



**METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY**

**OFFICE OF INTERNAL AUDIT**

**Professional Audit and Advisory Service**

**FINAL REPORT**

**Audit of the Metropolitan Beer Permit Board**

Date Issued: April 24, 2013

Office Location and Phone Number  
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*The Metropolitan Nashville Office of Internal Audit is an independent audit agency  
that reports directly to the Metropolitan Nashville Audit Committee*

# EXECUTIVE SUMMARY

April 24, 2013

Results in Brief	Fiscal Data and Recommendations												
<p>An audit of the Metropolitan Beer Board was performed.</p> <p style="text-align: center;"><b>Audit Objectives</b></p> <ul style="list-style-type: none"> <li>• <i>Were policies and procedures as set forth by the Metropolitan Beer Board effectively implemented?</i></li> </ul> <p><b>Yes.</b> Policy and procedures were effectively implemented. No exceptions were noted.</p> <ul style="list-style-type: none"> <li>• <i>Was revenue receipts received at the Metropolitan Beer Board real, complete, and recorded in bank and accounting records?</i></li> </ul> <p><b>Yes.</b> All revenue was deposited and recorded. No exceptions were noted.</p> <ul style="list-style-type: none"> <li>• <i>Was leave time for Metropolitan Beer Permit Board employees tracked, monitored, and recorded?</i></li> </ul> <p><b>Yes.</b> All uses of leave were supported by required documentation. No exceptions were noted.</p>	<p style="text-align: center;"><b>Operational Expenses Fiscal Years 2012 and 2011</b></p> <table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 35%; text-align: center;">2012</th> <th style="width: 35%; text-align: center;">2011</th> </tr> </thead> <tbody> <tr> <td>Budget</td> <td style="text-align: right;">343,700</td> <td style="text-align: right;">321,400</td> </tr> <tr> <td>Actual</td> <td style="text-align: right;">297,955</td> <td style="text-align: right;">337,207</td> </tr> <tr> <td>Variance</td> <td style="text-align: right;">23,444</td> <td style="text-align: right;">(15,807)</td> </tr> </tbody> </table> <p>Management of the Metropolitan Beer permit Board should:</p> <ul style="list-style-type: none"> <li>• Take steps to segregate responsibilities for the receipt and recording of cash.</li> <li>• Continue to pursue technological processes to replace manual efforts.</li> </ul>		2012	2011	Budget	343,700	321,400	Actual	297,955	337,207	Variance	23,444	(15,807)
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# INTRODUCTION

## ***Audit Initiation***

The audit of the Metropolitan Beer Permit Board was conducted as part of the approved 2013 Audit Work Plan. The audit was initiated based on the number of years elapsed since the last audit.

## ***Background***

The Metropolitan Beer Permit Board has jurisdiction of the licensing, regulating and controlling of the transportation, storage, sale, distribution, possession, receipt, and/or manufacture of beer of an alcoholic content of not more than five percent by weight or any other beverage of like alcoholic content. Also, the board is responsible for rules and regulations for the supervision of public dancehalls and public dances. The establishment and related regulations pertaining to the Metropolitan Beer Permit Board are found in the Metropolitan Nashville Code of Laws Chapters 6.12, 7.04, 7.08, 7.20, and 7.24.

The Metropolitan Beer Permit Board consists of seven members who serve terms of four years. Each member is appointed by the Mayor and approved by the Metropolitan Council. The Board meets twice a month to approve permit applicants, review violations, incur penalties made by existing permit holders, and establish the rules and policies related to the mission of the Metropolitan Beer Permit Board. The board employs a staff of four employees to execute established policies and procedures. The staff consists of one director, one office support specialist and two inspectors. Key statistics for fiscal years 2011 and 2012 are presented in Exhibit A below.

### **Exhibit A – Beer Permit Board Statistical Information - Fiscal Years 2011 and 2012**

<b>Action Item</b>	<b>2012</b>	<b>2011</b>
Beer Applications Processed	393	383
Dance Applications Processed	399	481
Inspections Conducted	3,411	3,268
Inspections Passing	2,646	2,583
Percentage Passed	78%	83%
Total Violations	765	685
Violations Presented to the Board	162	141
Amount of Civil Penalties Collected	\$13,750	\$107,750
Amount of Privilege Tax Collected	\$162,997	\$165,877

*Source: Metropolitan Beer Board Internal Reports*

It should be noted that the number of violations presented to the board are only a fraction of the number of violations documented by inspectors. This is due to the fact that some violations allow permit holders to correct the offense and call for a re-inspection; whereas,

**Financial  
Information**

other more serious violations (such as selling to minors) must be presented to the board.

The Metropolitan Beer Permit Board is a self-sustaining entity within the Metropolitan Nashville Government in that revenue from permits and violations was in excess of expenses by \$192,000 for the past two fiscal years. A breakdown of financial highlights is described in Exhibits B, C, and D below.

**Exhibit B – Actual Financial Results - Fiscal Years 2011 and 2012**

	2012	2011
Revenue	\$412,385	\$415,705
Payroll Expenses	(241,007)	(260,234)
Non-payroll Expenses	(6,512)	(6,251)
Internal Service Fees	(50,438)	(70,723)
Revenue in Excess of Expense	\$114,428	\$ 78,497

Source: Metropolitan Nashville’s EnterpriseOne

**Exhibit C – Sources of Revenue - Fiscal Years 2011 and 2012**

Account	Amount
Beer Permit Privilege Tax	\$331,750
Beer Law Violation Fine	237,100
Beer Permit	240,300
Dance Permit	93,900
Photostat & Microfilm	1,283
Total	\$904,333

Source: Metropolitan Nashville’s EnterpriseOne

**Exhibit D– Top Four Vendors – July 1, 2010 to December 31, 2012**

Vendor	Amount	Purpose
Ricoh USA	\$9,994	Printing/Binding/Rental Equipment
A Z Office Resource	3,921	Office and Administrative Supplies
Circle K Stores Inc.	2,500	Refund to a Permit Holder
Petty Cash	1,221	Miscellaneous
G4S Secure Solutions	464	Board Meetings After Hour Security

Source: Metropolitan Nashville’s EnterpriseOne

## **Information Systems**

Significant information systems used at the Metropolitan Beer Permit Board are *EnterpriseOne* and *Microsoft Office*.

EnterpriseOne: *EnterpriseOne* is the primary accounting software system used to record and report all financial reporting transactions of the Metropolitan Government. This system is used to account for all expenditures, revenue deposits, payroll and time keeping for the Metropolitan Beer Permit Board

## **Internal Control Assessment**

Key staff was interviewed and relevant supporting documentation reviewed for the revenue, payroll, procurement, and operational cycles. The following internal control strengths were noted:

- 1) *Segregation of Duties:* The Metropolitan Beer Permit Board reviewed and approved application/inspection infractions using one party, while payments were processed by another party, and daily collections were counted by two separate employees. All bank deposits were made by a separate department and all activity was reviewed and approved by the director.
- 2) *Reconciliations/Monitoring:* A series of reconciliations/monitoring controls were found to be implemented. An employee periodically reconciled actual deposits to amounts posted in the manual receipt books. Monthly bank reconciliations were conducted by the Department of Finance. Inspections were conducted in a methodical manner to ensure permit holders complied with applicable Metropolitan Nashville Ordinances. A viable accounts receivable system was in place to ensure all fees, taxes and penalties were tracked and collected.
- 3) *Management Review:* Activities involving the procurement, revenue, payroll, and operational cycle were monitored, reviewed, and approved by the director. The Metropolitan Beer Permit Board reviewed and approved all applications, inspections with infractions, conducted hearings, and issued penalties and/or citations.
- 4) *Security of Assets:* Monies collected were found to be locked in secure locations. Good security was established for deposits in transit.

Enhancements: Due to the small number of office staff; much of which conduct field inspections and attend various meetings, a small number of operations conducted were found to be incompatible functions performed by the same individual. For instance, the same person who accepts cash, prepares the deposit slip, also records the information into the accounting system. No single person should have control of a transaction (receive and record cash) from origination to end.

## OBJECTIVES AND CONCLUSIONS

1. *Were policies and procedures set forth by the Metropolitan Beer Permit Board effectively implemented?*

**Yes.** A judgmental sample of 50 permits issued from July 1, 2010, to September 30, 2012, was reviewed. Documentation such as cash receipt books, board minutes, inspection reports, applications, and other items in the permit holders file were reviewed for the following attributes with no exceptions noted.

- Was the application submitted by the permit holder complete and signed?
- Was documentation such as a completed health inspection, fire inspection, proof of ownership, Certificate of Existence, or Authority and Use and Occupancy Permit in the permit holders file?
- Was the application presented and approved by the Metropolitan Beer Permit Board?
- If applicable, were any subsequent inspections completed?
- Were inspections reviewed and approved by the Director?
- Were applicable payments received from the permit holder?
- Were there any gaps in the receipt books?

All minutes from the Metropolitan Beer Permit Board meetings between July 1, 2010, and September 30, 2012, were reviewed. A judgmental sample of 48 instances whereby the board issued some form of fine or penalty to a permit holder was selected. The permit files and other documentation such as receipt books were reviewed to ascertain that staff effectively carried out the prescribed actions. No exceptions were noted.

Finally, a judgmental sample of 50 permit application issued between July 1, 2010, and September 30, 2012, and approved by the Metropolitan Beer Permit Board was traced back to the corresponding customer payment. No exceptions were noted.

2. *Was revenue received at the Metropolitan Beer Permit Board real, complete, and accurately recorded in bank and accounting records?*

**Yes.** The following three audit procedures were performed to support this conclusion.

- a) 48 daily deposits from July 1, 2010, to September 30, 2012, were reviewed. This random statistical sample was selected using a 95 percent confidence level and seven percent

precision. Each sample item was tested for the following attributes with no exceptions noted.

- Did the amount recorded in the receipt book agree to the amount actually deposited?
  - Did the amount deposited agree to the amount recorded in the general ledger?
  - Was the deposit made within one business day of receipt?
  - Was there evidence of management review?
  - Were there any gaps in receipt numbers for the specific deposit?
  - Were the amounts recorded in the *EnterpriseOne* accounting system within two business days?
- b) 48 instances from July 1, 2010, to September 30, 2012, where the Beer Permit Board issued a fine or penalty for permit holders were selected for review. This random statistical sample was selected using a 95 percent confidence level and seven percent precision.
- The penalties determined by the board were agreed to payments in the manual receipt book. No exceptions were noted.
  - Each instance of a permit being issued was tied back to a payment made by the permit holder for the application fee and applicable privilege tax. No exceptions were noted.
- c) Liquor by the drink permit entities were furnished by the State of Tennessee Department of Finance and compared to permit holders under jurisdiction of the Metropolitan Beer Board. The objective of the test was to determine if anyone with liquor by the drink permits would not have a beer permit, and if so, was the situation justified.

This procedure produced 115 initial unmatched entities. A judgmental sample of 54 of the entities was selected for review. Further investigation revealed that each sample entity was not required to obtain a permit or had a permit through the Metropolitan Beer Board. No exceptions were noted.

3. *Was leave time for Metropolitan Beer Permit Board employees tracked, monitored, and recorded?*

**Yes.** A review of the leave time for two employees was analyzed for fiscal years 2011 and 2012. For each instance of employee leave time, supporting documentation was obtained to ensure leave time had been approved by management and recorded in *EnterpriseOne*. No exceptions were noted

# OBSERVATIONS AND RECOMMENDATIONS

## **A –Segregation of Duties**

The Metropolitan Beer Permit Board lacks segregation over receipt and recording of cash. The same employee who receives cash prepares the deposit slip also records the entry in the general ledger. While the department is small and has seen a reduction in staffing over the past few years, adjustments are required for these functions.

*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. Ensuring incompatible functions are properly segregated enhances the control activities and monitoring component of a strong internal controls framework.
- *Internal Control and Compliance Manual for Tennessee Municipalities – Title 5, Chapter 14, Section 1* states “responsibility for each step of cash handling and recording should be clearly established. If possible, the employees who receive cash collections should be different from those who maintain the books and records (bookkeepers)”.
- *Prudent Business Practice*

*Risk:*

Properly segregating incompatible functions reduce the risk of theft and/or fraud.

*Recommendation:*

Management of the Metropolitan Beer Permit Board should take steps to segregate responsibilities for the receipt and recording of cash.

## **B –Leveraging of Available Technology**

Expanding the use of information technology could enhance service delivery to beer and dance permit holders, and improve the efficiency of back office operations. We understand that the Metropolitan Beer Permit Board is currently working with the Metropolitan Nashville Information Technology Systems Department to determine the feasibility of using technology such as the existing Kiva application or its pending replacement system to improve daily processing and customer service. Potentially, this system could be configured similar to permits issued and renewed by the Department of Codes and Building Safety to process beer permit applications and renewals.

The staff is commended for implementing document management technology with its recent office relocation to the Metro Office Building.

*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. Leveraging technology enhances the Information Systems component of a strong internal controls framework.
- *Prudent Business Practice*

*Risks:*

Customer complaints due to prolonged processing time due to lost files and inherent manual inefficiencies.

*Recommendation:*

Management of the Metropolitan Beer Permit Board should continue to pursue technological processes to replace manual efforts.

## GENERAL AUDIT INFORMATION

### **Statement of Compliance with GAGAS**

This audit was conducted from January 2013 to March 2013 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 focused primarily on the period July 1, 2010, through September 30, 2012. The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, conducting interviews, observations, performing substantive tests, and tests of internal controls on the entity's financial information, written policies and procedures, contracts, and other relevant data.

### **Criteria**

In conducting this audit, the existing processes were evaluated for compliance with:

- Metropolitan Nashville Code of Laws Chapters 6.12, 7.04, 7.08, 7.20, and 7.24.
- Metro Nashville Civil Service Policies
- *The COSO Internal Control- Integrated Framework*
- *Internal Control and Compliance Manual for Tennessee Municipalities*

### **Audit Staff**

Carlos Holt, CPA, CFF, CIA, CFE, CGAP, Quality Assurance  
Bill Walker, CPA, CIA, Engagement Manager  
Sharhonda Cole, CFE, Engagement Team

## **APPENDIX B. MANAGEMENT RESPONSE**

- Management's Responses Starts on Next Page -

KARL F. DEAN  
MAYOR



**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

METROPOLITAN BEER BOARD  
800 2nd Avenue South, 3rd Floor  
P.O. Box 196300  
Nashville, TN 37219-6300

April 22, 2013

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

Dear Mr. Swan:

This letter is to notify you that the appropriate administrative staff of the Metropolitan Beer Permit Board has reviewed your department's audit and has evaluated the recommendations raised in the report. We have accepted your recommendations under Sections A and B and have provided a response to your findings.

The Metropolitan Beer Permit Board would like to express its appreciation for you and your staff during the audit process, and for their assistance and cooperation. Any improvement this department can make toward increasing the efficiency of the Metropolitan Government is always welcomed.

Sincerely,

A handwritten signature in cursive script that reads "Jackie Eslick".

Jackie Eslick  
Executive Director  
Metropolitan Beer Permit Board

JE/jh



IF YOU ARE DISABLED AND NEED ASSISTANCE FOR THIS MEETING, YOU MUST CONTACT THIS OFFICE WITHIN 3-5 DAYS BEFORE THE BOARD MEETING. (662-6750)

**Metropolitan Beer Permit Board  
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
A. Management of the Metropolitan Beer permit Board should take steps to segregate responsibilities for the receipt and recording of cash.	<b>Accept.</b> An employee who does not prepare the deposit or reconcile the amount in the manual receipt book to the amount actually deposited will now verify the deposit as entered into the accounting system.	Terrence Darby	Completed
B. Management of the Metropolitan Beer permit Board should continue to pursue technological processes to replace manual efforts.	<b>Accept.</b> We have and will continue to work with Metro ITS regarding the pursuit of technological processes to replace manual efforts.	Jackie Eslick	Unable to determine at this time