



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

Professional Audit and Advisory Service

FINAL REPORT

Compliance Audit of the Metropolitan Clerk's Office

Date Issued: September 3, 2010

Office Location and Phone Number

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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

September 3, 2010

Background

The mission of the Metropolitan Clerk's Office is to efficiently and effectively serve as the recordkeeping office for Metropolitan Government for all documents relating to official actions of said Metropolitan Government, including the recording and safekeeping of minutes and legislation of the Metropolitan Council that set the public policy for the Metropolitan Government; and to provide public access as well as protection for these permanent official records.

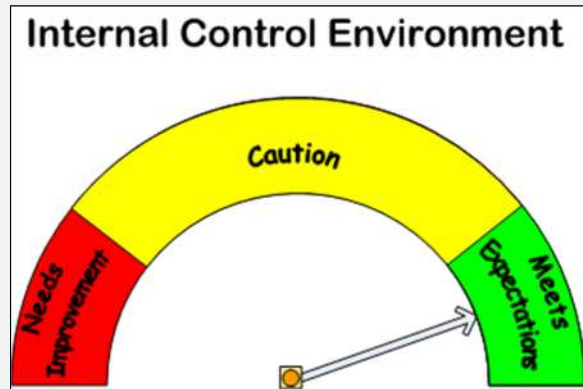
For fiscal years 2008, 2009, and 2010 actual expenditures for the Metropolitan Clerk's Office were \$1.3 million, \$1.1 million, and \$1.1 million respectively. Also, the Metropolitan Clerk's Office collected alarm permit, lobbyist registration, and other miscellaneous fees of \$1.3 million for each of these years.

Internal Control Compliance Results

The Office of Internal Audit tested the Metropolitan Clerk's Office compliance with applicable Metro Nashville financial and operational policies for the following areas:

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

Overall, compliance met expectations.



However, management needs to be attentive to:

- Finance Department policy for capital and tracked assets
- Monitoring seasonal worker computer accounts
- Enhancing alarm permit fee completeness controls

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INTRODUCTION

AUDIT INITIATION

The approved Office of Internal Audit annual Audit Work Plan included an audit of the Metropolitan Clerk’s Office. The audit was initiated due to the length of time (in excess of five years) that has elapsed since the last audit was performed of this function.

BACKGROUND

The mission of the Metropolitan Clerk’s Office is to efficiently and effectively serve as the recordkeeping office for Metropolitan Government for all documents relating to official actions of said Metropolitan Government, including the recording and safekeeping of minutes and legislation of the Metropolitan Council that set the public policy for the Metropolitan Government; and to provide public access as well as protection for these permanent official records.

The “official actions” of the Metropolitan Government are considered as: any actions of the Metropolitan Council, contracts, agreements, leases, memorandum of understandings, liens, easements and deeds to Metro Government property. The Metropolitan Government is considered to be all agencies, departments, and courts within Davidson County Metropolitan Nashville.

METRO NASHVILLE FINANCIAL HIGHLIGHTS

For fiscal years 2008, 2009, and 2010 actual expenditures for the Metropolitan Clerk’s Office were \$1.3 million, \$1.1 million, and \$1.1 million respectively. Also, the Metropolitan Clerk’s Office collected alarm permit, lobbyist registration, and other miscellaneous fees of \$1.3 million for each of these years.

Exhibit A – Metropolitan Clerk’s Office Budget Summary

	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
	Budget	Actual	Budget	Actual	Budget	Actual
Personal	\$599,800	\$548,277	\$550,800	\$515,467	\$482,000	\$460,931
Other Services	179,400	182,602	168,200	158,504	184,900	157,593
Internal Service Fees	545,700	538,579	443,700	446,235	475,500	477,819
Total	\$1,324,900	\$1,269,458	\$1,162,700	\$1,120,206	\$1,142,400	\$1,096,343

Source: Metro Nashville’s EnterpriseOne Financial System

Exhibit B – Top Five Metro Nashville Paid Vendors/Contractors

Vendor/Contractor Name	Amount Paid July 1, 2008 to June 30, 2010	Purpose
1. Richards & Richards	\$46,450	Destruction of records past the retention dates
2. The Tennessean	37,816	Legal notices required by law
3. Tensco Corporation	37,749	Shelving for Records Center
4. US Postmaster	35,197	Postage for alarm registration, etc
5. Metro Industrial Staffing	26,615	Temporary labor services

Source: Metro Nashville's EnterpriseOne Financial System

OBJECTIVES AND CONCLUSIONS

Ethics

1. *Have employees received ethics training?*

Yes. No significant issues or control observations were noted. The Metropolitan Clerk's Office employees received ethics training and signed the Ethics Policy acknowledgement forms.

2. *Has the department complied by the record retention policies rules and regulations?*

Yes. No significant issues or control observations were noted. The Metropolitan Clerk's Office employees have complied by the record retention policies rules and regulations.

Safety

3. *Does the department have a building evacuation plan?*

Yes. No significant issues or control observations were noted. Controls and processes were in place to ensure employees' safety.

Payroll and Leave Accounting

4. *Was employee payroll properly calculated?*

Yes. No significant issues or control observations were noted. Controls and processes were in place to ensure payroll was properly calculated and processed.

5. *Was employee leave time applied according to Civil Service rules?*

Yes. No significant issues or control observations were noted. Controls and processes were in place to ensure employee requests for leave time were applied according to Civil Service rules.

Computer Security

6. *Were employees only given access based on need to know basis for their job?*

Generally yes. One seasonal worker computer user account was still active two months after the worker's assignment was completed (see Observation A, page 5).

Capital and Tracked Assets

7. *Were fixed assets properly accounted for and recorded in Metro Nashville's EnterpriseOne financial system?*

Generally yes. There was one item on the fixed assets report incorrectly coded to the Metropolitan Clerk's Office (see Observation B, page 5).

8. *Was computer equipment adequately safeguarded?*

Yes. No significant issues or control observations were noted. The Office of Internal Audit observed computer equipment secured in employees' workspace.

Procurement and Expenditures

9. *Were expenditures made in accordance with Metro Nashville's Procurement Code?*

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

10. *Were travel related expenditures made in accordance to Metro Nashville's Travel Policy?*

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

Revenue

11. *Was all revenue properly receipted, coded, deposited and posted in accordance to Metro Nashville's Finance Policy #8?*

Generally yes. No significant issues or control observations were noted. Controls and processes were in place to ensure that revenue was deposited and posted according to Metro Nashville's Finance Policy #8. Documented periodic reconciliations of alarm permits on hand, issued, and fees collected would improve the overall control environment (see Observation C, page 6).

12. *Were cash receipts properly secured and safeguarded?*

Yes. No significant issues or control observations were noted. Controls and processes were in place to ensure that cash receipts were properly secured and safeguarded in the Metropolitan Clerk's Office.

OBSERVATIONS AND RECOMMENDATIONS

A – Monitoring Temporary Worker Computer User Accounts

One computer user account assigned to a seasonal worker was still active over thirty days after the worker's assignment was completed. The computer user account was still active because the worker may occasionally provide additional assistance to the Metropolitan Clerk's Office throughout the year.

Criteria:

IT Governance Institute's Control Objectives for Information Technology

- *DS5.3 Ensure System Security, Identity Management: "...Confirm that user access rights to systems and data are in line with defined and documented business needs..."*
- *DS5.4 Ensure System Security, User Account Management: "...Perform regular management review of all accounts and related privileges..."*

Risk:

Inactive computer user accounts may be used in an unauthorized fashion to access departmental or Metro Nashville information.

Recommendation:

Metropolitan Clerk's Office management should remove or deactivate computer access from employees or seasonal workers whenever a documented business need is no longer required for this privilege.

B – Maintenance of Asset Records

During a physical inventory of items listed on the Metro Nashville Finance Department Capital Asset listing, a paging system coded as "MCO Paging Equipment" was observed incorrectly assigned to the Metropolitan Clerk's Office. Research revealed that the "MCO Paging Equipment" should be assigned to the Metropolitan Nashville Council.

Criteria:

Metro Nashville's Finance Department Policy #14, Capital Assets states:

- "Disposal and transfers of capital assets (non-real Property) must be processed through General Services' Surplus Property Division, which shall be responsible for notifying the Division of Accounts to the update the related fixed asset master records upon completion of the disposal or transfer."
- "Based upon the transfer forms submitted by departments, the Division of Accounts will transfer capital assets in the centralized accounting system."
- "Tracked Assets are assets with a dollar value below the capitalization threshold of \$5,000 and should be tracked due to grant requirements, items of a sensitive nature, or items subject to theft."

Risk:

Fixed assets incorrectly coded and appearing on other departments report may result in lost, damaged or misuse of equipment.

Recommendation:

The Metropolitan Clerk's Office management should:

1. Work with the Department of Finance, Division of Accounts to ensure capital assets are tracked throughout the assets life cycle. This would include documentation of permanent or temporary transfers, disposals, and/or write-offs of missing or impaired assets.
2. Annually conduct a physical inventory of capital and tracked asset and communicate result for capital assets to the Department of Finance, Division of Accounts.

C – Enhancement to Alarm Permit Completeness Controls

Completeness controls for timely detection of potential missing alarm permits could be enhanced. Alarm permit decals are pre-numbered and packaged in quantities of 500 decals per box. Office procedures dictate that alarm permit fees are to be issued in sequential order from current open boxes. The ending alarm permit decal number is logged daily, compared to the prior day ending alarm permit decal number and the difference (number of permits issued) reconciled with the amount collected for alarm permit fees. This control along with securing unopened alarm permit decal boxes is a practical control to ensure fees collected on a daily basis are deposited. However, placing sole reliance on this control may not timely detect alarm permits issued out of sequential order during the months when alarm permits issued are less frequent.

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. Enhanced control activities is a process that helps provide reasonable assurance that risks associated with accidental or intentional misuse of departmental assets are mitigated. Ensuring alarm permit decal inventories are secured physically, and periodically counted and compared with amounts shown on control records are commonly found controls activities within organizations.
- Prudent Business Practices

Risk:

During months when alarm permits are issued less frequently, diverted or misplaced fees for alarm permit decals issued out of sequential order may not be detected in a timely manner.

Recommendation:

The Metropolitan Clerk's Office management should ensure alarm permit decal inventories are secured physically, and periodically counted and compared with amounts shown on control records.

GENERAL AUDIT INFORMATION

STATEMENT OF COMPLIANCE WITH GAGAS

We conducted this compliance audit from June to August 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

SCOPE AND METHODOLOGY

The audit period focused primarily on the period July 1, 2008, through June 30, 2010, financial balances, transactions, and compliance on the processes in place during the time of the audit. Certain analyses required the consideration of financial results, performance, and operations outside that period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by the Metropolitan Clerk's Office.

CRITERIA

In conducting this audit, the existing Metropolitan Clerk's Office operations and processes were evaluated for compliance with:

- Metro Nashville Procurement Policy
- Metro Nashville Finance Department Policy #14, Capital Assets
- Metro Nashville Finance Department Policy #18, Travel
- Metro Nashville Civil Service Rules for Attendance and Leave (Chapter 4)
- Metro Nashville Civil Service Rules for Special Pay Provisions (Chapter 5, Section 7)
- Metropolitan Code of Laws § 2.140, Public Records Commission
- Metropolitan Code of Laws § 10.60.020
- IT Governance Institute's Control Objectives for Information Technology (COBIT 4.1) – DS5.3 Ensure System Security, Identity Management and DS5.4 Ensure System Security, User Account Management

STAFF ACKNOWLEDGEMENT

Joe McGinley, CISSP, Quality Assurance Coordinator
Sharhonda Cole, CFE, In-Charge Auditor

APPENDIX A. MANAGEMENT RESPONSE

- Management's Responses Starts on Next Page -

KARL F. DEAN
MAYOR



METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

September 2, 2010

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Mr. Mark Swann
Metropolitan Auditor
222 Third Avenue South, Suite 401
Nashville, Tennessee 37201

RE: AU2010-014 - Audit of the Metropolitan Clerk's Office

Dear Mr. Swann:

This letter acknowledges receipt of the report of the audit of the Metropolitan Clerk's Office, AU2010-014, by the Metropolitan Government's Office of Internal Office and my review of the audit report and its recommendations.

I concur with all findings and recommendations and have provided a response, assigned responsibility and completion date to address each recommendation.

We appreciate this opportunity for a review and to improving our operations as a result.

Very truly yours,

A handwritten signature in cursive script that reads "Marilyn S. Swing".

Marilyn S. Swing
Metropolitan Clerk

**Audit of the Metropolitan Clerk's Office
Management Response to Audit Recommendations**

Audit Recommendation	Response to Recommendation / Action Plan	Assigned Responsibility	Estimated Completion
<p>A. Metropolitan Clerk's Office management should remove or deactivate computer access from employees or seasonal workers whenever a documented business need is no longer required for this privilege.</p>	<p>Accept. The one active computer account for a seasonal employee was deactivated immediately upon discovery of this issue. Computer access will be removed or deactivated in the future as soon as the documented business need is no longer required for this privilege.</p>	Marlene Fuller	Completed
<p>B. The Metropolitan Clerk's Office management should:</p> <ol style="list-style-type: none"> 1. Work with the Department of Finance, Division of Accounts to ensure capital assets are tracked throughout the assets life cycle. This would include documentation of permanent or temporary transfers, disposals, and/or write-offs of missing or impaired assets. 2. Annually conduct a physical inventory of capital and tracked asset and communicate result for capital assets to the Department of Finance, Division of Accounts. 	<p>Accept.</p> <ol style="list-style-type: none"> 1. The Department of Finance was notified immediately of the incorrectly assigned fixed asset, and that item was added to the Council Office fixed asset inventory. 2. A physical inventory of fixed assets will be routinely conducted on an annual basis, with verification of proper documentation for all transfers, disposals, or discussion with the Department of Finance about write-offs for missing or impaired assets. 	Vicki Long	Completed
<p>C. The Metropolitan Clerk's Office management should ensure alarm permit decal inventories are secured physically, and periodically counted and compared with amounts shown on control records.</p>	<p>Accept. A process for periodically verifying alarm permit decal inventories will be developed.</p>	Vicki Long	10/01/2010