



**A Report to the  
Audit Committee**

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**Audit of Davidson County Clerk's  
Cash Collections**

March 24, 2015

Metropolitan  
Nashville  
Office of  
Internal Audit

## EXECUTIVE SUMMARY

March 24, 2015



### Why We Did This Audit

The County Clerk's Office collects a significant amount in fees each year. The last County Clerk audit was in 2011.

### What We Recommend

- Improve control activities related to revenue monitoring, various cash handling functions, segregation of duties, and reconciliations.
- Enhance certain general and application controls pertaining to the TN Clerk system.

# Audit of Davidson County Clerk's Cash Collections

## BACKGROUND

The Davidson County Clerk's Office oversees the issuance of various licenses, such as vehicle registration, business license, marriage license, and notary commission. Local and state fees and taxes related to the various licenses are collected. Additionally, fees are collected for birth certificate and passport services. Services are provided from the Howard Office Building and five satellite locations.

### County Clerk Cash Collections for Fiscal Year 2014

Category	FY 2014	Percent of Total
Motor Vehicle	\$ 55,458,270	97.5%
Marriage License	422,243	.7%
Business License	217,189	.4%
Miscellaneous (Passports, Birth Certificates, Notary)	766,834	1.4%
<b>Total</b>	<b>\$56,864,536</b>	

Source: Davidson County Clerk's TN Clerk Computer System data tables extracted by Business Information Systems

## OBJECTIVES AND SCOPE

The objectives of the audit were to determine whether:

- Cash collections internal controls were operating as management intended to ensure all amounts tendered were safeguarded, deposited in the bank timely, and recorded accurately.
- Prior audit recommendations were successfully implemented and working as intended.

The audit scope included the period of September 1, 2013, through August 31, 2014. Certain analyses required the consideration of financial results and operations outside of that period.

## WHAT WE FOUND

The County Clerk's Office has proper controls in place over many of the areas audited. Moreover, written policies and procedures were in place related to cash collections. However, opportunities for improvement exist in revenue monitoring, cash handling, segregation of duties, reconciliations, and general and application controls within the TN Clerk system.

## GOVERNANCE

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The Davidson County Clerk is a constitutional office led by a publically elected official. Elections for this office occur every four years. The current Davidson County Clerk is Brenda Wynn, who has served since August 2012.

## OBJECTIVES AND CONCLUSIONS

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1. *Were cash collections internal controls operating as management intended to ensure all amounts tendered were safeguarded, deposited in the bank timely, and recorded accurately?*

**Generally yes.** Sufficient controls were in place related to cash collections. However, opportunities for improvement were noted in revenue monitoring, cash handling, segregation of duties, and reconciliations. (See Observations A, B, C, D, and F.)

2. *Were prior audit recommendations successfully implemented and working as intended?*

**Generally yes.** Davidson County Clerk's management fully implemented 20 out of 22 accepted audit recommendations from the January 26, 2012, audit performed by the Metropolitan Nashville Office of Internal Audit.

One audit recommendation for monitoring no-charge transactions was still in the process of being implemented within the newly implemented TN Clerk computer system. (See Observation D.)

The other audit recommendation not fully implemented was related to obtaining pre-approval of credit card purchases, of which few were made during the audit period.

## OBSERVATIONS AND RECOMMENDATIONS

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The Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework, Control Environment component recommends management and the board of directors establish mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities and implement corrective action as necessary. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities.

### ***Observation A – Internal Controls over Cash Collections***

Internal controls over cash collections could be enhanced. The following concerns were observed:

- The mail opening system was designed with only one person receiving and opening the incoming mail, which may contain checks, money orders, or correspondence relating to payments.
- Several managers and supervisors had access to the safe where cash was kept making it difficult to establish responsibility and accountability for daily deposits once transferred to bookkeeping.
- Employees who had record keeping responsibilities, including the ability to reverse transactions within the TN Clerk system, had access to cash collections.
- Refund checks were issued before confirmation that funds were available for check payments. This could result in refunds being issued for payments never received.

- Daily cash collection transfers between cashiers and bookkeeping were not always acknowledged with signatures/initials by both employees. Documentation of both cashier and bookkeeping acknowledgement of transfer of cash custodianship was not available for 20 (43 percent) out of 46 motor vehicle daily tills, 4 (12.5 percent) out of 28 business license tills, and one out of ten days of marriage licenses collections.

*Criteria:*

- State of Tennessee, Division of Municipal, Internal Control and Compliance Manual, June 2010, Title 5 – Control Activities, Chapter 14 – Revenues/ Receivables General Procedures
- COSO, Control Activities – Principle 10 (selects and develops control activities that contribute to the mitigation of risks)

*Recommendation for management of the Davidson County Clerk's Office to:*

1. Initiate a two-person mail opening system. This mail opening system should include the generation of a check log that is signed by both employees verifying the actual amount of checks received.
2. Limit the number of employees who have access to the safe and ensure accountability for daily deposits is minimized to the fewest number of employees required to process deposits. Ensure that parties who have access to daily deposits do not have the ability to reverse transactions in TN Clerk.
3. Ensure that checks received by mail have cleared the customer's bank account prior to issuing a refund for overpayment.
4. Ensure evidence exists that cashiers and bookkeepers agree on the amounts of cash collections transferred between employees.

***Observation B – Information System Control Weaknesses***

Information system application and general controls should be improved. The entire cash collection process within the County Clerk's Office was highly dependent on the newly implemented TN Clerk and State of Tennessee motor vehicle registration computer systems. Conditions of concern related to information systems were:

- Although an information system Access Request form existed, forms were not available to document management approval for access to departmental computer applications.
- A review of the TN Clerk user application privileges showed inconsistencies in granted permissions and lack of segregation of duties, making it difficult to ensure user account least privilege assignments were maximized.
- The 2014 business continuity and disaster recovery plan did not address the risk if application systems become unavailable.
- Operating system controls for the TN Clerk production environment allowed unrestricted access for Business Information Systems employees to implement application changes, apply operating system fixes, or update production database tables without prior approval from the Davidson County Clerk's Office.

*Criteria:*

- Metropolitan Nashville Government’s Information Classification Policy, Information Labeling and Handling Policy, IT Contingency/Disaster Recovery Planning, and External Party Security Policy
- ISO 27002 Information Technology – Security Techniques – Code of Practice for Information Security Management
- COSO, Control Activities – Principle 11 (selects and develops general control activities over technology)

*Recommendation for management of the Davidson County Clerk’s Office to:*

1. Establish a procedure for granting and removing user access to ensure proper requesting, approval, and documentation of each access request. The procedure should also ensure that user accesses agree with general principle of segregation of duties and least privilege.
2. Work with the system vendor to understand application controls available in the system, assess the effectiveness of existing controls, and find effective solutions to compensate for identified control gaps.
3. Revise the business continuity plan to ensure minimum interferences to the operations of the Davidson County Clerk’s Office when the system is not available. The plan should include estimated time to recover for potential interrupting scenarios, procedures for clerks to follow when systems become unavailable, hardware needed, plan execution personnel, and training and testing schedules.

***Observation C – Timely Account Deactivation for Returned Checks***

Deactivation of customer accounts in the TN Clerk computer system was not performed timely by County Clerk personnel. Delays in deactivating and noting customer accounts upon knowledge that a check had been returned for non-payment increase the potential for lost revenues while decreasing the chances of recovering those losses. Out of 29 accounts reviewed with insufficient fund checks between April 2014 and August 2014, 15 accounts (52 percent) were not deactivated, showed no history of being deactivated, or had no notes on the account showing a charge back had occurred.

*Criteria:*

COSO, Control Activities – Principle 16 (selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning)

*Recommendation for management of the Davidson County Clerk’s Office to:*

Periodically review customer accounts that are associated with non-sufficient fund checks. Remind bookkeepers to timely deactivate and note customer accounts accordingly.

***Observation D – Documentation for No-Charge Transactions***

The report used by management to monitor and approve no-charge transactions did not capture all situations where such transactions may occur. The audit trail report used for this purpose included all

changes made to posted transactions and excluded no-charge transactions incurred at initial processing. Also, there was no documented evidence on-going monitoring had occurred.

*Criteria:*

COSO, Control Activities – Principle 10 (selects and develops control activities that contribute to the mitigation of risks)

*Recommendation for management of the Davidson County Clerk's Office to:*

Develop a specific report of no-charge transactions processed in the TN Clerk computer system. This report should be reviewed periodically for reasonableness.

***Observation E– Birth Certificate Inventory Process***

There was no procedure to account for issued and voided birth certificate forms. It should be noted that a review of seven monthly reports and transactions showed all issued certificates were issued consecutively and voided certificates accounted for.

*Criteria:*

COSO, Control Activities – Principles 12 (deploys control activities through policies that establish what is expected)

*Recommendation for management of the Davidson County Clerk's Office to:*

Develop procedures to track blank birth certificates received from the State of Tennessee, as well as issued, voided, and destroyed or otherwise disposed of certificates.

***Observation F – Lack of Segregation of Functions***

Some cash handling duties were not effectively segregated. Segregation of duties includes separating the authorization, custody, and recording of assets. Some employees could process customer transactions, record end-of-business-day transactions in TN Clerk, issue refund checks, and prepare daily deposits.

*Criteria:*

COSO, Control Activities – Principle 10 (selects and develops control activities that contribute to the mitigation of risks)

*Recommendation for management of the Davidson County Clerk's Office to:*

Segregate cash receipts functions within the daily cash collections process by ensuring employees responsible for recording receivables do not have access to cash.

## **GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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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**

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

- Reviewed policies and procedures provided by management.
- Interviewed key personnel within the Davidson County Clerk’s Office.
- 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.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

## **AUDIT TEAM**

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Mark Swann, CPA, CISA, CIA, ACDA, Metropolitan Auditor

Bill Walker, CPA, CIA, Quality Assurance Auditor

Kimberly Smith, Auditor-in-Charge

Qian Yuan, CISA, ACDA, Senior Auditor



**DAVIDSON COUNTY CLERK'S OFFICE**

**Howard Office Building**  
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March 20, 2015

Mr. Mark Swann  
Metropolitan Auditor  
Office of Internal Audit  
1417 Murfreesboro Pike  
Nashville, TN 37217

RE: 2015 Audit of the Davidson County Clerk's Office

Dear Mr. Swann:

This letter acknowledges that the Davidson County Clerk's Office has received the 2015 audit report and has reviewed the audit comments and recommendations. We value and appreciate the work that your office does to help Metro Departments better understand and follow policies and best practices.

The County Clerk's Office was able to implement most of the audit recommendations immediately. We have also begun the process of researching other recommendations to determine appropriate action and/or changes in policy.

Please know that we will work diligently to address or resolve each recommendation in a timely manner. Thanks again for all you do.

Sincerely,

Brenda Wynn  
Davidson County Clerk



## APPENDIX A – 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.

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<b>Recommendations for management of the Davidson County Clerk to:</b>		
<p><b>A.1</b> Initiate a two-person mail opening system. This mail opening system should include the generation of a check log that is signed by both employees verifying the actual amount of checks received.</p>	<p><b>Partially Agree.</b> Business Information Systems, the software developer of TN Clerk, has been asked to develop/design a mail logging system within TN Clerk. In the interim, a two-person mail opening system will be implemented. A check log has been created and will be signed by both employees verifying the amount received in checks. It should be noted that the volume of mail renewals received daily can sometimes be in excess of 500 items. While this change is inefficient, will create more work for the mail department, is more labor intensive, will require additional staff, and will significantly slow down the mail renewal process, the recommendation has been partially accepted. We will assess and re-evaluate the process after 30 days.</p>	TBD
<p><b>A.2</b> Limit the number of employees who have access to the safe and ensure that parties who have access to cash collections do not have the ability to reverse transactions in TN Clerk.</p>	<p><b>Partially Agree.</b> Management evaluated the number of employees that have access to the various components of the safe located in the main office. It was determined that 2 bookkeepers will no longer have access to one of the combination safes. It was also determined that it is necessary for the other employees (managers), to keep their existing access. Therefore, the number of employees with access to the other components of the safe will remain unchanged. It should be noted that the safe is in direct view of a security camera which is monitored by Metro’s contracted security. Security footage is recorded, allowing a review of the videotape should an investigation be required.</p> <p>Effective immediately, the County Clerk’s Office has restricted the ability to reverse financial transactions in TN Clerk to the Director of Motor Vehicle Services</p>	Completed March 20, 2015

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
	<p>and the Branch Manager. Business Information Systems, the software developer of TN Clerk, has been asked to create a new user type with a restricted security level that allows the user to make non-financial corrections only. Bookkeepers are still able to reverse credit card charges in Link2Gov as it remains one of the functions of the bookkeeping department. TN Clerk generates an audit report that management reviews daily.</p>	
<p><b>A.3</b> Ensure that checks received by mail have cleared the customer’s bank account prior to issuing a refund for overpayment.</p>	<p><b>Agree.</b> Effective immediately, all check payments received by mail requiring a refund will be posted and processed through TN Clerk, but will not be disbursed until verification can be made that the check has cleared the customer’s bank account. It should be noted that this process can take up to thirty (30) days.</p>	<p>Completed March 12, 2015</p>
<p><b>A.4</b> Ensure evidence exists that cashiers and book keepers agree on the amounts of cash collections transferred between employees.</p>	<p><b>Agree.</b> The Davidson County Clerk’s Operational Procedures manual states the following in “Steps for Daily Cash Balance and Closeout:”</p> <p style="padding-left: 40px;">4) Attach the deposit slip to the report as shown. Both the clerk and verifying clerk shall sign the report.</p> <p>The instructions are followed by a diagram that indicates where the clerk and verifier sign the receipts report.</p> <p>In response to the audit recommendation, bookkeeping has been instructed to notify the immediate supervisor of any clerk submitting a receipts report without the signature of a verifier. Supervisors have been instructed to advise clerks of the error and take corrective action as necessary.</p>	<p>Completed March 20, 2015</p>
<p><b>B.1</b> Establish a procedure for granting and removing user access to ensure proper requesting, approval and documentation of each access request. The procedure should also ensure that user accesses agree with</p>	<p><b>Agree.</b> A formal authorization and tracking system is being researched in cooperation with Business Information Systems, the software developer for TN Clerk. Effective March 20, 2015, all</p>	<p>TBD</p>

## APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
<p>general principle of segregation of duties and least privilege.</p>	<p>access changes must be approved by the Director of Motor Vehicle Services and will take into consideration, the general principle of segregation of duties and least privilege. An access request form will be completed and maintained for any additional access granted.</p>	
<p><b>B.2</b> Work with the system vendor to understand application controls available in the system assess the effectiveness of existing controls and find effective solutions to compensate for identified control gaps.</p>	<p><b>Partially Agree.</b> Our software developer, Business Information Systems has assured us of their commitment to address and offer effective solutions to compensate for any identified control gaps.</p>	<p>TBD</p>
<p><b>B.3</b> Revise the business continuity plan to ensure minimum interferences to the operations of the Office when the system is not available. The plan should include estimated time to recover for potential interrupting scenarios, procedures for clerks to follow when systems becomes unavailable, hardware needed, plan execution personnel, and training and testing schedules.</p>	<p><b>Agree.</b> The Business Continuity Plan has been revised to provide additional detail of potential interferences to the operation of the office when the system is unavailable. As recommended, the plan includes estimated recovery times for potential scenarios along with procedures, hardware needed, plan execution personnel, and training and testing schedules. The revised plan was adopted by the County Clerk on March 20, 2015.</p>	<p>Completed February 23, 2015</p>
<p><b>C.</b> Periodically review customer accounts that are associated with non-sufficient fund checks. Remind bookkeepers to timely deactivate and note customer accounts accordingly.</p>	<p><b>Agree.</b> The bookkeeping department deactivates a customer account by placing a comment on registered vehicles when a check has been returned and blocks any further transactions on that license plate. Once a customer pays all of the required fees bookkeeping was deleting all comments and removing the block. Effective immediately, bookkeepers have been instructed to remove the block when all fees are paid and change the status to “active” instead of deleting all comments. This will leave a record of the date the block was created and removed. Clerks have also been instructed to make this notation in a more timely fashion. The Director of Motor Vehicle Services will conduct a periodic review to determine that returned checks are being notated in the system in a timely fashion.</p>	<p>Completed March 18, 2015</p>
<p><b>D.</b> Develop a specific report of no-charge transactions processed in the TN Clerk computer system. This report should be reviewed periodically for reasonableness.</p>	<p><b>Agree.</b> Business Information Systems, the software developer of TN Clerk, has been asked to develop a no-charge transaction report. The report will be</p>	<p>TBD</p>

**APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN**

Recommendation	Concurrence and Corrective Action Plan	Proposed Completion Date
	reviewed and monitored monthly by bookkeeping and the Director of Motor Vehicle Services.	
<p><b>E.</b> Develop procedures to track blank birth certificates received from the State of Tennessee, as well as issued, voided and destroyed or otherwise disposed certificates.</p>	<p><b>Agree.</b> Procedures have been developed to track all birth certificate stock received from the TN Department of Health Office of Vital Records. The procedures cover issued, voided, and destroyed or otherwise disposed of certificates.</p>	<p>Completed March 9, 2015</p>
<p><b>F.</b> Segregate cash receipts functions within the daily cash collections process by ensuring employees responsible for recording receivables do not have access to cash.</p>	<p><b>Agree.</b> The recording of end of day and end of month transactions in TN Clerk, the issuance of refund checks and preparation of daily deposits are primary functions of the bookkeeping department. Bookkeepers do not process customer transactions. However, employees that process customer transactions may sometimes fill-in for a bookkeeper and perform some of those duties, giving employees responsible for recording receivables access to cash. Effective March 20, 2015, only those employees who don't regularly process customer transactions will fill-in for bookkeeping.</p> <p>The County Clerk's Office believes that the most efficient way of addressing this recommendation is by using "smart safes." "Smart safes" would allow clerks who process customer transactions to deposit their receivables directly into the safe and get a printed receipt from the safe. There is no further interaction with those receivables by any County Clerk employee. This would segregate the custody and recording of assets. A contract to provide this service is currently being considered by the Metropolitan Government. As soon as the contract is approved, the County Clerk's office will begin utilizing the service.</p>	<p>TBD</p>