



**A Report to the
Audit Committee**

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Audit of Metropolitan Nashville Police Department Secondary Employment

July 8, 2015

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

July 8, 2015



Why We Did This Audit

The audit was initiated due to the associated risks with the secondary employment of Metro Nashville police officers.

What We Recommend

- Determine roles and responsibilities in order to segregate depositing and recording functions.
- Deposit funds within one business day and record deposits within two business days.
- Document a formal policy for the required number of off-duty rest hours for officers.

AUDIT OF MNPD SECONDARY EMPLOYMENT

BACKGROUND

The Metropolitan Nashville Police Department (MNPd) allows employees to work uniformed secondary employment jobs. All uniformed jobs must be through the MNPd Secondary Employment Unit, a contract security company, or a proprietary security organization. The MNPd Secondary Employment Unit contracts with Metro Nashville Government entities, as well as private businesses and other organizations. The MNPd Secondary Employment Unit schedules off-duty police services for various customers, typically security and traffic control duties. All scheduling that includes the use of an official vehicle must be made through the MNPd Secondary Employment Unit.

OBJECTIVES AND SCOPE

The objectives of the MNPd Secondary Employment audit were to:

- Determine if controls were in place to ensure accuracy and completeness of fiscal transactions.
- Determine if controls were in place to ensure job assignments were scheduled in a manner fair to all officers.
- Determine if secondary employment jobs were in compliance with applicable policies and procedures.
- Determine if customers were satisfied with services provided by the MNPd Secondary Employment Unit.
- Determine if the MNPd Secondary Employment Unit assumed unnecessary risks.

The audit scope included all work performed between July 1, 2013, and September 30, 2014.

<i>MNPd Secondary Employment Unit</i>	FY 2013-14 (Actuals)	FY 2014-15 (Budget)
Total Revenues	\$ 938,328	\$2,578,300
Total Expenses	\$1,127,231	\$2,537,500

Source: Metro Nashville's EnterpriseOne Financial System

WHAT WE FOUND

We found that the MNPd Secondary Employment Unit performed the proper maintenance of files, scheduled officers in a fair manner, and satisfied customers with services provided. Cash management lacked segregation of duties. The MNPd Secondary Employment Unit service contracts included an indemnification clause and department requirements limited work performed to jobs of lower risks or where the department determined public safety may benefit from a police presence.

GOVERNANCE

The MNPD Secondary Employment Unit is part of the Field Operations Bureau of the MNPD. The MNPD Secondary Employment Unit is led by a sergeant and supported by three civilian employees. A lieutenant provides general oversight of activities. Any secondary employment independently performed by a police officer through either a contract security company or a proprietary security organization is requested on a Form 150 and then reviewed and approved by the officer's chain of command and the Chief of Police. All documentation is then maintained by the MNPD Secondary Employment Unit.

OBJECTIVES AND CONCLUSIONS

1. *Were controls in place to ensure accuracy and completeness of fiscal transactions?*

Generally yes. Controls were in place to ensure assigned police officers were accurately paid, customers correctly billed, and collections complete and accurate. However, segregation of duties over fiscal functions could be enhanced. Sub-objectives tested were:

Supporting Objectives and Conclusions

a. *Were controls in place to ensure payroll was accurately recorded?*

Yes. Overtime and straight pay vouchers for MNPD Secondary Employment Unit hours were submitted, approved, and accurately recorded for all sample selections reviewed.

b. *Were controls in place to ensure billings were complete, accurate, and protected from alteration?*

Yes. A sample selection of MNPD Secondary Employment Unit jobs were traced to invoices to ensure hours were billed and accurate.

c. *Were controls in place to ensure collections were accurately recorded and complete?*

Generally yes. The MNPD Secondary Employment Unit deposited and recorded all sample collections reviewed. However, the timing and recording of deposits did not always comply with Metro Nashville's Treasury Policy. Segregation of duties over fiscal functions were lacking; however, corrective actions were taken as soon as the MNPD Secondary Employment Unit was notified (see Observations A and B).

2. *Were controls in place to ensure job assignments were scheduled in a manner fair to all police officers?*

Yes. The MNPD Secondary Employment Unit distributed job assignments on a basis fair to all officers. With the use of PowerDETAILS (a web-based application specifically designed for police secondary employment), applicants were given an equal opportunity for application. However, the MNPD Secondary Employment Unit should document circumstances for those instances when jobs were released for application with little or no advance notice for responding (see Observation C).

3. *Were secondary employment jobs in compliance with applicable policies and procedures?*

Yes. Our conclusion was based on the following sub objectives:

Supporting Objectives and Conclusions

- a. *Was documentation of accepted MNPD Secondary Employment Unit customers in compliance with applicable policies?*

Yes. The MNPD has detailed policies and procedures in place for accepting secondary employment through the MNPD Secondary Employment Unit or through the application of officer Form 150's for independent performance. The MNPD Secondary Employment Unit followed applicable policies and procedures when contracting with third parties. Appropriate documentation was maintained, and the customers accepted met policy requirements.

- b. *Was documentation for officers with independently performed secondary employment in compliance with applicable policies?*

Yes. As required by policy, Form 150's transitioned through the appropriate approval process and contained the required documentation. The MNPD Secondary Employment Unit maintained these files as intended in the MNPD Manual and MNPD Secondary Employment Unit Standard Operating Procedures.

- c. *Were MNPD Secondary Employment Unit assigned jobs scheduled and worked in accordance with applicable policies?*

Yes. Officers complied with MNPD and MNPD Secondary Employment Unit policies and procedures for scheduling MNPD Secondary Employment Unit hours when taking leave time. However, there were no documented guidelines for rest periods to help ensure officers were not fatigued by secondary work (see Observation D).

4. *Were customers satisfied with service provided by the MNPD Secondary Employment Unit?*

Yes. Based on results of a survey sent to MNPD Secondary Employment Unit customers, customers stated they were very satisfied with the services provided. On a scale of one to five, with one being the best, responses averaged between a one and two for all survey questions. Comments from customers were also very positive. See **Appendix A** for consolidated results.

5. *Did the MNPD Secondary Employment Unit assume unnecessary risks?*

No. The MNPD had detailed requirements in place for secondary employment contracts. Contracts included an indemnification clause and department requirements limited work performed to jobs of lower risks or where the department determined public safety may benefit from a police presence. The ability to offer secondary employment services to the public allowed a larger community presence.

AUDIT OBSERVATIONS

Internal control helps entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (*COSO*), *Internal Control – Integrated Framework*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

Observation A – Segregation of Duties

Collection duties were not effectively segregated. Segregation of duties includes separating the authorization, custody, and recording of assets. The following observations were made during testing:

- One designated employee opens the mail, maintains the check log, prepares deposit slips, and records the cash receipts.
- Of the tested collections, 47 of 47 deposits (100 percent) had the same deposit slip preparer and cash receipt recorder (indicating both custody and recording functions).
- Deposit slips prepared within the MNPD Secondary Employment Unit were not compared to the check log to ensure completeness.

Corrective actions were taken as soon as the MNPD Secondary Employment Unit was notified.

Criteria:

- *COSO*, Control Activities—Principle 10—The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Internal Control Manual for Tennessee Municipalities, Title 5, Chapters 1 and 14

Recommendations for management of MNPD to:

- 1) Determine designated roles and responsibilities to ensure depositing and recording functions are segregated or utilize a banking lockbox service for the receipt of payments.
- 2) Implement a review process whereby deposit slips are compared to the manual check log.

Observation B – Treasury Policy Compliance

Some deposits and their recording in the accounting system were not made timely in accordance with Metro Nashville Finance Department policies. Note: All collections sampled were found to have been deposited and recorded.

- Of the 47 applicable check collection selections, 9 deposits (19 percent) were made more than one business day after receipt of funds. Timing of late deposits ranged from two days to four days after receipt.
- Of the 47 applicable check collection selections, 2 deposits (4 percent) were recorded in the EnterpriseOne system more than two business days after deposit of funds. The deposits were recorded six days after deposit.

Criteria:

- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Metropolitan Nashville Government Finance Department Policy – Treasury Policy #9

Recommendations for management of MNPD to:

Ensure all remittances are deposited within one business day and recorded in the EnterpriseOne accounting system within two business days.

Observation C – Documenting Jobs Released without Prior Notice

Documentation was not created to note the specific circumstances surrounding MNPD Secondary Employment Unit jobs posted without prior notice to all officers. MNPD Secondary Employment Unit jobs were generally posted in PowerDETAILS in advance to allow officers an equal opportunity to apply for each job. However, there were occasions when jobs were posted without notice, such as requests from Metro Nashville Water Services for an emergency or last minute requests from customers. Out of 47 sample jobs, 12 jobs (25 percent) were posted with little or no prior notice. The MNPD Secondary Employment Unit was able to give valid reasons why jobs were not posted in advance. However, the reason for not posting the job in advance was not documented. Additionally, the MNPD Secondary Employment Unit’s Standard Operating Procedures did not address the length of time a job should ideally be posted. This was determined individually by the employee that posts the job in PowerDETAILS.

Criteria:

COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Recommendations for management of MNPD to:

- 1) Document circumstances for those instances when jobs are released for application with little or no advance notice for responding.
- 2) Update the standard operating procedures to provide guidance on the length of time jobs should be advertised before applications are accepted and detail the general circumstances when exceptions are permitted.

Observation D – Monitoring of Hours Worked

Although a sufficient amount of allotted sleep time is necessary to perform any job to the best of one’s ability, there was no documented policy covering this area. The MNPD Secondary Employment Unit attempts to monitor the total hours worked, between both on duty and extra duty assignments, and/or between multiple extra duty assignments to ensure a healthy balance exists between work hours and down time. However, no downtime requirement was stated in any policies or procedures. Oversight of an officer’s work hours was the responsibility of the officer’s supervisor.

Criteria:

COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Recommendations for management of MNPD to:

- 1) Determine and document via formal policy the required number of rest hours for officers to allot each day.
- 2) Require documented supervisor approval for any officer work hours that do not allow for the required number of rest hours.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit 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 findings 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.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within various departments.
- Reviewed and analyzed documentation for compliance with the Tennessee Code Annotated, Metropolitan Nashville Code of Laws, and other applicable laws, regulations, and policies.
- Evaluated internal controls currently in place.
- Reviewed sample selections to determine the effectiveness of internal controls.
- Reviewed financial related transaction files using audit analytic software.
- Surveyed customers.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

AUDIT TEAM

Carlos L. Holt, CPA, CFF, CFE, CIA, CGAP, Audit Manager

Lauren Riley, CPA, ACDA, Auditor-in-Charge

Seth Hatfield, CPA, CIA, Staff Auditor

APPENDIX A – METRO NASHVILLE SECONDARY EMPLOYMENT UNIT SURVEY RESULTS

Total Number of Responses:	73*				
Service Dimensions	Distribution of Responses				
	1	2	3	4	5
	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Contracting and scheduling jobs with the MNP Secondary Employment Unit was straightforward and easy.	45	18	3	2	3
2. MNP Secondary Employment Unit officers were on time, equipped, and completed the entire job as scheduled.	49	15	0	1	4
3. The cost per hour for MNP Secondary Employment Unit officers was reasonable and billed as expected.	38	20	5	3	5
4. Overall, I am satisfied with my experience with the MNP Secondary Employment Unit.	44	19	3	1	4
Total responses per scale	176	72	11	7	16

*Two customers chose not to respond to the survey

APPENDIX B – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

The management of the Metropolitan Nashville Police Department did not prepare an audit acceptance letter or corrective action plan after reviewing the draft report. The audit report will be reissued if a response is provided in the future.

APPENDIX B – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches and we encourage them to do so when providing their response to our recommendations.

Recommendations	Concurrence and Corrective Action Plan	Proposed Completion Date
Management of MNPD should:		
A1. Determine designated roles and responsibilities to ensure depositing and recording functions are segregated or utilize a banking lockbox service for the receipt of payments.	Corrective actions were taken as soon as the MNPD Secondary Employment Unit was notified.	Completed
A2. Implement a review process whereby deposit slips are compared to the manual check log.	Corrective actions were taken as soon as the MNPD Secondary Employment Unit was notified.	Completed
B1. Ensure all remittances are deposited within one business day and recorded in the EnterpriseOne accounting system within two business days.	Management of MNPD did not prepare a corrective action plan.	
C1. Document circumstances for those instances when jobs are released for application with little or no advance notice for responding.	Management of MNPD did not prepare a corrective action plan.	
C2. Update the standard operating procedures to provide guidance on the length of time jobs should be advertised before applications are accepted and detail the general circumstances when exceptions are permitted.	Management of MNPD did not prepare a corrective action plan.	
D1. Determine and document via formal policy the required number of rest hours for officers to allot each day.	Management of MNPD did not prepare a corrective action plan.	
D2. Require documented supervisor approval for any officer work hours that do not allow for the required number of rest hours.	Management of MNPD did not prepare a corrective action plan.	