



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

Professional Audit and Advisory Service

FINAL REPORT

**Audit of the Nashville Convention Center
Compliance with Financial and Operational Policies**

Date Issued: April 8, 2011

Office Location and Phone Number

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

EXECUTIVE SUMMARY

April 8, 2011

Background

The mission of the Nashville Convention Center is to provide convention, trade show and meeting products to attendees and meeting planners so they can experience a superior serviced event, while at the same time creating a positive economic impact on Nashville and Middle Tennessee.

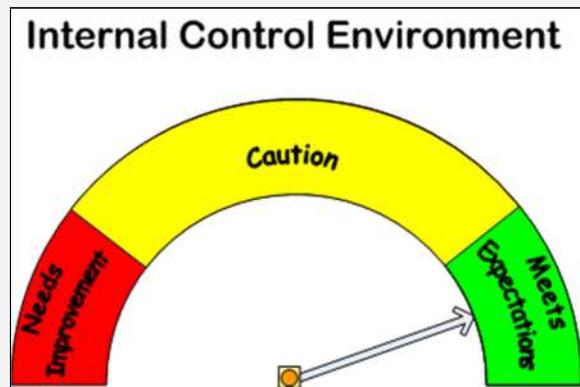
For fiscal years 2008, 2009, and 2010 expenditures for the Nashville Convention Center were \$7.7 million, \$7.8 million, and \$7.5 million respectively. The Nashville Convention Center collected rental fees, ancillary fees, food & beverage commissions and other miscellaneous fees of \$6.0 million, \$5.7 million, and \$5.4 million for each of the same three fiscal years.

Internal Control Compliance Results

The Office of Internal Audit tested the Nashville Convention Center compliance with applicable Metro Nashville financial and operational policies for the following areas:

- Ethics
- Safety
- Payroll and Leave Accounting
- Computer Security
- Capital and Tracked Assets
- Procurement and Expenditures
- Revenue
- Cash Handling

Overall, compliance met expectations.



Management could further enhance its controls for:

- Segregation of Duties
- Timely Depositing of Funds
- Recording of Fixed Assets
- Submission of Financial Disclosures

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INTRODUCTION

AUDIT INITIATION

The Metropolitan Office of Internal Audit's approved annual Audit Work Plan included an audit of the Nashville Convention Center. The audit was primarily initiated due to the length of time (greater than five years) that has elapsed since the last audit was performed (2003).

BACKGROUND

The mission of the Nashville Convention Center is to provide convention, trade show and meeting products to attendees and meeting planners so that they can experience a superior serviced event, while at the same time positively impacting the Nashville and Middle Tennessee economy.

The convention center was opened on January 31, 1987, after several years of consideration and studies. The Metro Nashville Council passed Ordinance No. 085-794 to establish the Convention Center Commission in June of 1985. The Nashville Convention Center was managed, operated, and promoted by the Metro Convention Center Commission from its beginning in 1987 until June 30, 2010, when it was abolished and replaced by the Convention Center Authority, as defined by Metro Ordinance BL2010-690. The primary scope of this audit was fiscal years 2009 and 2010 (Convention Center Commission); however, current ongoing practices are included.

METRO NASHVILLE FINANCIAL HIGHLIGHTS

Along with impacting Nashville and Middle Tennessee economically, the Nashville Convention Center collected operating revenues of \$6.0 million, \$5.7 million, and \$5.4 million in fiscal years 2008, 2009, and 2010 respectively.

Fiscal years 2008, 2009, and 2010 actual expenditures for the Nashville Convention Center were \$7.7 million, \$7.8 million, and \$7.5 million respectively.

Exhibit A – Nashville Convention Center’s Financial Highlights

(\$ Dollars)	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Budget	Actual	Budget	Actual	Budget	Actual
Revenue						
Operating Revenues	5,287,100	5,995,627	5,451,300	5,675,010	5,526,300	5,366,012
Expenditures						
Personnel	3,102,400	2,905,853	3,065,600	2,883,104	3,001,100	2,865,985
Other Services	2,968,100	3,208,791	2,958,300	2,914,489	2,914,700	2,646,413
Internal Service Fees	212,600	208,877	123,100	111,079	98,200	85,546
Overhead Costs (LOCAP)	72,600	76,571	118,600	118,560	146,000	146,000
Total Budgeted Expenditures	6,355,700	6,400,092	6,265,600	6,027,232	6,160,000	5,743,944
Unbudgeted Expenditures						
Depreciation		1,312,438		1,441,288		1,440,066
Debt Service Transfer		-		291,700		278,600
Total Unbudgeted Expenditures		1,312,438		1,732,988		1,718,666
Total Expenditures	6,355,700	7,712,530	6,265,600	7,760,220	6,160,000	7,462,610

Source: Metro Nashville’s EnterpriseOne Financial System

Exhibit B – Top Five Metro Nashville Paid Vendors/Contractors

Vendor/Contractor Name	Fiscal Years 2009 - 2010	Purpose
1. District Energy System	\$1,669,288	Heating/Cooling Expense
2. Nashville Electric Service	1,028,397	Electricity
3. Brantley Security Services	404,467	Security Services
4. Rock Solid Security Inc	298,465	Security Services
5. Industrial Staffing of TN	287,774	Temporary Staffing

Source: Metro Nashville’s EnterpriseOne Financial System

OBJECTIVES AND CONCLUSIONS

Human Resources

1. *Have employees received ethics training?*

Yes. Ethical standards are taught to each new employee of the Metropolitan Government of Nashville & Davidson County during the New Hire Orientation. The Nashville Convention Center also includes a section in their policy manual outlining how each employee should conduct themselves. However, this message should be enhanced through periodic refreshment. (See Observation D, page 8.)

2. *Have employees completed financial and other disclosures required by Metro Executive Order 006 and/or Ordinance BL2007-1382?*

Ordinance BL2007-1382

Generally, No. Although the Executive Director and the Assistant Director were in compliance, the Director of Sales & Marketing and the Director of Administration & Finance did not submit required disclosures to the Metropolitan Clerk's Office. (See Observation A, page 6.)

Executive Order 006

Yes. There were no significant issues or control observations noted.

Safety

3. *Did the department have a current evacuation plan?*

Yes. There were no significant issues or control observations noted. The Nashville Convention Center has an in-house plan and utilizes other safety measures recommended by the Office of Emergency Management, Factory Mutual Insurance (FM Global), and the Fire Department.

Payroll

4. *Were the department's payroll records properly supported and in compliance with stated policies and procedures?*

Yes. There were no significant issues or control observations noted. The Nashville Convention Center employee's pay, adjustments, and overtime were calculated correctly.

5. *Were the department's attendance and leave records properly supported and in compliance with stated policies and procedures?*

Yes. There were no significant issues or control observations noted. Leave time was documented and recorded as required. Attendance and leave balances were verified by employees and leave amounts were correctly being carried forward.

Computer Security

6. *Were employees only given access based on need to know for their job according to best information security standards?*

Yes. The Office of Internal Audit determined that Nashville Convention Center employees have the correct computer access.

7. *Was computer equipment adequately managed and safeguarded according to best information security standards?*

Yes. There were no significant issues or control observations noted. Computers were secured in the work area with cable locks. Computers not assigned to employees were stored in the office of the Communication Specialist.

Revenue

8. a) *Was all revenue properly receipted and coded as required by department's established criteria?*

Yes. There were no significant issues. One minor control weakness was noted for event services revenue collection (See Observation B, page 6.) and one minor control weakness was noted for revenue receipt via incoming mail (See Observation E, page 8.)

- b) *Were timely deposits made in accordance with Metro Treasury Policy #9?*

No. In many instances it was not possible to determine the precise date revenue was received. Therefore, it was not possible to determine if it had been deposited within the allowable time period. Further, use of the armored transport for twice a week pick-up causes non-compliance with Treasury Policy #9. (See Observation C, page 7.)

9. *Were petty cash accounts and change funds properly safeguarded and expenditures properly approved?*

Yes. There were no significant issues or control observations noted. Controls and processes were in place to ensure expenditures were made in accordance with Metro Nashville's Procurement Code.

Procurement and Expenditures

10. *Were expenditures made in accordance with Metro Nashville's Procurement Code or other established criteria?*

Yes. There were no significant issues or control observations noted. Controls and processes were in place to ensure expenditures were made in accordance with Metro Nashville's Procurement Code.

11. *Were travel related expenditures made in accordance with Metro Nashville's Travel Policy or other established criteria?*

Yes. There were no significant issues or control observations noted. Controls and processes were in place to ensure expenditures were made in accordance with Metro Nashville's Travel Policy.

12. *Were credit card purchases made in accordance with Metro Nashville's Credit Card Policies or other established criteria?*

Yes. There were no significant issues or control observations noted. Controls and processes were in place to ensure expenditures were made in accordance with Metro Nashville's Procurement Code.

13. *Were imprest cash accounts properly safeguarded, and expenditures properly approved?*

Yes. There were no significant issues or control observations noted. Reasonable controls were in place.

Contracts

14. *Were contracts monitored for compliance with stated terms from vendors?*

Yes. There were no significant issues or control observations noted. Controls and processes were in place to ensure expenditures were made in accordance with Metro Nashville's Procurement Code.

Tracked Assets / Fixed Assets

15. *Were the department's fixed assets accounted for and recorded in Metro's accounting system?*

Generally Yes. There were no significant issues or control observations noted although one item physically present did not appear on the fixed asset listing generated from Metro Nashville's Enterprise One financial system. (See Observation F, page 9.)

OBSERVATIONS AND RECOMMENDATIONS

A – Submission of Disclosures (Ordinance BL2007-1382)

Some Nashville Convention Center directors did not submit annual disclosure forms. Metropolitan Nashville Ordinance BL2007-1382 requires “all directors, executive directors, assistant directors, and associate directors of Metropolitan Government agencies, boards, and commissions” to submit an annual disclosure form to the Metropolitan Clerk’s Office. The Executive Director and Assistant Director were in compliance with the ordinance. However, the Nashville Convention Center Director of Administration & Finance and the Director of Sales & Marketing did not file disclosure statements.

Criteria:

Ordinance BL2007-1382 – *Standards of Conduct, Disclosure of Interest, and Enforcement*

Risk:

- Loss of public perception
- Possible conflicts and impairments will not be communicated
- Lack of transparency

Recommendation:

Nashville Convention Center management should ensure that all directors, assistant directors and associate directors submit annual disclosure forms according to Ordinance BL2007-1382.

B – Event Services Revenue

The process for sales of utilities and other service items could be enhanced by having positive control and accountability of all event services forms. The Nashville Convention Center sells utilities and service related items on an un-forecasted, as needed basis to convention center clients. Customers may pay with cash, credit card, or by check. Service forms were written up by Event Services staff on un-numbered order forms and payment was received in the Business Service Center. Reasonable segregation policies were in place to limit some of the risks of unplanned revenue collection. However, the use of pre-numbered service forms would further enhance these controls and provide an audit trail so that the completeness of this revenue stream may be ascertained.

Criteria:

- *Prudent Business Practices*
- *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. Pre-numbered

service forms will enhance the **control activities** and **monitoring** components of a strong internal controls framework.

- The Internal Control and Compliance Manual for Tennessee Municipalities, June 2009, Title 5, Chapter 13 “*Control Activities*”, Section 2: “Pre-numbered receipts are issued for each revenue source as required.”

Risk:

- Forms will be used to sell services but revenue will not be turned in.
- Positive assurance of the completeness of revenues cannot be attained.

Recommendation:

Nashville Convention Center management should use pre-numbered service forms, issued in sequence, for all service requests. Each form should be accounted for on a monthly basis.

C – Documentation of Timely Deposits

Using current records and documentation it was often not possible to determine precisely which day some revenue was received on. Therefore, it was not possible to determine compliance with Metro Treasury Policy #9. Metro Treasury Policy #9 requires deposits to be made within one day of receipt of revenue. Additionally, the Nashville Convention Center uses an armored transport service to pick up deposits (a good control); however, the pick-up is only twice per week and no waiver has been obtained from the Metro Treasurer’s Office for non-compliance with Treasury Policy #9, which requires deposits within one business day and the accounting entry into Enterprise One within two business day. Additional options to the present arrangements, such as check scanning systems that credit the bank account the same day, may be available through First Tennessee Bank, the current banking contractor for Metro Nashville.

(Note: All known revenues were accounted for.)

Criteria:

Metro Treasury Policy #9

Risk:

- Revenue will not be available to meet Metro’s cash needs.
- Revenue not timely deposited will be lost or stolen.

Recommendation:

Nashville Convention Center management should:

1. Devise a method of documentary controls such that the precise date of the receipt of revenue will be documented and retained.

2. Ensure that revenue is deposited within one business day as recommended by Metro Treasury Policy #9. One possible solution is to work the Metro Nashville Treasurer to implement a check scan process.

D – Ongoing Ethics Training

Ongoing or periodic ethics training would further enhance the Nashville Convention Center internal control environment. Nashville Convention Center employees operate in a dynamic sales and revenue environment and were provided one-time introductory type ethics training. Employees of the Nashville Convention Center were required to attend Metro employee new hire orientation classes provided by the Metro Human Resources Department. At the end of each class the employees received copies of Metro's Ethics Policy and signed an acknowledgement form. The Nashville Convention Center also provides new employees with a copy of their policy manual which outlines ethical behavior.

Criteria:

- Prudent Business Practices
- *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. Periodically informing the employees of the ethical standards to which they are to follow is critical in ensuring a strong internal control framework

Risk:

Employees will become complacent and not place the proper emphasis on proper ethical conduct.

Recommendation:

Nashville Convention Center management should provide periodic, ongoing ethics training to employees to supplement their initial training.

E – Mail Opening Procedures

The process of opening the mail and processing any revenue received therein requires enhancement. Although there are specifically designated employees to open the mail, retrieve the payment and then record the payment, these processes were not segregated. The process of opening mail (receiving revenue) and processing payments (accounting entries) requires segregation. Further, opening mail that possibly contains incoming revenue should ideally be performed by two persons and all incoming checks should be immediately stamped "NCC - For Deposit Only".

Criteria:

- Prudent business practice

- *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. “*COSO Evaluation Tools, Reference Manual*”, Page 111: Assign opening of mail to an individual with no responsibility for or access to files or documents pertaining to accounts receivable or cash accounts.”
- The Internal Control and Compliance Manual for Tennessee Municipalities, June 2009, Title 5, Chapter 13 “*Control Activities*”, Section 4: “all mail is delivered intact (unopened) to two or more designated employees...and all checks immediately stamped For Deposit Only.”
- Nashville Convention Center – Accounts Receivable Specialist Operating Procedures Manual “Deposits”, “all checks should be recorded on the Advanced Rental and 60 day spreadsheets...”

Risk:

- Stated revenues posted to accounts will not be deposited as intended.
- Incoming receipts will be diverted.

Recommendation:

Nashville Convention Center management should develop controls so that: mail will be opened by two persons, checks will be immediately stamped “NCC - For Deposit Only”, and the processing of payments will be segregated from the receipt process.

F – Recording of Fixed Assets

During a physical inventory of fixed assets, a water heater was identified that was not listed on the fixed assets report. The Nashville Convention Center currently has two water heaters but only one is listed on the fixed asset listing generated from Metro Nashville’s Enterprise One financial system.

Criteria:

- Metro Fixed Asset Policy

Risk:

- Inaccurate inventory of Metro assets
- Loss of Metro resources through re-appropriation of assets

Recommendation:

Nashville Convention Center management should conduct a physical inventory annually and communicate the results to Metro Finance Division of Accounts.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit between September 2010 and December 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 July 1, 2008, through June 30, 2010, financial balances, transactions, and compliance of 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 various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the Nashville Convention Center.

CRITERIA

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

- COSO Evaluation Tools, Reference Manual
- Metro Nashville Procurement Policy
- Metro Nashville Treasury Policy #9, Cash Deposits
- Metro Nashville Finance Department Policy #14 and #18
- Metro Nashville Civil Service Rules for Attendance and Leave
- Metro Nashville Civil Service Rules for Special Pay Provisions (Chapter 5, Section 7)
- Ordinance BL2007-1382 – Standards of Conduct, Disclosure of Interest, and Enforcement
- IT Governance Institute's Control Objectives for Information Technology (COBIT 4.1) – DS5.3 Ensure System Security, Identity Management and DS5.4 Ensure System Security, User Account Management
- The Internal Control and Compliance Manual for Tennessee Municipalities, June 2009

STAFF ACKNOWLEDGEMENT

Carlos Holt, CPA, CFF, CIA, CFE, CGAP, Audit Manager
Joe McGinley, CISSP, Quality Assurance Coordinator
Tracy Carter, CFE, In-Charge Auditor

APPENDIX A. MANAGEMENT RESPONSE

- Management's Responses Starts on Next Page –



Charles L. Starks
Executive Director

March 25, 2011

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
222 Third Avenue N., Suite 401
Nashville, TN 37201

Re: Nashville Convention Center Compliance Audit

Dear Mr. Swann:

This letter acknowledges that the Nashville Convention Center received the Compliance Audit report and we have reviewed the recommendations. We concur with the findings and recommendations as you will see in our responses. Some of the recommendations from the audit have already been completed; however, the timetable for completion of the other recommendations has been established. We certainly would welcome any input from your team as we implement the recommendations.

It was a pleasure working with Tracy Carter and Carlos Holt from your office on this audit. Please let us know if you require any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles L. Starks".

Charles L. Starks
Executive Director

**Audit of the Nashville Convention Center
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A1. Nashville Convention Center management should ensure that all directors, assistant directors and associate directors submit annual disclosure forms according to Ordinance BL2007-1382.</p>	<p>Accept. According to Metro Legal it is not clear whether the requirements of MCL § 2.222.030 apply to the Director of Sales and Director of Finance and Administration, but the employees in those positions filed disclosure statements for 2010 and will file them in subsequent years.</p>	Charles Starks	Completed for 2010 and will continue going forward
<p>B1. Nashville Convention Center management should use pre-numbered service forms, issued in sequence, for all service requests. Each form should be accounted for on a monthly basis.</p>	<p>Accept. We agree with this advice and the next time we print service forms we will implement.</p>	Elisa Putman	August 2011
<p>C1. Nashville Convention Center management should devise a method of documentary controls such that the precise date of the receipt of revenue will be documented and retained.</p>	<p>Accept. Check log was implemented in August 2010; however, the audit covered previous years prior to the implementation of our check log.</p>	Melissa Wagner	Complete
<p>C2. Nashville Convention Center management should ensure that revenue is deposited within one business day as recommended by Metro Treasury Policy #9. One possible solution is to work with the Metro Nashville Treasurer to implement a check scan process.</p>	<p>Accept. Nashville Convention Center has met with Treasury Department and First Tennessee Bank. Currently no department has implemented this within Metro. We are in discussions to become the test site for the city.</p>	Melissa Wagner	TBD
<p>D1. Nashville Convention Center management should provide periodic, ongoing ethics training to employees to supplement their initial training.</p>	<p>Accept. Periodically, no less than annually, we will devote part of one staff meeting to have an update on ethics training given that Metro has no formal ethics training for staff.</p>	Harriett Royer	March 2011
<p>E1. Nashville Convention Center management should develop controls so that: mail will be opened by two persons, checks will be immediately stamped "NCC - For Deposit Only", and the processing of payments will be segregated from the receipt process.</p>	<p>Partially Accept. All mail received will be sent to the Executive Director's office and opened. Any checks received will be stamped <i>For Deposit Only</i>, entered into a check register, and sent to the Accounting Department.</p>	Charles Starks	April 2011
<p>F1. Nashville Convention Center should conduct a physical inventory annually and communicate the results to Metro Finance Division of Accounts.</p>	<p>Accept. Annually in December (due to lower business demands allowing time for this to take place) we will verify the Metro Fixed Asset inventory from EBS and will submit any additions, corrections, and/or deletions to the Metro Finance Division of Accounts.</p>	Elisa Putman, Melissa Wagner	December 2011