



**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY
OFFICE OF INTERNAL AUDIT**

Professional Audit and Advisory Service

FINAL REPORT

**Audit of the Nashville Municipal Auditorium
Compliance with Financial and Operational Policies**

Date Issued: September 15, 2010

Office Location and Phone Number

222 3rd Avenue North, Suite 401
Nashville, Tennessee 37201
615-862-6110

*The Metropolitan Nashville Office of Internal Audit is an independent audit agency
reporting directly to the Metropolitan Nashville Audit Committee*

Background

The Nashville Municipal Auditorium was constructed in 1962. Its operation is governed by the Municipal Auditorium Commission and is operated as a Special Purpose Fund. For fiscal years 2008, 2009, and 2010 expenses exceeded program revenue by \$772,888, \$630,348, and \$289,914 (estimated for 2010) respectively. Historically a portion of the hotel/motel tax has been used to sustain this program.

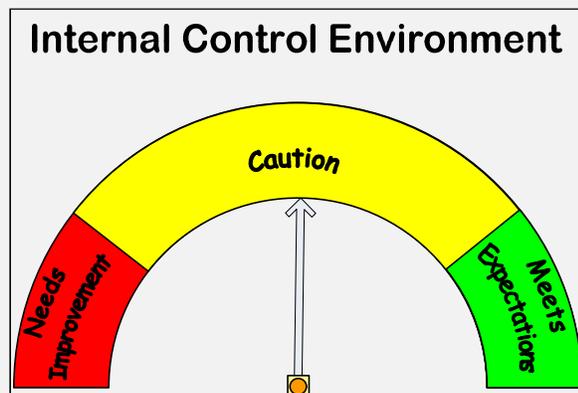
The operational goal for this department is to present events to the city and Mid-State area with a safe and clean environment. The Nashville Municipal Auditorium has eight full time employees.

Internal Control Compliance Results

The Office of Internal Audit tested the Municipal Auditorium's compliance with applicable Metro Nashville financial and operational policies for the following areas:

- Revenue Deposits, Petty Cash, and Cash Handling
- Payroll and Leave Accounting
- Capital and Tracked Assets
- Procurement and Expenditures
- Capital Projects
- Public Safety

Overall, management review advised.



Management needs to be attentive to Metro Nashville's:

- Finance Department policy for timely deposits of revenue proceeds
- Civil Service rules for overtime compensation
- Finance Department policy for capital and tracked assets
- Procurement policy for purchasing

Table of Contents

INTRODUCTION.....	1
AUDIT INITIATION	1
BACKGROUND.....	1
NASHVILLE MUNICIPAL AUDITORIUM FINANCIAL HIGHLIGHTS	2
OBJECTIVES AND CONCLUSIONS.....	3
OBSERVATIONS AND RECOMMENDATIONS.....	5
A – Maintenance of Asset Records.....	5
B – Control Weakness in Cash Handling	6
C – Delay of Cash Deposits.....	6
D – Weakness in Managing Overtime.....	7
E – Missing Procurement Documentation	8
GENERAL AUDIT INFORMATION.....	9
STATEMENT OF COMPLIANCE WITH GAGAS	9
SCOPE AND METHODOLOGY.....	9
CRITERIA.....	9
STAFF ACKNOWLEDGEMENT	9
APPENDIX A. MANAGEMENT RESPONSE.....	10

INTRODUCTION

AUDIT INITIATION

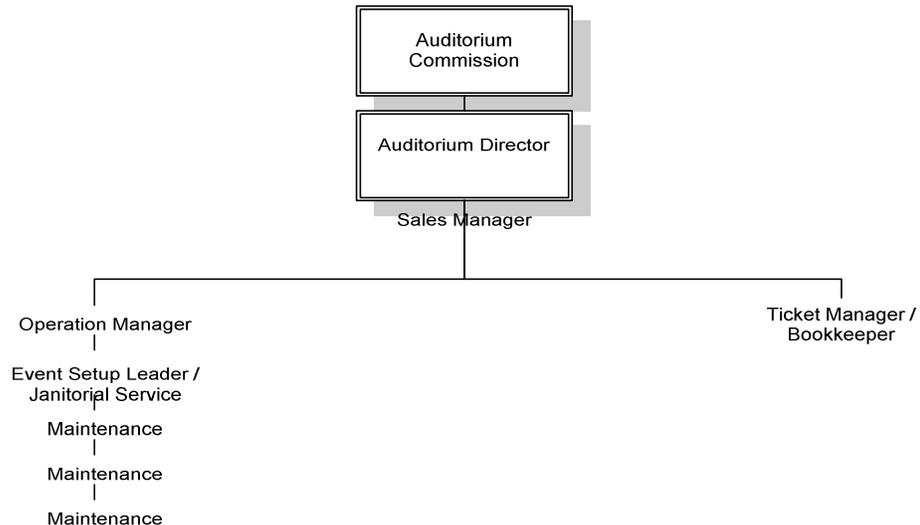
The approved Office of Internal Audit annual Audit Work Plan included an audit of the Nashville Municipal Auditorium. The audit was initiated due to the length of time (in excess of five years) that has elapsed since the last audit was performed of this function.

BACKGROUND

The Nashville Municipal Auditorium was constructed in 1962. Its operation is governed by Municipal Auditorium Commission created under The Code of Metropolitan Government of Nashville and Davidson County, Part II, Article VI, Section 3. The seven members of the Commission are appointed by the Mayor and approved by the Metropolitan Nashville Council. The General Manager of the Municipal Auditorium is in charge of daily operational activities and reports to the Commission.

The operational goal for this department is to present events to the city and Mid-State area with a safe and clean environment. The Nashville Municipal Auditorium has eight full time employees in three departmental units, Venue Booking, Customer Service and Facility Preparation.

Exhibit A – Municipal Auditorium Organizational Chart



NASHVILLE MUNICIPAL AUDITORIUM FINANCIAL HIGHLIGHTS

The Nashville Municipal Auditorium operates under a Special Purpose Fund and historically a portion of the hotel/motel tax has been used to sustain this program.

Exhibit B – Nashville Municipal Auditorium Financial Highlights for Fiscal Years 2008, 2009, and 2010

	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010 ¹	
	Budget	Actual	Budget	Actual	Budget	Actual
Charges for Service	\$1,012,600	\$1,278,660	\$1,012,600	\$1,107,437	\$1,012,600	\$1,363,719
Total Operating Expense ²	1,959,900	2,051,548	1,820,600	1,737,785	1,607,000	1,653,633
Operating Income (Loss)		(772,888)		(630,348)		(289,914)
Interest Income		41,795		4,077		1,321
Income (Loss) Before Transfer	(947,300)	(731,093)	(808,000)	(626,271)	(594,400)	(288,593)
- Transfer In		644,967		1,192,492		434,149
- Transfer Out ³	47,900	(48,050)	66,000	(66,000)	74,800	(74,800)
Change in Net Assets		(134,176)		500,221		70,757
Net Asset Fund Balance		\$2,621,610		\$3,121,831		\$3,192,588

Source: Metro Nashville's Comprehensive Annual Financial Report for FY 2008 and FY 2009. Enterprise One Financial System was used for FY 2010 while Metro's financial close in progress.

Exhibit C - Top Four Metro Nashville Paid Vendors/Contractors in Audit Scope

Vendor/Contractor Name	Amount Paid March 1, 2008 to February 28, 2010	Purpose
1. Community Rehabilitation Agencies TN	\$328,118	Previous janitorial services contractor
2. Rock Solid Security Inc.	225,654	Previous temporary staffing services contractor (security guards, EMT, box office teller)
3. Brantley Security Services Inc.	89,092	Current temporary staffing services contractor
4. Industrial Staffing of TN	83,528	Current janitorial services contractor

Source: Metro Nashville's Enterprise One Financial System

¹ Fiscal Year 2010 financials are estimated based on Metro EnterpriseOne financial entries extracted on September 9, 2010.

² "Total Operating Expense" for Fiscal Years 2008, 2009, and 2010 includes depreciation expense of \$136,822, \$155,851, and \$174,085, respectively.

³ "Transfer Out" primarily includes Metro local cost allocations (LOCAP) used for allocating central service cost in the government.

OBJECTIVES AND CONCLUSIONS

Revenue Deposits, Petty Cash, and Cash Handling

1. *Were revenues deposited within one business day of receipt as instructed by Metro Nashville's Finance Policy #9, Cash Deposits?*

No. The Nashville Municipal Auditorium made weekly deposit instead of daily as recommended by this policy. (See Observation C, page 6.)

2. *Were internal controls implemented for cash handling consistent with those recommended by the Internal Control and Compliance Manual for Tennessee Municipalities?*

No. Accountability and segregation of responsibilities were not used for cash handling. Petty cash was not reconciled. (See Observation B, page 6.)

Payroll and Leave Accounting

3. *Was the overtime compensation process consistent with Metro Nashville's Civil Service Rules Section 5.7.B – Compensatory Time in Lieu of Overtime – Election by Non-Exempt requirements?*

No. Not all employees were aware of the option of election of compensatory time. Overtime hours needed and the use of compensatory time was not scheduled, approved, and tracked. (See Observation D, page 7.)

Procurement and Expenditures

4. *Were purchases made in compliance with Regulations for Metro Nashville's Procurement Code and Credit Card Policy?*

No. Required written quotes and purchase orders were not available for three of sixteen purchases, for which either written quotes, request for proposals, or contracts were required. (See Observation E, page 8.) Required documents for one credit card transaction out of ten sampled were not available. (See Observation E, page 8.)

5. *Were operational expenditures in compliance with approved budget?*

Yes. No significant issues were noted for the fiscal years within the audit scope. However, the Nashville Municipal Auditorium could improve its budgeting process in order to strengthen its control over expenditures.

Capital and Tracked Assets

6. *Were capital and tracked assets recorded in EnterpriseOne financial system according to requirements delineated in Metro Nashville's Finance Department Policy #14, Capital Assets?*

No. The Nashville Municipal Auditorium did maintain reasonable physical safeguards for capital assets. However, maintenance of records for tracking capital and non-expendable assets were not consistent with record keeping requirements (see Observation A, page 5).

7. *Was capital spending aligned with approved capital improvement project objectives?*

Yes. No significant issues or control observations were noted.

Public Safety

8. *Were measures taken to provide public safety?*

Yes. No significant issues or control observations were noted.

OBSERVATIONS AND RECOMMENDATIONS

A – Maintenance of Asset Records

During a physical inventory for all items on the Metro Nashville Finance Department Capital Asset listing, two floor scrubbers (with original cost of \$6,608 and \$6,792 respectively) were not located. Also, capital asset records indicated a 1978 Ford station wagon assigned to the Nashville Municipal Auditorium location was identified as not found during a March 2008 physical inventory and that disposition records were to be researched. At the time of our audit the research had not been completed. General Service Department Fleet Management Group is the proponent for this station wagon.

Additionally, one ice resurfacers (with original cost of \$47,500) was loaned to the Metro Nashville Parks Department Sportsplex facility without documented record. Also, a tour of the auditorium facility showed several items either not being tracked, or obsolete.

Criteria:

Metro Nashville's Finance Department Policy #14, Capital Assets states:

- “Disposal and transfers of capital assets (non-real Property) must be processed through General Services’ Surplus Property Division, which shall be responsible for notifying the Division of Accounts to update the related fixed asset master records upon completion of the disposal or transfer.”
- “Based upon the transfer forms submitted by departments, the Division of Accounts will transfer capital assets in the centralized accounting system.”
- “Tracked Assets are assets with a dollar value below the capitalization threshold of \$5,000 and should be tracked due to grant requirements, items of a sensitive nature, or items subject to theft.”

Risk:

Lack of effective tracking of Metro assets might lead to loss and waste of Metro resources, and inaccurate record keeping in the central accounting system.

Recommendation:

Nashville Municipal Auditorium management should:

1. Work with the Department of Finance Division of Accounts to ensure capital assets are tracked throughout the assets life cycle. This would include documentation of permanent or temporary transfers, disposals, and/or write-offs of missing or impaired assets.
2. Annually conduct a physical inventory of capital and tracked assets and communicate result for capital assets to Metro Nashville's Department of Finance, Division of Accounts.

B – Control Weakness in Cash Handling

Multiple employees had access to the same pool of cash at the box window for selling tickets. Duties between cash receipts and bookkeeping were not properly segregated. Also, petty cash was not reconciled daily and the Metro Nashville Office of Internal Audit was unable to reconcile the petty cash fund during the audit because of missing documentation.

Criteria:

- The COSO Internal Control - Integrated Framework establishes a common definition of internal controls, standards, and criteria by which organizations can assess their internal control systems. Control activities are the policies and procedures that help ensure management directives are carried out. Control activities include segregation of duties.
- Internal Control and Compliance Manual for Tennessee Municipalities, Title 5, Chapter 1, “General”, Section 1: Municipal officials should separate duties of employees so that no one person has control over a complete transaction from beginning to end. Workflow should be established so that one employee’s work is automatically verified by another employee working independently. When possible, different persons should be responsible for the authorization, recordkeeping (posting), custodial (cash and materials handling), and review procedures, to prevent manipulation of records and minimize the possibility of collusion.

Risk:

Weak control in cash handling and insufficient segregation of duties provides opportunities for cash misappropriation and causes lack of accountability for cash proceeds.

Recommendation:

Nashville Municipal Auditorium management should:

1. Setup individual user accounts in the Ticketmaster system for each employee selling tickets at the box office and reconcile daily cash receipts to the Ticketmaster sales audit. To establish individual accountability, these employees should use separate tills (or locked cash bag) to keep their own sales proceeds.
2. Nashville Municipal Auditorium management should reconcile its petty cash fund on a regular basis.

C – Delay of Cash Deposits

Nashville Municipal Auditorium was not making daily bank deposits to ensure funds were promptly available in Metro Nashville’s cash accounts. Our sample test showed that deposits were not consistently made within one business day. One revenue check (\$8,255) was found not deposited and had to be reissued by the client.

Criteria:

Metro Nashville's Finance Policy, Treasury #9, Cash Deposits, states that cash receipts should be deposited within one business day and recorded within two business day of receipts.

Risk:

Sales proceeds and revenue checks not deposited promptly provide potential for loss or misappropriation of assets. Also, cash management can be hampered due to uninvested cash.

Recommendation:

Nashville Municipal Auditorium management should submit all payments received to the bank for deposit within one business day of receipt and record all receipts into the accounting system within two days of receipt.

D – Weakness in Managing Overtime

Overtime worked and paid was not evidenced by established working schedules and management approvals. Not all employees were aware of the election of compensatory time in lieu of overtime pay. There were no procedures and schedules established within the department for compensatory time election and management.

Criteria:

- Civil Service Rules Section 5.7.B – Compensatory Time in Lieu of Overtime – Election by Non-Exempt
- Civil Service Policy 5.7, B-II – Election of Compensatory Time In Lieu of Overtime Pay by Non-Exempt Employees

Risk:

Without proper approval and tracking system, Nashville Municipal Auditorium management risks paying for more overtime than actually needed. Without proper scheduling, Nashville Municipal Auditorium management risks losing efficiency in work time management and incurring unnecessary cost.

Recommendation:

Nashville Municipal Auditorium management should:

1. Establish procedures in accordance with Metro Civil Service Rules and Policy in relation to overtime compensation. This policy states that employees should be aware of the option of election of compensatory time, and to establish proper approval and documentation for overtime needs.
2. Consider adopting or creating a scheduling method to efficiently manage working hours around events.

E – Missing Procurement Documentation

Purchasing competitive bidding or quotation documentation demonstrating “best value” purchasing decisions was not available for three of sixteen purchases in excess of \$1,000, for which either written quotes, request for proposals, or contracts were required. Through review of Nashville Municipal Auditorium purchasing records, we found two purchases from prime contractors (for the amount of \$14,881, and \$7,201), without direct order or contract references. We also found one purchase, from a non Metro Nashville prime contractor for the amount of \$9,200, lacking written quotations required by Metro Nashville Procurement policy.

When reviewing the Municipal Auditorium credit card purchase process, records, and sample test, we found that the department head was a cardholder and an approver for all credit card payments. Furthermore, we found that one transaction out of ten samples did not have supporting documents. Two transactions out of the ten samples purpose of transaction was not consistent with the accounting object account classification.

Criteria:

- Metro Nashville Procurement Regulation
- Metro Nashville Finance Department Policy, Purchasing #20, Purchasing Policy
- Metro Nashville Finance Department Policy, Treasury #19, Credit Card

Risk:

Metro procurement regulation and credit card policy weakens control over purchases at the department, and might lead to inefficient use, or waste of Metro resources.

Recommendation:

Nashville Municipal Auditorium management should establish purchase procedures to ensure that relevant employees are aware of and follow Metro Nashville procurement regulation and policy, and required documentation is kept to demonstrate “best value” purchasing decisions.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this compliance audit from March to June 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

SCOPE AND METHODOLOGY

The audit period focused primarily on the period March 1, 2008, through February 28, 2010, financial balances, transactions, and compliance on the processes in place during the time of the audit. Certain analyses required the consideration of financial results, performance, and operations outside that period.

The methodology employed throughout this audit was one of objectively reviewing and analyzing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the Nashville Municipal Auditorium.

CRITERIA

In conducting this audit, the existing Nashville Municipal Auditorium operations and processes were evaluated for compliance with:

- Metro Nashville Finance Department Policy, Treasury # 9, Cash Deposits
- Metro Nashville Finance Department Policy, Treasury # 19, Credit Card
- Metro Nashville Finance Department Policy, Purchasing #20, Purchasing
- Metro Nashville Procurement Regulation
- Metro Nashville Finance Department Policy #14, Capital Assets
- Metro Nashville Civil Service Policy 5.7 B-II, Compensatory Time
- Metro Nashville Civil Service Rules, Special Pay Provisions (Chapter 5, Section 7)
- Metro Nashville Ordinance BL086-1534, Capital Project Spending

STAFF ACKNOWLEDGEMENT

Joe McGinley, CISA, CISSP, Quality Assurance Coordinator
Qian Yuan, CISA, In-Charge Auditor

APPENDIX A. MANAGEMENT RESPONSE

- Management's Responses Starts on Next Page -

KARL F. DEAN
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

August 25, 2010

NASHVILLE MUNICIPAL AUDITORIUM
417 FOURTH AVENUE NORTH
NASHVILLE, TENNESSEE 37201
(615) 862-6390
FAX: 862-6394
WWW.NASHVILLEAUDITORIUM.COM

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 3rd Avenue North, Ste. 401
Nashville, TN 37201

RE: AU2010-007 – Audit of the Operations of the
Nashville Municipal Auditorium

Dear Mr. Swann:

This letter acknowledges that the Nashville Municipal Auditorium received the AU2010-007 Audit of the Operations of the Nashville Municipal Auditorium audit report and has reviewed the recommendations. We concur with all of the findings and recommendations as you will see in our responses. We have established a timetable for the completion of all the recommendations, and we appreciate your help in making sure we comply with the recommendations.

It was a pleasure working with your office on this audit. Please let us know if you need any further information.

Sincerely,

NASHVILLE MUNICIPAL AUDITORIUM

A handwritten signature in blue ink that reads "Robert C. Skoney".

Robert C. Skoney
General Manager

RCS:sh



printed on recycled paper

**Audit of the Municipal Auditorium
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A. Nashville Municipal Auditorium management should:</p> <ol style="list-style-type: none"> 1. Work with the Department of Finance Division of Accounts to ensure capital assets are tracked throughout the assets life cycle. This would include documentation of permanent or temporary transfers, disposals, and/or write-offs of missing or impaired assets. 2. Annually conduct a physical inventory of capital and tracked assets and communicate result for capital assets to Metro Nashville's Department of Finance, Division of Accounts. 	<p>Accept. We will continue to search for missing documentation from our previous Accountant records regarding this equipment, and verify inventory of Auditorium capital assets.</p>	Accountant	Oct. 31, 2010
<p>B. Nashville Municipal Auditorium management should:</p> <ol style="list-style-type: none"> 1. Setup individual user accounts in the Ticketmaster system for each employee selling tickets at the box office and reconcile daily cash receipts to the Ticketmaster sales audit. To establish individual accountability, these employees should use separate tills (or locked cash bag) to keep their own sales proceeds. 2. Nashville Municipal Auditorium management should reconcile its petty cash fund on a regular basis. 	<p>Accept. Separate cash boxes, locking file cabinet and separate purchase codes have been established to address this issue. Also, we will reconcile petty cash as recommended.</p>	Ticket manager	immediately
<p>C. Nashville Municipal Auditorium management should submit all payments received to the bank for deposit within one business day of receipt and record all receipts into the accounting system within two days of receipt.</p>	<p>Partially Accept. Agree with policy, but difficult to execute during heavy event schedule and small staff.</p>	Ticket manager	Immediately

**Audit of the Municipal Auditorium
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>D. Nashville Municipal Auditorium management should:</p> <ol style="list-style-type: none"> 1. Establish procedures in accordance with Metro Civil Service Rules and Policy in relation to overtime compensation. This policy states that employees should be aware of the option of election of compensatory time, and to establish proper approval and documentation for overtime needs. 2. Consider adopting or creating a scheduling method to efficiently manage working hours around events. 	<p>Accept. We will study/implement a plan for addressing overtime/vacation time.</p>	<p>Operations Mgr./Ticket Mgr./Manager</p>	<p>Dec. 31, 2010</p>
<p>E. Nashville Municipal Auditorium management should establish purchase procedures to ensure that relevant employees are aware of and follow Metro Nashville procurement regulation and policy, and required documentation is kept to demonstrate “best value” purchasing decisions.</p>	<p>Accept. Major improvements have been made in this area, with assistance from new Accountant. Documentation/bids are being adhered too.</p>	<p>All staff</p>	<p>Complete and in progress</p>