



*METROPOLITAN GOVERNMENT OF NASHVILLE AND
DAVIDSON COUNTY*

INTERNAL AUDIT SECTION

Professional Audit, Advisory, and Consulting Services

AUDIT REPORT

Financial Control and Compliance Audit of the Parthenon at Parks and Recreation

Date Issued: February 20, 2007

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METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

INTERNAL AUDIT SECTION

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**BILL PURCELL
MAYOR**



**DEPARTMENT OF FINANCE
INTERNAL AUDIT SECTION**

**METROPOLITAN
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AND DAVIDSON COUNTY**

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February 20, 2007

Mr. Roy Wilson, Director
Centennial Park Office
Nashville, Tennessee 37203

Report of Internal Audit Section

Dear Mr. Wilson:

We have completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of the Parthenon at Metro Parks and Recreation, focusing on revenue collection and related transactions. *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States define performance audits as follows:

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability. Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results, economy and efficiency, internal control, compliance with legal or other requirements, and objectives related to providing prospective analyses, guidance, or summary information.

A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance. Internal control objectives relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance.

Auditors' Responsibility

In order to maintain and broaden public confidence, auditors need to perform all professional responsibilities with the highest degree of integrity, professionalism, and objectivity when dealing with audited entities and users of the auditors' reports. Additionally, auditors should be

honest and candid with the audited entity and users of the auditors' work in the conduct of their work, within the constraints of the audited entity's confidentiality laws, rules, or policies.

Service and the public trust should not be subordinated to personal gain and advantage. Auditors should be objective and free of conflicts of interest in discharging their professional responsibilities. Auditors are also responsible for being independent in fact and appearance when providing audit and attestation services. Independence precludes relationships that may in fact or appearance impair auditors' objectivity in performing an audit or attestation engagement. The maintenance of objectivity and independence requires continuing assessment of relationships with the audited entities in the context of the auditors' responsibility to the public.

In applying *Generally Accepted Government Auditing Standards*, auditors are responsible for using professional judgment when establishing scope and methodologies for their work, determining the tests and procedures to be performed, conducting the work, and reporting the results. Auditors need to maintain integrity and objectivity when doing their work to make decisions that are consistent with the broader public interest in the program or activity under review. When reporting on the results of their work, auditors are responsible for disclosing all material or significant facts known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal improper or unlawful practices.

Management's Role

Parthenon process owners and managers are entrusted to properly manage the resources under their control. To meet their obligations, Parthenon process owners and managers are responsible for:

- Applying those resources efficiently, economically, effectively, and legally to achieve the purposes for which the resources were furnished or the program was established;
- Complying with applicable laws and regulations, including identifying the requirements with which the entity and the official must comply and implementing systems designed to achieve that compliance;
- Establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed;
- Providing appropriate reports to those who oversee their actions and to the public in order to be accountable for the resources used to carry out government programs and the results of these programs;
- Addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations; and
- Following sound procurement practices when contracting for audits and attestation engagements, including ensuring procedures are in place for monitoring contract performance.

Department Overview

The mission of the Metropolitan Board of Parks and Recreation is to provide every citizen of Nashville and Davidson County with an equal opportunity for safe recreational and cultural activities within a network of parks and greenways that preserves and protects the region's natural resources.

Parks and Recreation consists of seven lines of business, consisting of several programs. A brief description of each is summarized below:

Facilities Management and Development

The purpose of the Facilities Management and Development function is to provide parkland and recreational facility products to residents and visitors of Nashville so they can experience safe, clean, and enhanced facilities to recreate in the activity of their choosing.

Recreational Enhancement

The purpose of the Recreational Enhancement function is to provide facility admissions and retail products to members, residents and visitors of Nashville so they can have an enriched recreational experience at Metro Park facilities.

Park Police

The purpose of the Metro Park Police function is to provide safety and security products to park visitors so they can recreate in a safe environment.

Community Recreation

The purpose of the Community Recreation function is to provide age and needs appropriate skill development, sports, exercise, and entertainment products to residents and visitors of Nashville so they can use their leisure time to pursue the recreational activities of their choice.

Community Outreach and Resource Development

The purpose of the Community Outreach and Resource Development function is to provide information, education, volunteering, and partnership opportunity products to organizations, residents, and visitors so they can benefit from and/or contribute to an enhanced parks and recreational system.

Natural and Cultural Resources

The Parthenon is accounted for under the Natural and Cultural Resources line of business. The purpose of the Natural and Cultural Resources function is to provide environmental and cultural, education and recreation products to residents and visitors of Nashville so they can visit and participate in activities related to natural resource management, history, and cultural arts. Within the Natural and Cultural Resources line of business are the Arts and History and Natural Resources program. The Arts and History program's purpose is to provide museum, history, and art products to residents and visitors of Nashville so they can visit cultural and historic sites and experience and/or participate in cultural arts programming. The Natural Resources program provides resource management and protection, environmental education, and outdoor recreation products to residents and visitors of Nashville so they can participate in natural resource programs and experience protected natural areas.

Support Services

The purpose of the Support Services function is to provide administrative support services to all of the Parks and Recreation Department divisions so they can effectively and efficiently deliver results to customers.

Budgeted Financial Information

Parks and Recreation had a total of 1,213 budgeted positions for fiscal year 2007. The fiscal year 2007 budget is summarized below:

Revenues and Transfers:

Program Revenue

Charges, Commissions, and Fees	\$	9,286,400
Other Governments and Agencies		162,100
Other Program Revenue		<u>469,300</u>
Total Program Revenue		9,917,800
Non-program revenue		237,300
Transfer from Other Funds and Units		<u>500,000</u>
Total Revenues	\$	<u><u>10,655,100</u></u>

Expenditures and Transfers:

GSD General Fund	\$	32,579,600
Special Purpose Fund		<u>2,180,000</u>
Total Expenditures and Transfers	\$	<u><u>34,759,600</u></u>

Objectives, Scope, and Methodology

The primary objectives of this financial control and compliance audit included the following:

- An examination of the business processes employed by the Parthenon for revenue collection, purchasing and expenditures, payroll and personnel, and petty cash;
- Identification of weaknesses and strengths in the internal control environment and their impact on operations;
- Identification of the actual financial and/or operational impact on operations from weaknesses and strengths identified; and
- Provide recommendations to Parthenon management that can serve as a tool for improving the overall internal control environment.

Our work focused primarily on the period June 1, 2005 through September 30, 2006 financial balances, transactions, and performance on the processes in place during the time of the audit. Certain analyses required the consideration of financial results, performance, and operations outside that time period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the Parthenon and the Parks Administrative Office. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of the Parthenon were directly observed. We performed our procedures in accordance with *Generally Accepted Government Auditing Standards*.

In discharging our professional responsibilities, we observed the principles of serving the public interest and maintained the highest degree of integrity, objectivity, and made decisions that were consistent with the broader public interest. Additionally, we were free both in fact and appearance from personal, external, and organizational impairments to independence. In applying *Generally Accepted Government Auditing Standards*, we used professional judgment when establishing scope and methodologies for our work, determining the tests and procedures to be performed, conducting our work, and reporting results.

Audit Findings and Recommendations

We have listed below the reportable findings and recommendations for the objectives listed above. If an objective is not discussed below, no issues were identified or the issues identified were not to the level of a reportable condition and were verbally communicated through the course of fieldwork. Management has responded with a letter attached to the end of our report.

Payroll

We reviewed the payroll records for six of the 12 employees from the period July 1, 2005 through June 30, 2006 and matched the supporting documentation to the Metropolitan Government central payroll and general ledger (EBS) for accuracy. In addition we also reviewed the general process for preparing payroll entries. From the review completed, we noted the following deficiencies:

1. Leave request forms (actual source of leave of absence, agreement between supervisor and employee) are not used at the Parthenon. By not having proof of the request for time off with the manager's approval, future discrepancies between the supervisor and the employee's time and attendance could arise and not be proven by either the employee or the Parthenon.

Audit Recommendation

The Parthenon should support timesheets with leave request forms documenting when time was taken with the leave request form signed by both the employee and their supervisor/manager.

Revenue

We reviewed the internal controls and general accounting and record keeping processes involved with receiving revenue at the Parthenon. Because we could not obtain reliable revenue information regarding gift shop retail items through EBS we used information obtained from the Parks Administrative Office which consisted of quarterly inventory count reports and quarterly

costs of sales reports for the period July 1, 2005 through September 30, 2006. We reviewed these reports for accuracy. Based on our review, we noted the following deficiencies:

- Overages and shortages reported on the monthly revenue summary reports maintained by the Parks Administrative Office from the cashier operations at the Parthenon are too high. During fiscal year 2006, the admissions area reported overages of \$318.67 and shortages totaling \$557.92 (total variance of \$876.59), the gift shop reported overages of \$62.11 and shortages totaling \$435.43 (total variance of \$497.54), and finally, consignment art sales reported overages of \$136.60 and shortages totaling \$0.07 (total variance of \$136.67) for an aggregate variance of \$1,510.80. Based on information obtained from Parks, illustrated below are the overages and shortages broken down by month during fiscal year 2006 for the Parthenon:

Over (Short)			
<i>Month and Year</i>	<i>Admission Fees</i>	<i>Souvenir Sales</i>	<i>Art Sales</i>
July 2005	\$1.25	(\$55.27)	\$0.00
August 2005	(\$44.20)	(\$67.47)	\$0.00
September 2005	(\$2.35)	(\$20.02)	\$0.00
October 2005	\$201.92	\$16.46	\$0.01
November 2005	(\$77.65)	(\$83.45)	\$0.00
December 2005	(\$81.00)	(\$72.20)	\$136.60
January 2006	(\$157.00)	(\$2.97)	(\$0.04)
February 2006	(\$1.25)	\$45.65	\$0.00
March 2006	\$28.50	(\$28.25)	(\$0.01)
April 2006	(\$68.00)	(\$77.80)	\$0.00
May 2006	\$87.00	(\$15.79)	\$0.00
June 2006	(\$126.47)	(\$12.22)	(\$0.01)

At the end of the day, the cash drawers are counted by the Parthenon Gift Shop and the deposit is prepared and taken to the bank by a Parks representative. The Parthenon Gift Shop will then send the daily deposit detail (register tapes) to the Parks Administrative Office without reconciling the daily revenue collections preventing any direct explanation describing overages or shortages. The next day the Parks Administrative Office will compare the deposit detail received from the Parthenon Gift Shop against the bank deposit summary report listing bank deposit totals. If there were any differences identified, the Parks Administrative Office was not contacting the Parthenon to attempt to resolve the issue. Additionally, the Parks Administrative Office was not documenting the resolutions (or attempted resolutions) on the Excel file tracking the daily deposits that gets sent back to the Parthenon each month. By the two areas not attempting to document and resolve issues as they occur, misappropriations could be taking place without detection and potential performance issues are not tracked for future assessment.

Audit Recommendation

Overages and shortages need to be reviewed on a daily basis to isolate possible procedural issues and make appropriate corrections to improve cashier activities. Additionally, management should discuss the importance of having an accurate drawer and include the

results of the monthly overage and shortage amounts as part of each employee’s performance evaluation. By holding employees more accountable, employees will concentrate more on the accuracy of their drawer, which in turn will result in fewer occurrences of overages and shortages.

3. General management over the Parthenon Gift Shop needs to be improved. We identified several individual inventory items that were continually ordered in large quantities during fiscal year 2006 even though adequate inventory levels for these items were still on hand when the order was placed.

Also as part of our procedures, we computed the average inventory turnover ratio and days in inventory for fiscal year 2006. An organization’s inventory turnover ratio represents the number of times inventory is actually “turned over” during a given period. The number of days in inventory represents the number of days it takes, on average, to sell the inventory on hand. The inventory turnover ratio is computed by dividing the cost of goods sold by the average inventory. The number of days in inventory is computed by dividing the number of days in a year by the average inventory ratio. Below are the inventory turnover ratios and days in inventory from the period under review:

Parthenon Gift Shop Attributes for FY 2006				
Quarter End	Cost of Sales	Average Inventory	Inventory Turnover Ratio	Days in Inventory
September 30, 2005	\$ 29,504.54	\$ 57,816.20	0.51	715.24
December 31, 2005	\$ 19,575.76	\$ 54,513.07	0.36	1,016.42
March 31, 2006	\$ 18,750.02	\$ 58,599.16	0.32	1,140.73
June 30, 2006	\$ 24,903.32	\$ 57,130.73	0.44	837.35

Industry Benchmark for an Inventory Turnover Ratio: 2.4 Times

Industry Benchmark for Days in Inventory: 164 Days

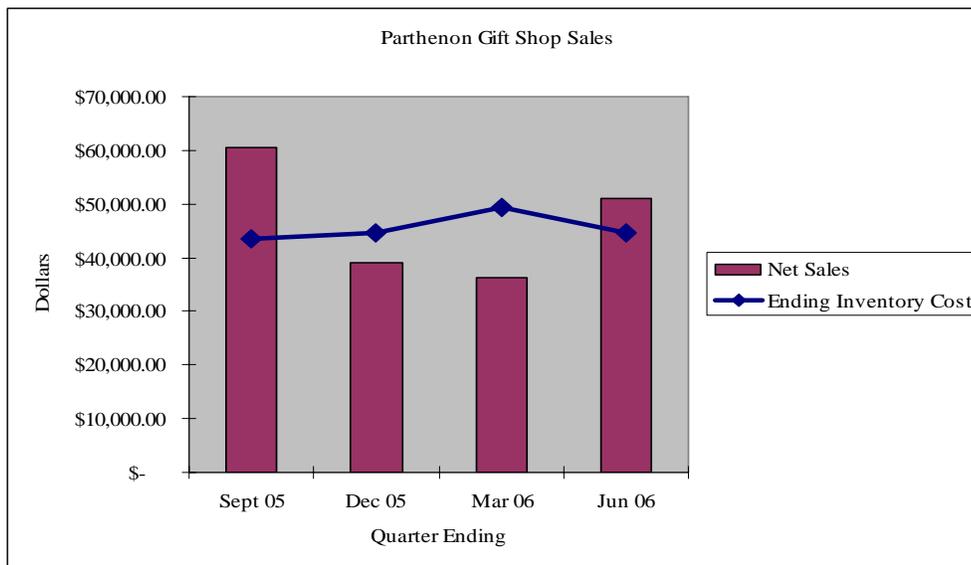
Source: Bizstats.com

As the industry benchmarks for gift and souvenir shops show, the Parthenon Gift Shop is operating far less efficient than their peers. For example, the industry benchmark for an inventory turnover ratio (2.4 times) is 7.5 times higher than the Parthenon Gift Shop (0.32 times) for the quarter ended March 31, 2006. Additionally, it would take 1,140.73 days for the Parthenon Gift Shop to completely sell all the items in inventory for the quarter ended March 31, 2006. All of the lower than desired performance indicators are driven by higher than necessary inventory levels. By not performing proper inventory analysis to determine how much inventory is on hand before an order is placed, excess inventory costs will accumulate in ending inventory each quarter resulting in lower performance ratios as well as a decrease in revenue.

Audit Recommendation

In conjunction with the Parks Administrative Office, Parthenon Gift Shop management should be completing inventory analysis regularly to determine how much inventory is already on hand before a re-order is placed. Also, inventory ratios need to be computed on a regular basis to determine which inventory items are selling regularly and isolate those items that are not selling so that management can make informed decisions in overseeing inventory.

- 4. Quarterly ending inventory costs at the Parthenon Gift Shop are generally too high. Based on the information we obtained from Parks, depicted below were the quarterly net sales and ending inventory amounts for the Parthenon Gift Shop during fiscal year 2006. Although sales steadily declined until March 2006, ending inventory costs continually increased from September 2006 until March 2006. When quarterly ending inventory costs continually increase, it is a key indicator that items in inventory are not selling and further analysis needs to be completed to determine what specific items should be purchased and their appropriate quantity.



Audit Recommendation

In conjunction with the Parks Administrative Office, ending inventory costs need to be analyzed by Parthenon Gift Shop management. In order to reduce ending inventory costs, inventory turnover analysis needs to be performed on a regular basis to improve ordering trends which would eliminate excessive amounts of inventory on hand. By using standard inventory techniques such as computing inventory turnover ratio analysis regularly or setting realistic ordering points, further improvements can be identified in isolating problems such as identifying inventory items that are not selling. Lastly, by controlling inventory levels, flexibility would be improved to change items to match events or busy times of the year.

- 5. Some inventory items in the gift shop are being sold at a retail price below cost. We identified seven different inventory items where the retail price was 10.21 percent to 57.88 percent below the actual cost. Retail prices need to be set above cost to ensure that the

applicable expenses associated with operating the gift shop will be covered and that the desired revenue goals are being met.

Audit Recommendation

In conjunction with the Parks Administrative Office, the mark-up percentage on inventory items needs to be analyzed on a regular basis by Parthenon Gift Shop management and final sale prices approved by the Parks Administrative Office. In order to cover expenses incurred in the gift shop area, every retail price on each individual inventory item should be set at a price above what it cost to purchase that inventory item.

6. Proper controls do not exist in overseeing the “Friends of Centennial Park and the Parthenon” donation box located inside the Parthenon. Friends of Centennial Park and the Parthenon is a not-for-profit support alliance entity which serves the community through stewardship and promotion of the Parthenon. Patrons may make monetary donations upon touring the Parthenon. Through our initial observations and discussions with Parthenon management, it was unclear how often the donation box was accounted for. Through further discussion, it was later determined that the donation box was only being accounted for once a quarter and there was no supporting documentation kept on file to document how much money was actually donated. Because some of the proceeds from the donation box were used to facilitate certain activities, Parthenon management should, at a minimum, be aware of all controls in place over the donation box as well as document how much revenue was donated in the event a question arises as to whether a donation was received or not in the future as well as reduce the potential risk of theft.

Audit Recommendation

Parthenon management needs to develop specific controls in overseeing the donation box inside the Parthenon in order to reduce the risk of potential theft. These controls should include, at a minimum, a dual custody daily retrieval of deposits with an accompanying daily log sheet to document the dollar amount of donations received.

7. Accounting procedures need to be improved at the Parks Administrative Office to track all revenue and related expenditures by type and program (or operating unit) for all retail lines of business. Only admission revenue was reported through EBS for the Parthenon. By not tracking all transactions in enough detail, financial management products are not being delivered to other Parks staff and other stakeholders preventing effective management of their financial resources. This finding was also reported in a previous audit of Parks and Recreation in another retail line of business facility (Wave Country issued November 11, 2006) and management is working on a solution.

Audit Recommendation

All transactions should utilize a subsidiary ledger structure to track revenue and expenditures for all retail programs. Subsidiary ledgers are used to track only one revenue stream at the Parthenon and are not used for expenditure transactions. We recommend that all object accounts have appropriate subsidiary ledgers assigned to facilitate budgeting, analysis, and financial reporting. We do acknowledge that the Parks department is aware of the issue and is currently working to determine the best method for tracking financial data in a greater level of detail using the Metropolitan Government general ledger.

* * * * *

We greatly appreciate the cooperation and help provided by all of the Parthenon and Parks and Recreation management and staff.

This report is intended for the management and policy makers of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

Don Dodson

Don Dodson
Internal Audit Director

Copy: Mayor Bill Purcell
Sue Cain, Deputy Director of Law
David L. Manning, Director of Finance
James Gray, Assistant Director of Parks and Recreation
Paul Widman, Assistant Director of Parks and Recreation
Eugene Nolan, Associate Director of Finance
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Metropolitan Council Audit Committee
Richard V. Norment, Assistant to the Comptroller for County Audit
KPMG, Independent Public Accountant

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

INTERNAL AUDIT SECTION

Attachments

Management's Response

-- See Attached --

BILL PURCELL, MAYOR

METROPOLITAN BOARD OF PARKS AND RECREATION

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Nashville, TN 37201



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Roy E. Wilson, Director

February 15, 2007

Don Dodson
Metro Department of Finance
222 Third Avenue North, Suite 401
Nashville, TN 37201

Dear Mr. Dodson,

This letter is acknowledgement that we have received the Audit Report of Financial Control of the Parthenon at Parks and Recreation as produced by the Internal Audit Section of the Finance Department.

We have reviewed the report and are in agreement with its findings. Therefore, we have begun implementation of the recommendations applicable to each finding.

We view the audit report as a valuable asset and management tool in our overall objective to improve operations of the Parthenon as a revenue producing organization within Metro. The professionalism and open manner in which your staff carried out the audit was greatly appreciated by this department.

Sincerely,

A handwritten signature in black ink, appearing to read 'Roy E. Wilson', with a long horizontal flourish extending to the right.

Roy E. Wilson
Director

"It is the mission of the Metropolitan Board of Parks and Recreation to provide every citizen of Nashville and Davidson County with an equal opportunity for safe recreational and cultural activities within a network of parks and greenways that preserves and protects the regional natural resources"



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