitan Planning Department should ensure that cardholders maintain adequate supporting documentation to support credit card transactions.

The Metropolitan Planning Department 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

The Metro Planning Department does not concur with this finding. The Metro Planning Department has receipts for these transactions. We were unable to locate anything in the current Credit Card Policy requiring each receipt to be signed. Please provide a reference in the policy to that requirement so that employees can be properly trained in the future.

AUDITORS' COMMENTS

The credit card policy states only the cardholder is permitted to use the card. The cardholder's signature confirms the transaction was undertaken by the cardholder.

4. Failed to follow the Metro Code of Law Title 4, Procurement Code

FINDING

The Metropolitan Planning Department utilized Metro credit card purchase computer equipment exceeding \$1,000 without receiving the minimum of three verbal quotations. While the computer equipment is a legitimate business expenses, under Metro Code of Law Title 4, Procurement Code, 4.08.060 Delegation of authority by the purchasing agent. The dollar amount of the purchase exceeding \$1,000 to \$3,999.99 is required a minimum of three verbal quotations. 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 Metropolitan Planning Department should ensure it follows Metro Code of Law Title 4, Procurement Code, 4.08.060 Delegation of authority agent guidelines when using Metro credit card for purchases exceeding \$999.99. In the extraordinary

circumstances that would necessitate the Metropolitan Planning Department to purchase an item exceeding \$999.99, the Metropolitan Planning Department should also ensure compliance with the guidelines for Emergency Purchases as required by M.C.L. 4.12.070 Emergency procurements.

MANAGEMENT'S COMMENTS

The Planning Department does not concur with this finding. The Cardholder has verified that three quotes were obtained prior to purchase of said computer equipment.

AUDITORS' COMMENTS

The Planning Department did not present auditors with any such documentation when inquired.

5. Failed to adhere to Metro Finance Policy #18: Travel.

FINDING

The Metropolitan Planning Department utilized Metro credit card to make two (2) transactions for purchase of non-Metro employees travel costs totaling \$2,098.53. While non-Metro employee travel cost can be a legitimate business expense, the use of Metro credit card without first obtaining prior out of state travel approval in accordance with the Metro Finance Policy #18 is a violation of Metro policy. Per *Metro's Finance Policy #18: Travel: "The purpose of this Policy Statement is to establish uniform guidelines across the Metropolitan Government of Nashville & Davidson County (Metro) for payment of travel expenses incurred by both employees and non-employees while conducting official Metro business. All out-of-state travel must be approved by the Director of Finance after it has been approved by the department or agency head. General Policies, c) Out-of-state and in-state travel authorization requests, rental car requests and Metro vehicle requests must be submitted through the online travel application."*

Per *Metro's Credit Card Policy #19: 1) General Policies states: a) "The credit card can be used to purchase and make payment for approved transactions only including travel and related costs (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 Metropolitan Planning Department should ensure that Metro credit cardholders submit a Metro online travel application and receive advanced approval prior to incurring any travel cost. The Metropolitan Planning Department should also ensure that Metro credit card cardholders adhere to Metro Finance Policy #19.

MANAGEMENT'S COMMENTS

The Metro Planning Department agrees with this finding. All employees will be made aware of the fact that non-employee travel requests are to be approved in advance. We will note that these travel expenses were paid for out of Federal transportation planning funds, not Metro Government funds.