

**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**



November 22, 2016

Tim Townsend, Court Administrator  
State Trial Courts  
Metro Courthouse  
1 Public Square  
Nashville, TN 37201

Dear Mr. Townsend:

Please find attached the final report on the State Trial Courts' 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: Joe Werner, State Trial Courts  
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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Matthew Fouad, Office of Financial Accountability



◆ Monitoring Report of ◆

# State Trial Courts

Conducted by



Office of Financial Accountability

November 22, 2016

MONITORING REPORT

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## INTRODUCTION

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The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a credit card review of the State Trial Courts’ 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 State Trial Courts mission is “to provide the public with equal and fair access to the judicial branch of government by providing a fair, independent and accessible forum for the just, timely and economical resolution of their legal affairs.” Per the Fiscal Year 2016 Operating Budget Book, the State Trial Courts had 162 total budgeted positions and an operating budget of \$11,929,900.

## OBJECTIVES, SCOPE AND METHODOLOGY

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The scope of the credit card review period covered July 1, 2012 through February 29, 2016. There were thirteen (13) cardholders in the State Trial Courts during the review period. See the table below for details:

<b>Cardholder Name</b>	<b>Number of Transactions</b>	<b>Dollar Value of Transactions</b>
Cardholder A	81	\$4,866.81
Cardholder B	5	\$1,487.76
Cardholder C	70	\$25,388.58
Cardholder D	13	\$4,661.88
Cardholder E	50	\$5,486.58
Cardholder F	265	\$40,306.30
Cardholder G	154	\$23,791.42
Cardholder H	60	\$7,289.81
Cardholder I	3	\$242.26
Cardholder J	146	\$21,151.28
Cardholder K	25	\$4,920.66
Cardholder L	26	\$2,351.37
Cardholder M	3	\$107.50
<b>Totals</b>	<b>901</b>	<b>\$142,052.21</b>

The Office of Financial Accountability reviewed 394 transactions (44%) 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

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### 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 State Trial Courts:

1. Failed to maintain adequate supporting documentation,
2. Improperly paid sales tax,
3. Used cards for monthly recurring expenses,
4. Failed to adequately document the business purpose of the transactions,

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

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### 1. Failed to maintain adequate supporting documentation.

#### FINDING

The State Trial Courts failed to maintain invoices and/or sales receipts to support 208 out of 394 (53%) of the transactions tested. Without supporting documentation, the State Trial Courts 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 on four (4) transactions, it appeared as though someone other than the authorized cardholder had utilized the Metro credit card to make transactions. The OFA further noted that 41% 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 State Trial Courts should ensure that cardholders maintain adequate supporting documentation to support credit card transactions.

The State Trial Courts 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. Upon being notified of the credit card audit, the State Trial Courts ("STC") immediately began reviewing our procedures and taking steps to assure that future credit card transactions are in compliance with Metro guidelines. The STC was notified on July 26, 2016 that credit card charges back to July, 2012 were being audited. STC management promptly scheduled a meeting (August 10th) with the auditor from the Finance Department to discuss the proper controls and procedures for credit card transactions. Then, on August 24, 2016, STC management met with all STC cardholders to reinforce Metro's credit card guidelines. Also, STC management recently conducted an internal review of all credit card transactions in September and October, 2016 to make sure new procedures were properly implemented. Based on this review, all new procedures have been fully implemented and the STC is in compliance with Metro's guidelines. This review also found that STC credit card usage is down 35% over the same time last year.

Many receipts could not be located because they were stored individually by the cardholders and not in a central location. Receipts are often emailed to the cardholder but not printed, so the only copy of that receipt is in the employees email account. This creates a problem, however, when the employee terminates their Metro employment because their email account is only available for a short time period after termination. In fact, 131 (63%) of the invoices that could not be located were from cardholders no longer employed by the STC. The STC has corrected this weakness by storing all credit card receipts at a central location instead of by the individual cardholders.

It is also important to note that for all sample transactions in which receipts could not be located, STC management reviewed the credit card statements and provided the auditor with justification for the expenditure. All transactions in the sample were business related expenditures.

### 2. Improperly paid sales tax.

## FINDING

The State Trial Courts improperly paid sales tax on thirty (30) transactions totaling \$338.69. 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 State Trial Courts should ensure that Metro cardholders review and dispute charges associated with Tennessee sales tax. The State Trial Courts should also ensure that Metro credit card cardholders adhere to Metro Finance Policy #19.

## **MANAGEMENT’S COMMENTS**

**We concur. The STC is now notifying merchants of our tax exempt status at the time of the purchase.**

### **3. Used cards for monthly recurring expenses..**

## **FINDING**

The State Trial Courts utilized Metro credit cards to make monthly recurring expenditures, to the multiple newspaper subscriptions 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 State Trial Courts should ensure that cardholders are not allowing anyone to store “on file” the Metro credit card numbers. The State Trial Courts should further ensure that all invoices are reviewed for accuracy prior to payment being submitted.

## **MANAGEMENT’S COMMENTS**

**We concur. In the future, the two newspaper subscriptions identified in the finding will be billed and paid through EBS and not with a credit card. No other recurring transactions were billed to the credit card.**

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

##### **FINDING**

The State Trial Courts failed to adequately document the business purposes for three (3) credit card transactions totaling \$608.45. 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 three (3) transactions, the State Trial Courts 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 State Trial Courts 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 State Trial Courts 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. The STC purchases meals at local restaurants primarily for jurors involved in court proceedings. This is done to shield jurors from the public during the trial. The STC has significantly reduced the use of credit cards for this purpose by having local restaurants invoice Metro directly for these meals. So far, three restaurants have agreed to direct billing. This is the primary reason that STC credit card transactions are down 35% over this same time last year. When credit card transactions are required to purchase meals at local restaurants, the STC will list the event, purpose of event, the time and place on the supporting documents.**