



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

**Professional Audit and Advisory Service**

**Audit of the Operations of the  
Metropolitan Trustee's Office**

Date Issued: March 17, 2010

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

# EXECUTIVE SUMMARY

## March 17, 2010

Results in Brief	Recommendations
<p>We performed an audit of the processes and controls in place at the Metro Nashville Trustee's Office. Key audit objectives and conclusions are as follows:</p> <ul style="list-style-type: none"> <li>• Does the Trustee's Office have controls in place to provide assurance that tax collections are properly recorded? Yes. No material weaknesses were noted.</li> <li>• Does the Metropolitan Trustee's Office have controls in place to assure tax collections received are deposited and recorded in a timely manner? Yes. No material weaknesses were noted.</li> <li>• Does the Metropolitan Trustee's Office have controls in place to ensure that all tax collections received are properly secured? Generally yes. We noted instances where tax collections were not properly secured.</li> <li>• Does the Metropolitan Trustee's Office have procedures in place to ensure that the integrity of tax related data is maintained and protected? Generally yes. We noted a repeat finding from the external auditor's management letter.</li> <li>• Does the Trustee's Office have controls in place to provide assurance that expenditures are accurately stated and in compliance with Metro's Procurement Regulations? Yes. No material weaknesses were noted.</li> <li>• Does the Metropolitan Trustee's Office have controls in place to provide assurance that office staff is properly paid for work actually performed? Generally yes. Part-time, variable hour employees were not completing time sheets or otherwise verifying the amount of time worked.</li> </ul>	<p>Key recommendations of this report include:</p> <ul style="list-style-type: none"> <li>• Trustee's Office management should implement a policy to ensure that the safe is properly locked at all times when it is not being directly accessed. Further, access to the safe should be limited to members of management or management and one or two specified employees.</li> <li>• Trustee's Office management should maintain timesheets for all part-time employees who, at a minimum, document the specific days worked and the hours worked for each day. The timesheets should also be reviewed and signed by both a manager and the employee to ensure the employee is being accurately paid for work performed.</li> <li>• Trustee's Office management should developed written procedures for each critical process and task related to tax collections and other core requirements. These procedures should be periodically reviewed and updated.</li> <li>• Trustee's Office management should develop and implement new procedures for opening mail which may contain receipts from customers.</li> <li>• Trustee's Office management should develop and implement a process for periodic review of all modifications made to TaxMan.</li> </ul> <p>Management's response can be seen in Appendix A, page 17.</p>

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# INTRODUCTION

## AUDIT INITIATION

As part of the approved annual Audit Work Plan, the Office of Internal Audit conducted an audit of the operations of the Metropolitan Trustee's Office. Specifically, our office conducted an audit of the activities related to the Procurement, Payroll, and Tax Collection Cycles. The primary basis for conducting this audit was due to the high dollar amount of Metro receivables collected by the Trustee's Office (\$754 million for fiscal year 2009.)

## BACKGROUND

The ability of a governmental entity to provide services and meet its various and wide ranging obligations to its citizenry is highly dependent upon the government's capability to obtain resources. Governmental entities receive these resources from a variety of sources including property taxes, local option sales tax, fines, forfeits, penalties, licenses, permits, commissions, fees, and various grants. The largest individual revenue source for the Metropolitan Government of Nashville and Davidson County is property taxes. Property tax laws and policies are set by the State Constitution, local legislatures, courts and the Board of Equalization. The State Constitution grants authority to Metro to tax its citizenry, the Metro Council creates laws to govern the administration of any property tax, and the State Board of Equalization establishes rules and regulations to be followed by the Davidson County Assessor of Property, who appraises both real property and business tangible personal property. The Metropolitan Trustee's Office calculates, records, and collects actual property tax payments.

### **The Metropolitan Trustee's Office**

The Office of the Trustee is a constitutional office that was established as a tax collection agency for each county in the state of Tennessee. The Trustee in Davidson County collects Real Property, Personal Property and Public Utility taxes. They also administer the State of Tennessee Tax Relief, Deferral and Freeze Programs, collect and process Delinquent Taxes, Central Business Improvement District Taxes and Vegetation Liens. The Trustee is an elected official with elections occurring every four years. The current Trustee is Mr. Charlie Cardwell who has served continuously since 1993. For fiscal year 2010, the Trustee's Office had 26 budgeted full time equivalent employees, made up of 22 full time employees, 10 seasonal employees and one part time employee.

Property taxes collected the past six fiscal years are presented in Exhibit A on the next page.

## Exhibit A – Fiscal Years 2004 through 2009 Property Tax Collections

Fiscal Year	Amount
2009	\$775,403,870
2008	\$757,993,487
2007	\$762,416,897
2006	\$719,820,461
2005	\$609,091,452
2004	\$601,825,390

Source: Metro Nashville Comprehensive Annual Financial Report

### Overview of Property Taxes

Property taxes are ad valorem taxes meaning that the amount paid by the taxpayer is dependent upon the value of the item being taxed. There are three factors that determine the amounts of taxes to be paid on a piece of property:

- a. The appraised value of the property
- b. The assessed value of the property
- c. The tax rate

The appraised value is the fair market value of the property. The Davidson County Assessor of Property is responsible for appraising the value of all applicable property in the county with the exception of public utility companies whose values are determined by the Tennessee Comptroller of the Treasury. Appraisals are conducted every four years. The assessed value of property is the appraised value multiplied by an established percentage. This percentage varies based on the classification of the property and is set by the State Board of Equalization. The current rates are as follows:

### Exhibit B – Property Assessment Rates

Property Class	Assessment Rate
<b>Residential &amp; Farm</b>	
Real Property	25% of the appraised value
Personal Property	5% of the appraised value
<b>Commercial &amp; Industry</b>	
Real Property	40% of the appraised value
Personal Property	30% of the appraised value
Public Utility	55% of the State determined value

Source: Fiscal Year 2010 Recommended Operating Budget

Hence, if a residential property has an appraised value of \$100,000, the assessed value of the property would be \$25,000, or \$100,000 multiplied by 25%.

The Tax Rate is the rate recommended by the Mayor during the budget process. The tax rate recommended is submitted for approval to the Metro Council in the form of a tax levy ordinance. The tax rates are segregated between the GSD and USD tax rates. To calculate a specific tax bill on a particular property, the assessed value is divided by 100 and then applied to the tax rate. For example, if a residential property mentioned above had an applicable tax rate of \$4.69, the tax bill would be calculated as follows:

$$\begin{aligned}
 &(\$25,000/100) \times \$4.69 \\
 &\$250 \times \$4.69 \\
 &\mathbf{\$1,172.50 = \text{Tax Bill}}
 \end{aligned}$$

Mill Rates

Tax rates are further broken down by mill rates so that tax collections are applied to specific funds. A summary of the four primary tax rates and the individual mill rates that make up each is presented in Exhibit C and Exhibit D below:

**Exhibit C – General and Urban Service District Mill Rates**

Mill Rates	
<b>GSD = 3.56</b>	Mill Rate Breakdown
<i>GSD General Fund</i>	1.82
<i>GSD Debt Service</i>	0.42
<i>GSD School Debt Service</i>	0.15
<i>GSD School General Purpose</i>	1.17
<b>Total</b>	<b>3.56</b>
<b>USD = 4.13</b>	Mill Rate Breakdown
<i>GSD General Fund</i>	1.82
<i>GSD Debt Service</i>	0.42
<i>GSD School Debt Service</i>	0.15
<i>GSD School General Purpose</i>	1.17
<i>USD General Fund</i>	0.46
<i>USD Debt Service</i>	0.11
<b>Total</b>	<b>4.13</b>

Source: Metro Ordinance BL2009-457

## Exhibit D – Special District Mill Rates

Mill Rates	
<b>Gulch Special District = 4.56</b>	Mill Rate Breakdown
<i>GSD General Fund</i>	1.82
<i>GSD Debt Service</i>	0.42
<i>GSD School Debt Service</i>	0.15
<i>GSD School General Purpose</i>	1.17
<i>USD General Fund</i>	0.46
<i>USD Debt Service</i>	0.11
<i>Gulch Special Tax</i>	0.43
<b>Total</b>	<b>4.56</b>
<b>Downtown Special District = 4.36</b>	Mill Rate Breakdown
<i>GSD General Fund</i>	1.82
<i>GSD Debt Service</i>	0.42
<i>GSD School Debt Service</i>	0.15
<i>GSD School General Purpose</i>	1.17
<i>USD General Fund</i>	0.46
<i>USD Debt Service</i>	0.11
<i>Downtown Special District Tax</i>	0.236
<b>Total</b>	<b>4.36</b>

Source: Metro Ordinance BL 2007-001 and BL 2007-1312

### Personal Property Taxes

Every business in Davidson County is required to complete a Tax Schedule B with the Davidson County Assessor of Property by March 1<sup>st</sup> of each year. This schedule details all personal property that is subject to being taxed. The Davidson County Assessor of Property assigns appraised values to these items. In early September of each year, the Davidson County Assessor of Property will submit an electronic listing of all personal property to be taxed. The information is loaded into the TaxMan system, which calculates the related tax bill. All businesses are subject to having their submitted Tax Schedule B form audited.

### Public Utility Taxes

The Tennessee Office of State Assessed Properties is responsible for assigning appraised values for all public utility properties in Tennessee. In early January of each year, the State submits an electronic listing off all public utility properties in Davidson County and their respective appraised values. Until 2008, public utility tax bills were due on May 31 of each year but are now due on the last day of February.

### Information Technology Systems Used in the Tax Collection Process.

There are three primary information technology systems used in the tax collection cycle at Metro Nashville.

KIVA Super Record: The Metropolitan Government utilizes a KIVA “super record”. Various departments utilize this file including the Davidson County

Assessor of Property, the Trustee's Office, the Department of Codes and Building Safety, the Planning Department, and Public Works among others. The super record contains a large quantity of information on a variety of Metro related activities. On a yearly basis, the Metropolitan Information Technology Services Department will extract information from this file, which will be used by the Davidson County Assessor of Property and the Trustee's Office.

The Davidson County Assessor of Property and the Trustee's Office use the KIVA file to gather information on all residential and business properties in Davidson County. The KIVA file contains each parcel of land and every business in Davidson County. For each residential property, the KIVA file contains an "authorization code" which ties the property to a specific location and tax rate. The Davidson County Assessor of Property will use the KIVA file to input appraised value information for real and public utility properties and assessed values for personal property. The Davidson County Assessor of Property KIVA file is then forwarded to the Trustee's Office to be loaded into the TaxMan system. TaxMan will then use the information to generate tax bills and receivables.

Manatron/TaxMan: A comprehensive software system used to calculate and record tax levies and tax collections received at the Trustee's Office.

Enterprise One: The primary accounting software system used to record and report all financial transactions of the Metropolitan Government. Since TaxMan serves as a type of "shadow system" to Enterprise One, with no direct interface, manual journal entries are used to record tax collection transactions in the Metro general ledger, contained within Enterprise One.

## OBJECTIVES AND CONCLUSIONS

1. *Does the Metropolitan Trustee's Office have controls in place to provide assurance that tax collections reported exist, are accurate, complete, and properly recorded?*

Yes. The Office of Internal Audit segregated test work over this objective into two distinct categories. The first category of tests were to determine if **critical taxpayer and property data in the TaxMan system were accurate and if the TaxMan system was properly calculating the taxpayer's tax bill**. From a sample of 95 accounts we agreed the appraised values stated in the TaxMan system to source documents within the KIVA system then agreed mill rates for the property to the authorization code per KIVA to ensure that the property was being charged the correct tax rate. Finally, we recalculated the assessed value and tax bill for the property to ensure that the correct amount was generated in the TaxMan system. We also tested 95 refund transactions processed by the Trustee's Office and reviewed supporting documentation and interest payment calculation. Multiple taxpayer transactions from both a mortgage company and the First Tennessee lockbox were also tested for accuracy by selecting 95 taxpayer accounts for review. Specifically, our office ascertained if the payments were properly applied to



the correct account and recorded as the correct amount in TaxMan. No exceptions were noted in the test work conducted.

The second category of test work focused on ensuring that ***all payments received from taxpayers were properly recorded and deposited into a Metropolitan bank account.*** The Office of Internal Audit randomly selected 95 business days and reviewed reports from the TaxMan system indicating the amounts received from taxpayers for each particular day. We then agreed these amounts back to supporting documentation such as journal entries, deposit slips, and the First Tennessee Online banking system. Additionally, to provide assurance of the completeness that items subject to taxation were properly included in the tax rolls, we used the Davidson County Assessor of Property information on total parcel count, appraised values, and assessed values and agreed it to the amounts downloaded into Taxman. Again, no exceptions were noted in the test work conducted.

2. *Does the Metropolitan Trustee's Office have controls in place to provide assurance that tax collections received are deposited and recorded into the accounting system in a timely manner?*

Yes. The Office of Internal Audit randomly sampled 95 weekdays from July 2007 to July 2009 for test work. For each day selected a daily deposit report was generated from TaxMan and the amounts were compared to deposits made to First Tennessee using the First Tennessee Online banking system. Prior to fiscal year 2009, we noted the Trustee's Office did not have a delegated employee to record the deposits into the accounting system within the two business days as recommended by Metro Nashville Finance Department policy. As a result, 22 of the 44 items from fiscal year 2008 were not recorded within two business days. However, in fiscal year 2009 a single employee was assigned the deposit recording task and deposits are now inputted into the accounting system within the two business days. All of the remaining 51 sample deposit items for fiscal year 2009 were recorded within the two business days.

3. *Does the Metropolitan Trustee's Office have controls in place to assure all tax collections are properly secured?*

Generally, yes. The Office of Internal Audit made inquiries to the Trustee's Office management and observed the various policies and procedures in place regarding safeguarding tax receipts. The Trustee's Office utilizes a secure combination safe and contracts with an armored vehicle transport company to transport deposits, both good controls. Additionally, each cashier is responsible for a specific till and all transactions processed through their assigned drawer. However, an excessive number of Trustee's Office staff has access to the safe, including all cashiers. Also, the safe was not locked during business hours and is normally locked only after the last cashier has placed their cash drawer in the safe for the day. For more details, see Observation A.

4. *Does Metropolitan Trustee Office staff have the skill sets, knowledge, and training to adequately perform tasks associated with tax collections?*

Yes. We conducted numerous interviews, inquires, and observations during the course of the engagement and noted that the Trustee's Office has a knowledgeable veteran staff who also possess the skill sets needed to perform their tasks. The current elected Trustee has many years of experience in financial and governmental environments, having previously served as the Finance Director and Chief Accountant for the Metropolitan Government. The Office of Internal Audit does recommend that the Trustee's Office develop a formalized, detailed set of written procedures over each critical function and task related to the tax collections process. For more details, see Observation C.

5. *Does the Metropolitan Trustee's Office have procedures in place to provide assurance that the integrity of tax related data is maintained and that proper safeguards are taken to protect data from being lost, or destroyed?*

Generally yes. The Office of Internal Audit noted that the majority of information regarding specific properties, appraised values, property classifications, mill rates, etc. is inputted into the TaxMan system from a yearly electronic download received from the Davidson County Assessor of Property. Based on this information, Taxman calculates the tax bill for each taxpayer. Additionally, a large number of payments are downloaded and recorded to the TaxMan system electronically from various mortgage companies and the First Tennessee lockbox. To ascertain that information contained in the system was correct and that tax receivables and payments were being properly applied, we conducted the following test work.

- a) Testing the integrity of the source data and tax calculations contained in TaxMan.

We obtained an electronic download of the TaxMan system covering transactions during 1999 through October 2009 and then extracted tax information from July 1, 2007 to October 31, 2009. From this population we selected a random sample of 95 items for testing. For each sample item, we compared information such as property address, tax payer, and appraised value in the Taxman system to information from the Property Assessor's Office and also calculated the assessed values and tax receivables to ensure that Taxman was accurately calculating these items. No exceptions were noted during test work.

- b) Testing the integrity of taxpayer payment information within the Taxman system.

We noted that payments are posted to the Taxman system in one of the following manners:

- Electronic download from the First Tennessee lockbox (mail-in payments)
- Electronic downloads from Mortgage Companies

- Taxpayers making payments in person at the Trustee's Office (or sometimes mailing payments to the office address rather than sending them to the lockbox.)

To test payments posted electronically from the bank, we randomly selected dates in which electronic payments would have been received. The electronic data included tax year being paid, specific bill number, and amount to be applied to each individual account. For each sample item, the Office of Internal Audit reviewed the TaxMan system to ensure that each payment was applied to the correct taxpayer account and for the correct amount based on information in the electronic download. No exceptions were noted.

To test payments received electronically for a mortgage company, we obtained a download of a payments received from a mortgage company including all essential pertinent information. For each sample item, the Office of Internal Audit reviewed the TaxMan system to ensure that each payment was applied to the correct taxpayer account and for the correct amount based on information in the electronic download. No exceptions were noted.

To test payments made directly to the Trustee's Office, we randomly selected 95 business days for review. For each day, the Office of Internal Audit reviewed reports from the TaxMan system indicating the amounts received from taxpayers for each particular day and agreed these amounts back to supporting documentation (journal entries, deposit slips, etc.) No exceptions were noted.

- c) Testing the integrity of the modifications made to the TaxMan system:  
The Office of Internal Audit tested for:
- 1) Modifications that would affect the tax receivable for an account (adjustments to appraised values, assessed values, mill rates, or the tax receivable itself)
  - 2) Adjustments made due to the taxpayer participating in a tax relief program.
    - a. Tax modification test work: We obtained a listing of all modifications made to either mill rates, appraised values, assessed values or tax liability amounts. We then randomly selected a sample of 95 items for testing. For each sample item, we reviewed supporting documentation and the TaxMan system to ascertain if the modifications appeared to be appropriate, were made for the correct amounts, and were properly approved. No exceptions were noted.
    - b. Tax Relief test work: We obtained a report from Taxman detailing all accounts that are receiving Tax Relief discounts and utilizing Audit Command Language, selected a sample of 95 items for test work. For each sample item, we reviewed supporting documentation to determine if the taxpayer was eligible for the program and attempted to ascertain if the tax

reduction was accurately calculated and recorded in TaxMan. No exceptions were noted.

Note: The Metro external audit firm, KPMG, noted in the 2007, 2008 and 2009 “*Summary of Observations from the KPMG Management Letter for Fiscal Year 200X*” that for the Trustee’s Office “A vendor was found to have application, administrator and database administrator rights on TaxMan.” And that “Management did not monitor administrator activities at the operating system, database and application levels.” Such a condition could lead to unauthorized changes to program code or application configurations.

6. *Does the Metropolitan Trustee’s Office have controls in place to provide assurance that tax payers are paying their tax bills within established time frames and that past due accounts are being properly followed up on?*

Yes. The Office of Internal Audit discussed with Trustee’s Office management about the policies and procedures in place for monitoring tax receivables. We then reviewed the design of controls over the collection process and chose not to do any test work in this area. The ability of the Metropolitan Government to seize taxpayer property and force the sale of the property to satisfy past due amounts provides a strong incentive for taxes to be paid and thus ensures that tax receivables will very likely be collected. For this reason we conducted no transaction testing in this area.

According to Trustee’s Office management, approximately 3% of tax receivables are not collected. Tax notices are mailed out at the end of September or early October. The amounts are due by the last day of February. Any payments not received by this time are assessed a 1.5% penalty per month.

Historic Practice:

If payments were not received by January, a reminder letter would be sent out to the taxpayer. However, due to budget constraints, this procedure has been abandoned.

Current Practice:

- If a payment is not received by June, an additional tax bill is mailed out.
- If a payment is not received by August 31st, the account goes to the Trustee’s Office Division of Collection.
- If a payment is not received by the following January (almost a year past due), the taxpayer will receive a delinquency letter.
- If payment is not made by the last day of February, the account is submitted to the Metro Department of Law. The Metro Department or Law handles the collection effort from this point and has the ability to have a property sold to satisfy any outstanding property tax balance.

When an account is sent to the Department of Law, additional fees are accessed. The Department of Law communicates to the Trustee’s Office when these fees are to be added. The fees are then recorded in TaxMan. Once an account is transferred to the Department of Law, payments are

submitted to the Chancery Court. The Chancery Court has employees who have access to TaxMan and will update the system as payments come in. Based on our analysis, the Trustee's Office appears to have designed controls over the monitoring of past due tax receivables that are reasonable and prudent.

7. *Does the Metropolitan Trustee's Office have controls in place to provide assurance that office staff is being properly paid for work performed?*

Generally yes. The Office of Internal Audit performed both payroll testing and leave testing. For **payroll testing** we sampled payroll transactions for two full-time and two seasonal employees for accuracy. The full-time employees are salaried therefore the Office of Internal Audit reviewed supporting documentation to ascertain if the rates paid agreed with the pay rates entered by the Metro Human Resources Department. Our office noted no exceptions. Supporting documentation was also reviewed for the seasonal employees to ascertain if the employee's timesheets were signed by both the employee and the supervisor and if the amount of hours submitted on the timesheet conformed to the amounts paid on the payroll register. Additionally we tested re-employed Metro retiree pay for conforming to Metro Civil Service Rules (cannot work more than 19.5 hours per week.) We did note that part-time employees lacked adequate documentation of work hours. For more details, see Observation B.

For **employee leave testing** our office randomly selected three employees for test work and reviewed supporting documentation to ascertain if leave sheets were signed by both the employee and the supervisor and if the amount of hours submitted conformed to the amounts paid on the payroll register. No exceptions were noted.

8. *Does the Metropolitan Trustee's Office have controls in place to provide assurance that expenditures recorded by the office are complete, accurate, reasonable, necessary, properly recorded into the accounting system, and in compliance with the Metropolitan Procurement Code?*

Yes. The Office of Internal Audit separately tested voucher processing, procurement card transactions and petty cash activities. We included 95 of 880 voucher transactions and 11 of 107 procurement card transactions in our sample analysis. We tested each for required attributes such as proper approvals, adequate supporting documentation and compliance with Metro code or other requirements. Additionally we performed analytical testing of account balances and conducted tests in search of possible duplicate payments or unauthorized payments made to employees. We also made a surprise count of the petty cash fund. No exceptions to policy, procedure or other requirements were noted. All payments were adequately supported as relating to official Metro government business.

## **OBSERVATIONS AND RECOMMENDATIONS**

### ***A - Tax Collections, Cash Drawers, and Change Maintained in the Trustee Office Safe are not Adequately Secured***

An excessive number of Trustee Office staff has access to the safe. Specifically, all Trustee Office cashiers have access to the safe as well as one member of management. Additionally, the safe is not properly locked at all times. The Office of Internal Audit observed that the safe is left unlocked throughout the day and locked only after the last cashier has secured their cash drawer in the safe at the end of the day.

*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. Adequately safeguarding assets is critical in ensuring a strong internal control framework. Safeguarding assets enhances the control activities of a strong internal controls framework.
- The Internal Control and Compliance Manual for Tennessee Municipalities, June 2009, Title 5, Chapter 10, Section 3, *Cash*: “all cash maintained on hand and collections not yet deposited are kept in a secure location.”

*Risk:*

Not properly safeguarding assets and revenues significantly increases the risk of loss and/or theft.

*Recommendation:*

Trustee’s Office management should implement a policy to ensure that the safe is properly locked at all times when it is not being directly accessed. Further, access to the safe should be limited to members of management or management and one or two specified employees.

### ***B - Lack of Timesheets for Part-Time Employees***

The Trustee’s Office utilizes part-time, hourly wage employees during certain periods of the year when the volume of tax collections is high. Hours for these employees may vary daily and weekly. The Office of Internal Audit noted that information regarding the number of hours worked is communicated to payroll via an electronic spreadsheet submitted by management. No corresponding timesheet or other document is signed by the employee to verify the spreadsheet’s accuracy. The hourly wage employee does not sign or otherwise approve the spreadsheet so no source document exists to ensure that the employee is in agreement with the variable hours that will be paid.

*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. Having formalized timesheets that are reviewed and signed by both the employee and manager enhances the control activities and monitoring component of a strong internal controls framework.
- The Internal Control and Compliance Manual for Tennessee Municipalities, June 2009, Title 5, Chapter 21, Section 7c, "*Payroll and Related Liabilities*" states that "timecards, or honor system timesheets, shall be maintained for all employees."

*Risk:*

Not maintaining formalized, complete time sheets that are reviewed and signed by both the employee and supervisor increases the risk that employees will not be accurately paid for work performed and also decreases the ability to respond to after-the-fact claims of underpayment.

*Recommendation:*

Trustee's Office management should maintain timesheets for all part-time employees who, at a minimum, document the specific days worked and the hours worked for each day. The timesheets should also be reviewed and signed by both a manager and the employee to ensure the employee is being accurately paid for work performed.

## **C - Lack of Written Procedures over Tax Collection Processes**

The Trustee's Office has a veteran staff that appears to be very knowledgeable of established procedures, ordinances, and laws pertaining to tax collection which is one of their control strengths. Additionally, the current elected Trustee has many years of experience in financial and governmental environments having previously served as the Finance Director and Chief Account for the Metropolitan Government. The current Trustee has served in this position since 1993. Many of his current staff will soon be approaching retirement age. Consequently, the extensive knowledge base and skill sets currently retained at the Trustee's Office will be diminished. Detailed written procedures help retain and transfer knowledge to future office staff. Documented processes and procedures are the hallmark of outstanding organizations and form the base of a sound internal control structure.

*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. Having a formalized, detailed set of operating procedures that are periodically reviewed and updated is critical in ensuring a strong internal control framework. Written procedures enhance the control activities and

information and communication components of a strong internal controls framework.

- The Internal Control and Compliance Manual for Tennessee Municipalities, June 2009, Title 1, Chapter 1 “*Overview of Internal Control*” page 2, and Title 5, Chapter 2 “*Books and Records.*”

*Risk:*

The Trustee's Office collects over half of all revenue received by the Metropolitan Government of Nashville and Davidson County. Given the complex environment that the Trustee's Office operate in, lack of detailed, written procedures over each critical process increases the risk that important functions will not be carried out, especially during periods of personnel turnover.

*Recommendation:*

Trustee's Office management should developed written procedures for each critical process and task related to tax collections and other core requirements. These procedures should be periodically reviewed and updated.

#### ***D - Lack of Segregation of Duties for Payments Received Directly at the Trustee's Office***

While taxpayers are advised to mail all payments to the off-site bank lockbox, there are occasions where payments are mailed directly to the Trustee's Office. In these instances, the Trustee's office has designated employees who will open the mail, retrieve the payment, and then record the payment. The process of opening the mail and processing payments should be segregated. Further, opening mail that possibly contains incoming revenue should ideally be performed by two persons.

*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. Proper segregation of duties enhances the control activities component of a strong internal controls framework. “*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 “*Business Receivables*”, Section 4, “all mail is delivered intact (unopened) to two or more designated employees...and all checks immediately stamped For Deposit Only.”



*Risk:*

Lack of segregation of duties increases the possibility that stated revenues posted to accounts will not be deposited as intended. Unmonitored mail opening procedures increases the possibility that incoming receipts will be diverted.

*Recommendation:*

Trustee's Office management should develop and implement a log which list all payments received at the Trustee's Office through the mail, which ideally should be opened by two persons. Personnel opening the mail and logging each payment should not be the same person who posts the payments to the accounts. All checks and money orders should be immediately stamped "For Deposit Only." Finally, a member of management should compare the amount posted on the log to the amount being deposited and amounts listed on the Daily Transaction Report to ensure that all payments received have been properly processed and prepared for deposit.

## ***E – Monitoring of Modifications Made to Accounts in the TaxMan System***

The Trustee's Office lack's a formalized process whereby modifications made to accounts in the TaxMan system, which alter the tax receivable, are reviewed and monitored by management. Testing that the Office of Internal Audit performed on account modifications indicated entries were appropriate and necessary. However, we did note that the Trustee's Office does not run periodic reports for review to ensure that all modifications were authorized. Periodic scanning of a report of this type would enhance the ability of management to spot any unauthorized changes that had been entered.

*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. Management review of a report detailing modifications made to a tax receivable is critical in ensuring a strong internal control framework. Such a review enhances the control activities and monitoring component of a strong internal controls framework.
- The Internal Control and Compliance Manual for Tennessee Municipalities, June 2009, Title 5, Chapter 2 "*Books and Records*".

*Risk:*

The possibility of unauthorized account adjustments is increased without a second level review of adjustment transactions.

*Recommendation:*

Trustee's Office management should develop and implement a process for periodic review of all modifications made to accounts in TaxMan.

# GENERAL AUDIT INFORMATION

## STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this performance audit from October 2009 to February 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. Our audit included tests of management controls that we considered necessary under the circumstances.

## SCOPE AND METHODOLOGY

The audit period focused primarily on the period July 1, 2007 through June 30, 2009 financial balances, transactions, and performance on the processes in place during the time of the audit.

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 Metropolitan Trustee's Office, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed.

## CRITERIA

In conducting this audit, the existing processes and controls in place pertaining to the Metropolitan Trustee's Office were evaluated for compliance with:

- Metropolitan Charter: Articles 2, 6, 8 and 11
- Metropolitan Code: Title 2 and Title 5
- Metro Treasury Statement #9
- Tennessee Code Annotated §§ 67-5-1801 to 67-5-1808: Tax Collections
- Tennessee Code Annotated §§ 67-5-2001 to 67-5-2011 Delinquent Taxes
- Tennessee Code Annotated §§ 67-5-101 to 67-5-103: Levy of Taxes
- Tennessee Code Annotated §§ 67-5-1701 to 67-5-1705: Certified Tax Rates
- COSO Internal Control-Integrated Framework

## STAFF ACKNOWLEDGEMENT

Carlos Holt, CPA, CIA, CFE, CGAP - Audit Manager  
Bill Walker, CPA - In Charge Auditor  
Tracy Carter - Staff Auditor

## **APPENDIX A. MANAGEMENT RESPONSE**

- Management's Responses Starts on Next Page -

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



CHARLIE CARDWELL  
TRUSTEE

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March 16, 2010

Mr. Mark Swann  
Metropolitan Auditor  
Office of Internal Audit  
222 3<sup>rd</sup> Avenue, N., Suite 401  
Nashville, TN 37201

RE: AU2010-002 – Audit of the Operations of the  
Metropolitan Trustee's Office

Dear Mr. Swann:

This letter acknowledges that the Metropolitan Trustee's Office received the AU2010-002 Audit of the Operations of the Metropolitan Trustee's Office 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,

Charlie Cardwell  
Metropolitan Trustee

CC:wb

201003161002002

**Audit of the Metropolitan Trustee's Office  
Management Response to Audit Recommendations – March 24, 2010**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<b>A.1</b> Trustee's Office management should implement a policy to ensure that the safe is properly locked at all times when it is not being directly accessed. Further, access to the safe should be limited to members of management or management and one or two specified employees.	<b>ACCEPT</b> – Safe is now locked based on recommendation.	Bob Fitzpatrick Tom Medlin	2/18/2010
<b>B.1</b> Trustee's Office management should maintain timesheets for all part-time employees who, at a minimum, document the specific days worked and the hours worked for each day. The timesheets should also be reviewed and signed by both a manager and the employee to ensure the employee is being accurately paid for work performed.	<b>ACCEPT</b> - Time Sheet designed for name, date worked, hours worked, signature of employee and supervisor.	Bob Fitzpatrick Charlie Cardwell	3/6/2010
<b>C.1</b> Trustee's Office management should develop written procedures for each critical process and task related to tax collections and other core requirements. These procedures should be periodically reviewed and updated.	<b>ACCEPT</b> – As soon as we complete the 2009 tax season, all employees will prepare a job description and will be reviewed by management. The procedures will be periodically reviewed and updated.		6/1/2010
<b>D.1</b> Trustee's Office management should develop and implement a log which list all payments received at the Trustee's Office through the mail, which ideally should be opened by two persons. Personnel opening the mail and logging each payment should not be the same person who posts the payments to the accounts. All checks and money orders should be immediately stamped "For Deposit Only." Finally, a member of management should compare the amount posted on the log to the amount being deposited and amounts listed on the Daily Transaction Report to ensure that all payments received have been properly processed and prepared for deposit.	<b>ACCEPT</b> – We are in the process of developing a system that will enhance our internal controls. We are reviewing several options and would like for Internal Audit to help the Trustee's Office in completing the review.		6/1/2010
<b>E.1</b> Trustee's Office management should develop and implement a process for periodic review of all modifications made to accounts in TaxMan.	<b>ACCEPT</b> – we are running a weekly report that is reviewed by Bob Fitzpatrick. We will then scan the report for a permanent record.	Bob Fitzpatrick Tom Medlin	3/1/2010