

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



December 6, 2016

Jennifer Cole – Executive Director
Metro Arts Commission
800 Second Avenue South
P.O. Box 196300
Nashville, TN 37219

Dear Ms. Cole:

Please find attached the final report on the Metro Arts Commission's use of Metro credit cards. This report explains the results of our review of delegated purchasing authority and VISA and MasterCard credit card transactions from July 1, 2012 through February 29, 2016. You previously reviewed and responded to the preliminary report. Your responses to the preliminary report have been incorporated into this final report.

We appreciate your cooperation and assistance during the review. If you have any questions, please call me at (615) 880-1035.

Sincerely,

Fred Adom, CPA, CGMA, CICA
Director, Office of Financial Accountability

cc: Ian Myers, Metro Arts Commission
Talia Lomax-O'dneal, Director of Finance, Department of Finance
Gene Nolan, Deputy Director of Finance, Department of Finance
Kim McDoniel, Deputy Director of Finance, Department of Finance
Phil Carr, Chief of Accounts, Department of Finance
Tom Eddlemon, Metropolitan Treasurer, Department of Finance
Jeff Gossage, Purchasing Agent, Department of Finance
Mark Swann, Metropolitan Auditor, Office of Internal Audit

Kevin Brown, CMFO, CICA, CFE, Office of Financial Accountability
Essie Robertson, CPA, CMFO, CICA, Office of Financial Accountability
Matthew Fouad, Office of Financial Accountability



◆ Monitoring Report of ◆

Metro Arts Commission

Conducted by



Office of Financial Accountability

December 6, 2016

MONITORING REPORT

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INTRODUCTION

The Office of Financial Accountability (hereinafter referred to as "OFA") has completed a credit card review of the Metro Arts Commission's compliance with the *Metro Code of Law Title 4, Procurement Code* and compliance with the *Metro Finance Policy #19: Credit Card Policy*.

A review is substantially less in scope than an audit. The OFA did not audit the financial statements and, accordingly, does not express an opinion or any assurances regarding the financial statements of Metro or any of its component units.

The OFA is responsible for the internal monitoring of Metro agencies that receive federal and state financial assistance, including cooperative agreements and non-profit organizations that receive appropriations from Metro government. The OFA also conducts prompt pay performance, delegated purchasing authority, and procurement reviews, including credit card usage by Metro departments. In summary, any agreement that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

This review was conducted as part of the comprehensive review of credit cards use by all Metro Departments as requested by the Metro Council. At the conclusion of the review of all applicable Metro departments, the OFA will compile a summary report of the results of the review of all departments.

Agency Background

The Metro Arts Commission's mission is "to stimulate and advance the arts to enrich the human experience for the community in Nashville." Per the Fiscal Year 2016 Operating Budget Book, the Metro Arts Commission had 9 total budgeted positions and an operating budget of \$2,370,300.00.

OBJECTIVES, SCOPE AND METHODOLOGY

The scope of the credit card review period covered July 1, 2012 through February 29, 2016. There were two (2) cardholders in the Metro Arts Commission during the review period. See the table below for details:

Cardholder Name	Number of Transactions	Dollar Value of Transactions
Cardholder A	298	\$28,567.18
Cardholder B	799	\$77,793.83
Totals	1,097	\$106,361.01

The Office of Financial Accountability reviewed 139 transactions (13%) of the credit card activity.

The objectives of our review were:

- 1) To determine the agency's compliance with M.C.L. Title 4, Procurement Code.
- 2) To determine the agency's compliance with Metro Finance Policy #19: Credit Cards.
- 3) To determine whether credit card expenditures were allowable and necessary.
- 4) To determine whether purchasing transactions were authorized and sufficiently documented.
- 5) To determine whether the agency has adequate and effective internal controls over its credit card program.

Our review procedures included meeting with agency management and staff, reviewing internal controls over credit card use, and examining certain financial records and supporting documentation to ensure compliance with requirements set forth in Metro's official procurement policies. Specific procedures included:

- Comparing credit card charges with original receipts, supporting documentation and travel authorizations.
 - Reviewing supporting documentation for accuracy, necessity and reasonableness.
 - Identifying split purchases and unauthorized or fraudulent transactions.
 - Investigating discrepancies and following up as necessary.
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RESULTS OF REVIEW

Overall Findings and Major Review Highlights

Our review revealed the following issues of non-compliance with M.C.L. Title 4, Procurement Code and Metro Finance Policy #19: Credit Card. The Metro Arts Commission:

1. Improperly used Metro Credit Card for non-business (personal) transactions,
2. Failed to maintain adequate supporting documentation,
3. Used cards for contracted purchases,
4. Used cards for monthly recurring expenses,
5. Failed to exercise exempt status by improperly paying sales tax.

The section that follows provides more detailed information for the items listed above. Management is given an opportunity to respond to the findings.

FINDINGS AND RECOMMENDATIONS

1. Improperly used Metro Credit Card for non-business (personal) transactions.

FINDING

Based on test work completed, the Metro Arts Commission improperly used the Metro credit card to purchase items which appears to have been non-business related. Our review revealed two (2) transactions in the amount of \$166.20 to purchase lunch for interns and an employee going away lunch. While the transactions in question were tokens of appreciation; they were not a business necessity. Therefore, the transactions have been deemed to be non-business and as a result need to be refunded to Metro.

Per Metro Finance Policy #19: Credit Card Section 3) Expectations of Cardholders c) "Use of the credit card for personal expenses is a misappropriation of Metro Funds. Any use of the credit card for personal expenses will result in cancellation of the card and may result in disciplinary action. Any cardholder who uses the card for personal charges will be barred from future use of a Metro card." In addition, per the Metro Credit Card Cardholder Responsibility Acknowledgement that details the responsibilities of the cardholder, for which is reviewed and signed by the cardholder prior to taking physical possession of the Metro credit card, states "I will not use the card for any non-Metro purpose including personal expenses."

RECOMMENDATIONS

The Metro Arts Commission should take immediate measures to ensure the responsible cardholder reimburse Metro Nashville Government for the total value of the personal transaction identified.

The Metro Arts Commission should also take the necessary steps to ensure that cardholders of a Metro Credit card comply with rules and regulations as stated within their Notice of Purchasing Delegation, the M.C.L. Title 4 Procurement Code, and Metro Finance Policy #19: Credit Card Policy, and the Cardholder Responsibility Acknowledgement Agreement.

MANAGEMENT'S COMMENTS

We concur. The charges involved included two transactions which were going away gatherings for a staff member and an intern. Arts Commission has now implemented policies to insure transactions of this nature will no longer take place unless they can be proven to meet a business need. Arts staff has remitted a refund of \$166.20 to recover charges.

AUDITORS COMMENTS

The Metro Arts Commission provided record of payment and we have confirmed refund back to Metro.

2. Failed to maintain adequate supporting documentation.

FINDING

The Metro Arts Commission failed to maintain invoices and/or sales receipts to support 7 out of 139 (5%) of the transactions tested. Without supporting documentation, the Metro Arts Commission was unable to support the business purpose of the transactions. Per *Metro Finance Policy #19 Credit Cards 3) Expectations of Cardholders b) "Cardholders should collect and maintain proper sales receipts and invoices to support all charges. Proper sales receipts should include adequate description of the items purchased and the individual benefitting (when applicable). Credit card charge slips are not sufficient support."*

RECOMMENDATION

The Metro Arts Commission should ensure that cardholders maintain adequate supporting documentation to support credit card transactions.

MANAGEMENT'S COMMENTS

We concur in part. 1 of the 7 transactions listed was documented as being refunded back to Arts Commissions in the following month.

It is not the Arts Commission's practice to make purchases without a receipt or proof of purchase, and we make repeated attempts to collect one if it is not submitted with purchase. In the event when a receipt is not produced or ruined, we will notate the purpose, date and vendor.

3. Used cards for contracted purchases.

FINDING

The Metro Arts Commission utilized Metro credit cards to make eight (8) transactions for the purchase of coffee for the office. While the transactions were a legitimate business expense, the purchase of coffee with a metro credit card is a violation of metro policy. The Procurement Division within the Finance Department has secured a contract with a vendor for coffee at a discounted rate. While the purchasing of office supplies, off metro contract, is for legitimate business, every effort should be made to take advantage of the discounted pricing that is available through the Metro contract.

Additionally, the Metro Arts Commission utilized the Metro credit card to pay for ten (10) transactions with a vendor on contract with Metro. Per *Metro Finance Policy #19: Credit Cards 1) General Policies a) "the credit card can be used to purchase and make payment for approved transactions only including travel and related cost (hotels, car rentals, food, and ancillary items), petty cash type purchases, conference registrations, subscriptions and emergency purchases (as defined by the Purchasing Agent). **Note: All purchases are subject to established purchasing regulations. The credit card is not a payment/purchasing card and is not to be used for routine procurements from contracted suppliers."***

RECOMMENDATION

The Metro Arts Commission should

1. ensure that needed coffee supplies are purchased from the Metro contracted vendor and
2. should ensure that payment for items purchased off a Metro contract are submitted through Metro's accounts payable process.

In the extraordinary circumstances that would necessitate the Metro Arts Commission to purchase off contract, the Metro Arts Commission should ensure compliance with the guidelines requirements for Emergency Purchases as required by M.C.L. 4.12.070 Emergency procurements.

MANAGEMENT'S COMMENTS

We concur in part. Prior to 2015, Metro Arts was not trained or fully functional as a small department in the iProcurement system. Therefore, transactions prior to the

conversion to iProcurement for recurrent purchases like coffee were managed through the PCard. Additionally, because coffee vendors do not appear in the catalog services in iProcurement, is extremely difficult to know if a particular contract exists for a particular service. The lack of search function within iProcurement makes this quite difficult to always identify a contracted vendor. Moving forward, the Arts Commission will utilize the contracted companies for coffee services. All payments will be made through Metro's accounts payable process.

4. Used cards for monthly recurring expenses..

FINDING

The Metro Arts Commission utilized Metro credit cards to make monthly recurring expenditures, to the Tennessean, Mailchimp (mass emailing), and the ISSUU for a Pro Reader in violation of the Metro Credit Card Cardholder Responsibility Acknowledgement for which was required to be reviewed and signed prior to the cardholder being used the Metro credit card. While the monthly expenditures were a legitimate business expense, the process of allowing the vendors to store the credit card number "on file" is violation of metro policy. The Metro Credit Card Cardholder Responsibility Acknowledgement states, *"I will not allow the card number to be held "on file" by anyone. Recurring charges are not to be made on the card."* The practice of having monthly recurring charges; weakens internal controls in regards to accounts payable.

RECOMMENDATION

The Metro Arts Commission should ensure that cardholders are not allowing anyone to store "on file" the Metro credit card numbers. The Metro Arts Commission should further ensure that all invoices are reviewed for accuracy prior to payment being submitted.

MANAGEMENT'S COMMENTS

We concur in part. The monthly Electronic Tennessean subscription was authorized by Metro's Office of the Treasurer (see attached email). We will reach out to the vendor to see if they can begin billing on an annualized basis, but it was advised by the Office of the Treasurer that this is not possible.

The Arts Commission has canceled the subscriptions to ISSUU and Mailchimp and we no longer use these vendors. We have moved to annual service fees for our mass email management to other vendors.

Moving forward, the Arts Commission will make all of its subscription purchases on an annualized basis.

5. Failed to exercise exempt status by improperly paying sales tax.

FINDING

The Metro Arts Commission improperly paid sales tax on four (4) transactions totaling \$76.87. Per Metro Finance Policy #19 3) *Expectations of Cardholders d) "Cardholders are also responsible for identifying and disputing erroneous charges, including Tennessee sales tax charges, to their assigned cards. It is the responsibility of the cardholder to dispute the charges as specified in the cardholder agreement."* In addition, e) *"Cardholders should not pay Tennessee sales tax. It is the cardholder's responsibility to dispute Tennessee sales tax charges."*

RECOMMENDATION

The Metro Arts Commission should ensure that Metro Cardholders review and dispute charges associated with Tennessee sales tax. The Metro Arts Commission should also ensure that Metro credit card cardholders adhere to Metro Finance Policy #19.

MANAGEMENT'S COMMENTS

We concur. The Arts Commission always seeks to make tax exempt purchases from vendors, and whenever identified will attempts recover any charges sales tax.