



*METROPOLITAN GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY*

DIVISION OF METROPOLITAN AUDIT

Professional Audit, Advisory, and Consulting Services

AUDIT REPORT

Financial Control and Compliance Audit of the Metropolitan Government of Nashville and Davidson County Historical Commission

Date Issued: August 21, 2007

Office Location and Phone Number

222 3rd Avenue North, Suite 401
Nashville, Tennessee 37201

615-862-6110

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**BILL PURCELL
MAYOR**

**METROPOLITAN
GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY**



**DIVISION OF METROPOLITAN
AUDIT**

**222 3RD AVENUE NORTH, SUITE 401
NASHVILLE, TENNESSEE 37201
Telephone: (615) 862-6110
FAX Number: (615) 862-6425**

August 21, 2007

Ms. Ann Roberts, Director
Sunnyside Mansion Sevier Park
3000 Granny White Pike
Nashville, Tennessee 37204

Report of Internal Audit Section

Dear Ms. Roberts:

We have completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of the Metropolitan Government of Nashville and Davidson County ("Metropolitan Government") Historical Commission ("Historical Commission").

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.

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 Historical Commission central functions for 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 Historical Commission 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 May 31, 2007 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 Historical Commissions' administrative office. Management, administrative and operational personnel, as well as personnel from other Metropolitan Government departments and other stakeholders were interviewed, and various aspects of the Historical Commission 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.

Summary and Conclusion

In order to assist subsequent users, we have summarized below the findings from each reporting section detailed in the "Audit Findings and Recommendations" section of our report.

- Central payroll processes need significant improvements. For the nine employees we reviewed, we identified incidences of employees having the ability to earn compensatory time without working 40 hours during a work week, one employee working prior to their official start date, unsupported departure pay, and one of the nine employees using compensatory time 29 times while having a negative compensatory time balance. Additionally, the office manager was allowed to review, approve, and enter payroll into the payroll system for processing preventing adequate supervisor review, timesheets are not sufficient to calculate and track hours worked, and undocumented severance pay was given to one departing employee.

- Procurement card processes need significant improvements. From the 221 transactions we reviewed, we identified 51.13 percent of the procurement card receipts not signed by the cardholder, 33.48 percent of the transactions did not have a sales receipt, 15.84 percent of the transactions had sales taxes charged, 63.34 percent of the transactions did not document the business purpose adequately enough for us to determine if the purchase was appropriate, 4.98 percent of the transactions were made by someone other than the approved cardholder, and two personal expenditures that were not reimbursed for \$41.76. Additionally, receipts are not consistently matched and reconciled to the monthly statement and receipts were poorly organized.
- Travel expenditures were not processed correctly. We identified \$3,457.93 in travel related expenditures where the required travel forms were not completed and the Historical Commission did not obtain approval by the Director of Finance as required by Metropolitan Government travel policies and procedures.
- Petty cash processes need significant improvements. From the \$3,489.90 in petty cash transactions we reviewed, we could only find supporting documentation for \$2,952.73, all employees were allowed access to the petty cash drawer, reimbursements for procurement card transactions were added to the petty cash drawer and used for petty cash expenditures, a majority of the petty cash replenishments could not be verified, none of the petty cash transactions were approved by the petty cash custodian, \$2,054.55 of the transactions did not have an adequate business purpose, several transactions exceeded the \$75.00 ceiling for petty cash transactions, and \$155.69 of Metropolitan Government procurement card transactions were potentially reimbursed through petty cash.

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

Process owners and managers are entrusted to properly manage the resources under their control. To meet their obligations, 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 Historical Commission is to provide historical and architectural information, preservation technology and advice, and design products to Nashville and Davidson County neighborhoods, property owners, businesses, citizens, and visitors so they can incorporate the city's rich past into today's economy, culture, and quality of life.

Created in 1966, the Historical Commission is made up of 15 citizens appointed by the Mayor and approved by the Metropolitan Government Council. The Historical Commission and staff have been responsible for a wide range of activities including:

- Nomination of thousands of structures to the National Register of Historic Places;
- Sponsor of the first Oktoberfest with continued participation;
- Founder and continued sponsor of the Local Conference on African-American History and Culture;
- Identify historical resources throughout Nashville and Davidson county on an ongoing basis;
- Responsible for carrying out federally mandated reviews of impacts on historic resources through Nashville and Davidson County;
- Publish educational and tourist material; and
- Respond to inquiries from the general public, media, tourists, and students.

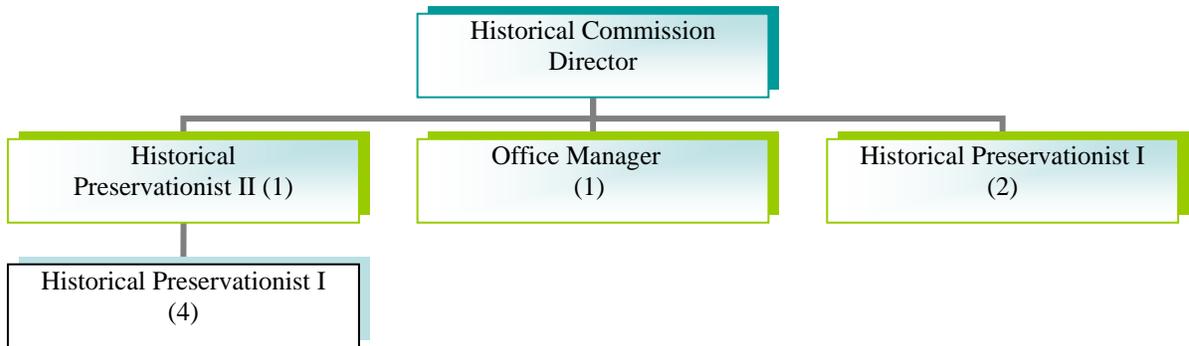
Created in 1977, the Historic Zoning Commission is made up of nine citizens appointed by the Mayor and approved by the Metro Council and they share staff with the Historical Commission. The Historic Zoning Commission is a regulatory commission with three primary powers and duties. They are:

- Review applications calling for the designation of historic overlay districts and landmarks to determine if a proposed district meets the established criteria;
- Adopt design guidelines for each historic overlay district and landmark and apply those guidelines when considering preservation permit applications; and
- Make determinations of the appropriateness of:
 - Exterior architectural design of any new structure;
 - Exterior architectural design of any addition to an existing structure;
 - Exterior alterations and repairs;
 - Relocating any building out of, into, or within the boundaries of an historic overlay district; and
 - Demolition of any existing structure, wholly or in part.

Currently, 16 districts have been adopted by the Metropolitan Government Council, ranging in size from six properties to 1,700. Thirty-two individual properties have been designated landmarks with more than 5,000 properties are protected through these designations.

Organizational Structure

The Historical Commission has nine budgeted positions. The organization chart below depicts the current structure.



Available Positions Summarized:

- Historical Commission Director – 1
- Historical Preservationist II – 1
- Historical Preservationist I – 6
- Office Support Manager – 1

Financial Information

The Historical Commission had a total of nine budgeted positions for fiscal year 2007. The actual revenues and expenditures for fiscal years ended June 30, 2007, and June 30, 2006, are summarized below:

	<u>FYE 07</u>	<u>FYE 06</u>	<u>\$ Variance</u>	<u>% Change</u>
Revenues:				
From Other Gov't Agencies	<u>\$ 20,006.81</u>	<u>\$ 73.05</u>	<u>\$ 19,933.76</u>	<u>27,288%</u>
Total Revenue	<u><u>\$ 20,006.81</u></u>	<u><u>\$ 73.05</u></u>	<u><u>\$ 19,933.76</u></u>	<u><u>27,288%</u></u>
Expenditures:				
Personal Services	\$ 576,666.11	\$ 514,561.97	\$ 62,104.14	12.07%
Other Services	71,399.87	104,585.34	(33,185.47)	(0.32)%
Supplies & Materials	14,861.58	14,470.92	390.66	2.70%
Other	8,245.54	6,555.00	1,690.54	25.79%
Capital Outlay	<u>135,608.76</u>	<u>25,627.50</u>	<u>109,981.26</u>	<u>429.15%</u>
Total Expenditures	<u><u>\$ 806,781.86</u></u>	<u><u>\$ 665,800.73</u></u>	<u><u>\$140,981.13</u></u>	<u><u>21.17%</u></u>

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 memorandum attached at the end of our report.

Payroll

We reviewed the payroll records for five of the nine employees from the period January 1, 2006 through December 31, 2006 and matched the supporting documentation to the Metropolitan Government central payroll and general ledger (EBS) for accuracy. We also reviewed the payroll records for all nine employees, and one terminated employee from the period January 1, 2007 through May 31, 2007. In addition, we also reviewed the general process for preparing payroll entries. From the review completed, we noted the following deficiencies:

1. We identified two employees who improperly earned a total of 5.5 hours of compensatory time without working the required 40 hours per week. Because compensatory time is a liability, proper accounting for compensatory time earned needs to be improved.

Audit Recommendation

Timesheets need to be mathematically correct and accurately reviewed when calculating hours worked in order to arrive at any compensatory time earned.

2. We identified two employees that received retroactive pay amounts without the mathematical detail to support the payments. By not supporting payments of any type by appropriate calculations, subsequent verification is impossible. All additional payroll entries should be properly supported and documented.

Audit Recommendation

All payroll entries need to be properly supported and documented. In this case, that would include a mathematical calculation that supports the amount of retroactive pay that was due to the employee.

3. We identified one employee who converted the allowable 24 hours of sick leave in January, 2006 and January, 2007 to vacation leave instead of personal leave as outlined in the Civil Service Rule 4.7 (E). By not converting the personal leave days appropriately, future discrepancies can arise in determining the employee's accrued balances.

Audit Recommendation

Because vacation leave is a liability the Historical Commission must pay their employees upon termination, proper accounting for sick leave converted to personal leave needs to be improved in order to prevent misstatements of leave balances.

4. Through our discussions with Historical Commission staff, we identified one employee that started working before their official hire date. Upon reviewing the monthly timesheets for this individual, we were unable to verify the actual time worked to the amount of time the individual was actually paid (including time worked prior to and after the official start date). Additionally, allowing an individual to work prior to their official hire date can lead to potential liability and/or serious legal ramifications if the individual suffered an injury on duty. It was communicated to us during our fieldwork that the employee in question was re-hired in this fashion to solve an urgent staffing need.

Audit Recommendation

The Historical Commission should go through the proper protocols involved with hiring an individual and not provide payment(s) for working prior to the official start date.

5. While reviewing the payroll timesheets for all the employees in our test population, we identified that a majority of the timesheets were not sufficiently completed and management was not approving the timesheets. Management should be reviewing and approving the timesheets so that any errors may be detected and corrected in a timely manner.

Audit Recommendation

Each employee timesheet should be signed and dated by the employee. Once the timesheets have been submitted, management should review and sign each timesheet to document that the timesheet has been reviewed and approved.

6. The payroll responsibilities are not properly segregated. Currently, the office manager reviews, approves, and enters the payroll amounts into EBS without any independent verification. Proper segregation of duties for payroll should include an approval from the director verifying that the office manager has prepared all payroll entries correctly before they are entered into EBS. When job duties are performed by only one individual and are not at least verified and approved by another staff member, the risk for potential errors and manipulations are greatly increased.

Audit Recommendation

The payroll responsibilities need to include a director level review and approval of the payroll entries before they are entered into EBS for payment. By implementing proper segregation of duties, the risk for potential errors and manipulations can be minimized to an acceptable level.

7. Upon reviewing the employee timesheets, it was determined that the monthly vacation amounts earned for each employee as documented on the timesheets by the office manager, were not earned at the rates defined in Civil Service Rule 4.6 A, the Vacation Earnings Schedule. For example, according to Civil Service Rule 4.6 A, an employee with 1 to 60 months of service shall earn 6.667 hours of vacation leave a month for a total of 80 hours of vacation leave in a 12 month period. According to the timesheets we reviewed, an employee with 1 to 60 months of service was earning vacation leave at the rate of eight hours a month for ten of the 12 months for a calendar year. For two months out of the same 12 month period, vacation leave was not earned at all to arrive at the same 80 hours of vacation leave earned during a 12 month period. Although the total amount of vacation leave earned during a 12 month period was the same, the monthly rate at which an employee earns vacation leave needs to be properly reflected as defined by Civil Service Rules.

Audit Recommendation

The Historical Commission office manager should properly compute each employee's actual monthly vacation leave earning rate as defined in Civil Service Rule 4.6 A and determine the true amount of vacation leave on hand as of a particular month end. Once the vacation leave amounts have been determined, the amounts should be entered into a computerized database program. By computerizing the vacation leave balance amounts, formulas can be added that will automatically calculate each employee's monthly rate and resulting carrying balance.

8. The Historical Commission is not conducting a periodic leave balance verification for accrued sick, vacation, personal, or compensatory leave. By not conducting a routine verification between what is on file to what each employee has recorded as their stated leave balance, errors may not be identified in a timely manner preventing any under or overstated leave balances from being detected.

Audit Recommendation

At a minimum of once a year, leave balances for sick, vacation, personal, and compensatory time should be verified and communicated to each employee. Each employee should then sign a statement documenting that they are in agreement with their stated leave balances. Because vacation and compensatory leave is an accrued liability

that is paid out to an employee when they separate from their job, the Historical Commission should pay particular attention to these balances. By conducting a routine verification of leave balances, errors can be discovered in a timely manner preventing discrepancies between what an employee has recorded for leave balances and what the department has on file as the official record for leave balances.

9. We identified one employee who was allowed to use compensatory time 29 times when they actually had a negative balance. Because the office manager was not computing new balances when compensatory time was actually used or accrued, accurate balances were not known. Using compensatory time that was not actually available potentially leads to overstated accrued vacation or sick balances and provides a benefit that was not actually earned.

Audit Recommendation

To prevent any errors or irregularities, changes (accrued, earned, or used) to all forms of earned leave should be calculated as they occur. If an employee is requesting to use compensatory time and does not have the time available, they should be afforded the opportunity to use accrued vacation or sick, if applicable. Lastly, earning compensatory time should be approved in advance by the appropriate supervisor/manager.

10. We identified one employee who was paid an accrued vacation payout in the amount of \$781.56 (36 hours) that could not be supported when reviewing the timesheets.

Audit Recommendation

All leave payouts should only be paid when the leave has actually been earned by the employee and should therefore be properly documented on the timesheets.

11. We identified one employee who actually worked over the maximum hours per week allowed for a retired employee who is receiving pension benefits that returned to work for the Metropolitan Government. According to legal opinion 90-12 issued in 1990, a retired employee of the Metropolitan Government may receive a retirement pension and also receive compensation for job services performed for an agency of the Metropolitan Government, so long as the retired employee is *not* “regularly employed.” The term “regularly employed” has been defined by the Metropolitan Employee Benefit Board as working 20 hours or more per week. While reviewing the May, 2007 timesheets for this individual it was determined that they actually worked 24 hours one week and 32 hours the following week totaling 56 hours for one pay period. The office manager entered 39 hours worked into EBS for that pay period (19.5 hours for each week). The additional 17 hours was carried forward and applied as time actually worked for the next pay period. It was communicated to us during our fieldwork that the employee in question needed to work additional hours to perform the required duties because the Historical Commission was short of staff.

Audit Recommendation

The Historical Commission should review and follow the rules regarding returning to work part-time after retiring from the Metropolitan Government. To prevent occurrences of this nature, the payroll function needs to properly segregated, which includes another

individual assigned as an approver so that the payroll is reviewed and approved before it is entered into the system.

12. The monthly timesheets requested for one employee could not be produced by the Historical Commission staff. While conducting fieldwork, we requested the payroll records for one employee who was terminated and received a vacation payout of 100 hours and a compensatory leave payout of 20 hours upon their termination totaling \$2,034.60. The office manager explained that there were no timesheet records for this employee and that the vacation and compensatory leave payouts could not be supported because the vacation and compensatory leave entries were a “creative” way to give the terminated employee three weeks severance pay. Because the timesheets were not provided to us by the office manager, we cannot determine time actually worked for this employee. In addition, the vacation and compensatory leave payouts should have been properly coded to indicate these payouts were for departure pay.

Audit Recommendation

According to the Fair Labor Standards Act (FLSA), all payroll records should be retained for at least three years. The Historical Commission should adhere to the record retention rules outlined by the FLSA. Additionally, all leave payouts should only be paid when the leave has actually been earned by the employee and should therefore be properly documented on the timesheets.

Procurement Card

We reviewed all of the 221 procurement card transactions from the period June 1, 2005 through May 31, 2007 obtained from the Metropolitan Government procurement card transaction database (Paymentnet) and compared them to departmental source documentation for compliance with Metropolitan Government procurement card policies. Total procurement card expenditures from our test period were \$36,166.41. From the review completed, we noted the following deficiencies:

13. During the course of fieldwork, it was determined that the monthly procurement card statements and the corresponding support were not being properly reviewed or reconciled. When we requested procurement card support files from the office manager, they explained that the monthly procurement card statements had not been filed properly for calendar year 2007 and it would take some time to locate the files. Once we were given the procurement card support files, they were unorganized and in complete disorder. The procurement card receipts were placed in several different locations without the corresponding procurement card statement attached and it was evident that there was not an appropriate filing system in place. All accounting records should be easily accessible and filed appropriately.

Audit Recommendation

An appropriate filing system should be immediately implemented. All procurement card statements and corresponding support should be reconciled and filed appropriately by cardholder name and date.

14. As required by Metropolitan Government procurement card policies, sales receipts are supposed to be signed by the cardholder after transactions have been completed. We identified 113 (51.13 percent) out of the 221 procurement card transactions tested that did not have a signed sales receipt. By not signing the receipt after a transaction has occurred, questions could be raised as to who made the transaction.

Audit Recommendation

To comply with Metropolitan Government procurement card policies, sales receipts need to be signed by the cardholder after a transaction has occurred. By signing the sales receipt, the employee has documented that they have made the transaction.

15. Of the 221 transactions tested, 33.48 percent (74) did not have a sales receipt submitted as required by Metropolitan Government procurement card procedures. When receipts are not presented for each transaction, sufficient management review cannot be completed to determine if the goods or services purchased were appropriate or directly related to the stated goals of the Historical Commission.

Audit Recommendation

To comply with Metropolitan Government procurement card policies, each transaction should be properly supported with a sales receipt.

16. Of the 221 transactions tested, 3.17 percent (seven for \$5,550.95) appear to be split transactions. According to Metropolitan Government purchasing card policies and procedures, "The purchasing card shall not be used to circumvent the procurement process. This includes "splitting" purchases."

Audit Recommendation

To comply with Metropolitan Government procurement card policies, transactions should not be split. Additionally, the Historical Commission should consider raising the single transaction purchase limit to prevent having to split transactions.

17. Of the 221 transactions tested, 15.84 percent (35 for \$257.77 in sales tax) appear to have had sales tax charged. According to Metropolitan Government policies, "cardholders should not pay sales tax, and it is the cardholder's responsibly to dispute sales tax charges."

Audit Recommendation

Each cardholder should ensure at the time of the purchase that sales tax is never charged. If sales tax is charged the cardholder should dispute the charges within an appropriate amount of time and verify that the charges are credited to their account.

18. Of the 221 transactions tested, 63.34 percent (140 for \$20,025.98) did not have enough support to document the business purpose of the transaction. According to Metropolitan Government procurement card policies, "cardholders are personally liable for all charges to their assigned card. Cardholders should ensure that there is sufficient documentation to support all charges and payments made with the procurement card." By not supporting transactions with the appropriate business purpose documentation that fully explains how

the expenditures are related to the stated goals of the Historical Commission, questions could be raised about the business relationship of each transaction.

Audit Recommendation

The business purpose should be clearly defined and documented on each sales receipt as required by Metropolitan Government.

19. Of the 221 transactions tested, 7.69 percent (17 for \$3,457.93) were for out-of-town travel expenditures that were not properly approved by the Director of Finance in advance as stated in the Metropolitan Government travel policy. Additionally, the required travel reimbursement claims were not completed and submitted.

Audit Recommendation

All travel should be properly approved as stated in the Metropolitan Government travel policy. For out-of-state travel, the director of the agency requesting the travel should first approve the travel request through the online travel application, and then forward the online travel application to the Director of Finance for final approval. Also, the employee must submit a travel reimbursement claim regardless of whether they are due a reimbursement.

20. During the course of fieldwork, we identified five monthly procurement card statements that had not been opened as of June 13, 2007. The discovery of the unopened monthly statements represents a more systemic problem related to management oversight and fiscal responsibility. By not opening monthly procurement card statements and properly reconciling them to the supporting sales receipts, the possibility of abuse is greatly increased.

Audit Recommendation

Because the department is ultimately responsible for ensuring there is adequate support available for procurement card transactions, all monthly procurement card statements should be opened and reconciled with the corresponding support in a timely manner.

21. Metropolitan Government procurement card policies state that “Only the person whose name that is embossed on a purchasing card may use that card. No other person is authorized to use the card.” We identified 4.98 percent (11 for \$1,088.43) out of 221 procurement card transactions where the transaction was made by someone other than the actual cardholder. Additionally, we were told by a cardholder that they routinely allow co-workers to use their card for various types of transactions from travel related expenditures to the purchase of office supplies. When transactions are made by someone other than the actual cardholder, the possibility of misuse or abuse is greatly increased.

Audit Recommendation

All transactions made on a Metropolitan Government procurement card should only be made by the person whose name is embossed on the card to prevent the possibility of misuse or abuse.

22. We identified two out of the 221 transactions tested (\$41.76) that occurred outside Davidson County and appeared personal in nature without sales receipts submitted. If an

accidental personal purchase is made, it should be immediately reimbursed to the Metropolitan Government. Also, as evidenced by our findings above, the nature of these purchases would have been appropriately questioned if the proper monthly reconciliations and transaction reviews were performed.

Audit Recommendation

All transactions need to be properly supported with a sales receipt. As with all other transactions, purchases that can be construed as personal in nature should have a very clear business purpose documented on the receipt detailing how the purchase relates to the overall departmental mission.

Petty Cash

We reviewed the only petty cash fund at the Historical Commission with a stated balance of \$400.00 for compliance with Metropolitan Government Petty Cash policies and procedures and general controls. Additionally, we reviewed the accompanying replenishment transactions for the period June 1, 2005 through March 2, 2007. Total reimbursements were \$3,489.90 with supported expenditures of \$2,952.73 resulting in \$537.17 being unsupported (no receipts). From the review completed, we noted the following deficiencies:

23. Based on our observations, the petty cash fund is not properly safeguarded; employees are allowed access to the petty cash fund to file receipts and take funds. Limiting the accessibility of the petty cash fund to only the custodian will prevent the misappropriation of assets and strengthen internal controls

Audit Recommendation

The petty cash fund should be properly safeguarded at all times. This includes storing the petty cash fund in a locked filing cabinet or cash box. In addition, only the petty cash custodian should have access to the key.

24. The initial petty cash count was \$66.86 over the stated petty cash fund amount of \$400.00. A properly maintained petty cash fund should always balance to the set fund amount. In order to properly balance, cash on hand plus un-reimbursed receipts should equal \$400.00 at all times.

Audit Recommendation

The petty cash custodian is responsible for assuring that the petty cash fund does not exceed the set limit. Proper approval needs to be exercised when disbursing funds for expenditures. Receipts should be returned to the petty cash custodian in a reasonable amount of time and properly filed until the petty cash replenishment has been requested and received.

25. The supporting documentation for previous petty cash replenishments was not readily available or filed correctly. During the course of fieldwork, we requested the support for previous petty cash replenishments from the office manager. When we were given the support, all we received was one folder full of receipts. The receipts were not organized by replenishment date, and it was apparent that there was no organizational system in place. All financial support should be easily accessible and filed properly.

Audit Recommendation

An appropriate filing system should be immediately implemented for all petty cash receipts. The petty cash receipts should be grouped together by replenishment date with the corresponding replenishment sheet and then filed by replenishment date.

26. The petty cash fund was improperly replenished for amounts over the stated fund amount of \$400.00. In 2005, the petty cash fund was improperly replenished for an amount of \$158.99 over the stated fund amount. In 2006 and 2007, MPS (Metro Payment Services; a division of General Services which provides payment services for Metropolitan Government agencies and vendors) improperly replenished the petty cash fund three times for a total amount of \$872.32 over the stated fund amount. Based on information we obtained from EBS, illustrated below were the petty cash replenishments processed for an amount over \$400.00, broken down by replenishment date for the years 2005, 2006, and 2007:

Petty Cash Replenishments Over \$400.00		
<i>Replenishment Date</i>	<i>Replenishment Amount</i>	<i>Amount Over \$400.00</i>
June 1, 2006	\$558.99	\$158.99
June 16, 2006	\$926.72	\$526.72
November 16, 2006	\$743.80	\$343.80
March 2, 2007	\$401.80	\$1.80
Totals	\$2,631.31	\$1,031.31

According to Historical Commission staff, the petty cash replenishments were initially requested for amounts over the stated fund amount because employees were using their personal credit/debit cards to make purchases instead of utilizing the petty cash fund because the office manager had not previously replenished the petty cash fund in a timely manner. When MPS received the replenishment request from the Historical Commission, they should have first verified the Historical Commission’s petty cash limit before processing the request. By verifying the petty cash limit, MPS would have noticed the overage and corrective action should have taken place in order to properly account for the errors made by the Historical Commission.

Audit Recommendation

The Historical Commission should review the rules and procedures associated with properly utilizing petty cash so that replenishments are not requested for an amount greater than the petty cash fund limit. When MPS receives a petty cash replenishment request, the petty cash fund limit should always be verified before processing the request to prevent future occurrences of improperly replenishing petty cash.

27. During the course of fieldwork, it was discovered that monthly luncheons purchased on a Metropolitan Government issued procurement card were provided to Historical Commission board members where voluntary meal reimbursements were collected by the Historical Commission staff and never deposited at the bank. When we asked the office manager why the reimbursements collected from these luncheons were not deposited at the bank, they explained that the reimbursements collected were added to the

petty cash fund and used for departmental expenditures due to having a smaller expenditure budget than the previous year. Because we could not obtain supporting documentation, we were unable to make a determination as to how much money was actually collected. When reimbursements are not properly accounted for and not deposited at the bank, the risk of misappropriating funds is greatly increased and can go undetected.

Audit Recommendation

All forms of reimbursements/funds/money collected should be properly accounted for and deposited at the bank. Additionally, reimbursements of this type should never be added to the petty cash fund and utilized for departmental expenditures.

28. Based on the information we obtained from the Historical Commission, we were unable to completely reconcile any of the seven petty cash replenishment requests submitted for reimbursement during the period June 1, 2005 through June 16, 2006. We identified a total of \$537.17 that was reimbursed and could not be supported by petty cash receipts.

Audit Recommendation

All petty cash receipts need to be attached to the corresponding replenishment request and filed by the replenishment date.

29. The name on the petty cash custodian list is not the individual who was ultimately responsible for the petty cash fund. The name on the petty cash custodian list needs to reflect the individual actually responsible for the petty cash fund.

Audit Recommendation

The petty cash custodian list needs to be updated in order to properly reflect the individual responsible for the petty cash fund.

30. The Historical Commission has not performed any recent surprise petty cash counts. When surprise petty cash counts are performed by someone independent of the petty cash function, errors or discrepancies can be identified in a timely manner.

Audit recommendation

Someone independent of the petty cash function should be conducting random petty cash counts to determine if the petty cash fund is properly maintained.

31. None of the \$2,952.73 in petty cash expenditures were approved by the petty cash custodian. When expenditures are not approved, the possibility of misappropriating funds could occur. All petty cash expenditures should be properly approved before a purchase is made.

Audit Recommendation

The Historical Commission should develop specific policies and procedures for handling petty cash transactions. These procedures should include obtaining prior approval from the petty cash custodian when an employee needs to utilize the petty cash fund for expenditures.

32. We identified \$2,054.55 (69.59 percent) of the \$2,952.73 in petty cash expenditures that did not have enough support to document the business purpose. By not supporting petty cash transactions with the appropriate business purpose documentation that fully explains how the expenditures were related to the stated goals of the Historical Commission, questions could be raised about the business relationship of each transaction.

Audit Recommendation

The business purpose should be clearly defined and documented on each petty cash sales receipt turned in for reimbursement.

33. We identified \$425.04 (14.40 percent) of the \$2,952.73 in petty cash expenditures that exceeded the \$75.00 petty cash single transaction limit set by the Metropolitan Government petty cash policies and procedures.

Audit Recommendation

By obtaining prior approval, the petty cash custodian can ensure that each petty cash transaction does not exceed the \$75.00 single transaction limit.

34. We identified \$155.69 (5.28 percent) of the \$2,952.73 in petty cash expenditures that were potentially paid twice; the initial submitted and ultimately reimbursed transaction was completed on a Metropolitan Government issued procurement card. Because the petty cash fund supporting documentation was not properly organized or filed, it appears as though sales receipts that should have been filed with the procurement card monthly statement were filed with the petty cash support and then reimbursed through the petty cash replenishment request. If the petty cash custodian had properly reviewed the petty cash replenishment request before it was submitted for reimbursement, the issue could have been caught in a timely manner.

Audit Recommendation

When preparing a petty cash replenishment request, there should be a proper review and verification of each receipt listed on the replenishment request. The completed reimbursement requests should be filed properly and maintained for future reference.

35. We identified one petty cash receipt that for a mileage reimbursement that did not include the location history and the name listed on the receipt (an unpaid intern) could not be traced to the volunteer/employee roster.

Audit Recommendation

All petty cash receipts need to be properly supported and prior approval should be obtained from the petty cash custodian.

GENERAL NOTE: Due to the number and severity of the findings noted above, the Department of Finance, specifically the Treasurer, should closely evaluate the necessity of the Historical Commission maintaining their petty cash fund.

* * * * *

We greatly appreciate the cooperation and help provided by all of the Historical Commission management and staff.

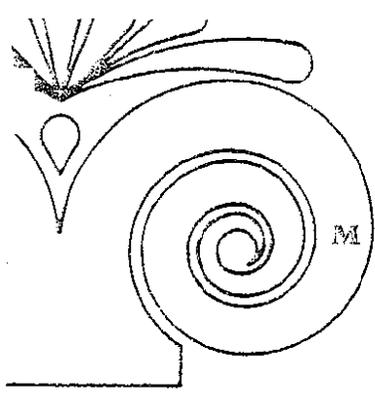
This report is intended for the management and policy makers of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Division of Metropolitan Audit

Don Dodson

Don Dodson
Internal Audit Director

Copy: Mayor Bill Purcell
Metropolitan Council Audit Committee
David L. Manning, Director of Finance
Metropolitan Historical Commission
Sue Cain, Deputy Director of Law
Eugene Nolan, Associate Director of Finance
Talia Lomax-O'dneal, Deputy Finance Director
Richard V. Norment, Assistant to the Comptroller for County Audit
KPMG, Independent Public Accountant



M E T R O P O L I T A N
H I S T O R I C A L
C O M M I S S I O N

August 21, 2007

Mr. Don Dodson
Director of Internal Audit
222 Third Avenue North, Suite 401
Nashville, Tennessee 37201

Dear Mr. Dodson:

We have received and reviewed the audit of our department. We agree with the findings and are in the process of implementing all of the recommendations.

We learned a great deal during the process. I request that you come back in six months to review the procedures that we've put in place to make sure that we are doing things right.

Your office has been very professional, and we thank you for your guidance.

Sincerely,

A handwritten signature in cursive script that reads 'Ann Roberts'.

Ann Roberts
Executive Director