



**A Report to the
Audit Committee**

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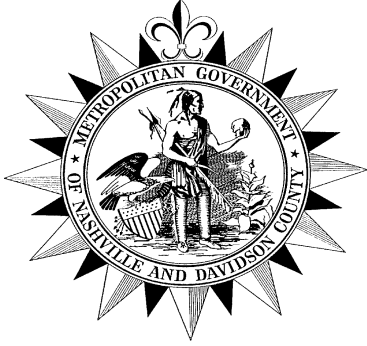
Metropolitan
Nashville
Office of
Internal Audit

Audit of the Circuit Court Clerk Funds Held in Trust

September 3, 2015

EXECUTIVE SUMMARY

September 3, 2015



Why We Did This Audit

The audit was performed due to the large dollar amounts, associated risks, and public trust associated with managing funds held in trust. Additionally, this function has not been audited within the past five years.

What We Recommend

Enhance accountability and controls of cash custody transfers.

AUDIT OF THE CIRCUIT COURT CLERK FUNDS HELD IN TRUST

BACKGROUND

The Circuit Court Clerk is responsible for the management of court ordered funds to be held in trust on behalf of third parties. The management and security of these funds are integral to the Circuit and Probate Court mission. In the past two fiscal years the closing balance of the funds held in trust has been:

Tax Year	Opening Balance	Additions	Deductions	Closing Balance
FY2014	29,717,047	2,935,631	24,105,506	8,547,172
FY2013	29,302,880	4,583,360	4,169,193	29,717,047

Source: Metro Nashville's Comprehensive Annual Financial Reports, fiscal years 2013 and 2014

The closing balance may vary from year to year due to the number and size of transaction generated from court orders. The basis of all transactions associated with any funds held in trust is a court order.

OBJECTIVES AND SCOPE

The objectives of the Circuit Court Clerk Funds Held in Trust audit were:

- Did the Circuit Court Clerk's office administer funds held in trust in accordance with Davidson County Local Rule 34, Tennessee Code Annotated §§ 8-21-401, 34-1-104, and applicable court orders?
- Has the Circuit Court Clerk's office created general and application controls over the VIADUCT System to support the achievement of objectives?

The audit scope included all work performed for fiscal years 2013, 2014 and 2015 (July 2014 to May 2015).

WHAT WE FOUND

Funds administered by the Circuit Court Clerk were properly recorded, safeguarded, monitored, and deposited in accordance with Tennessee Code, applicable court orders, and Metropolitan Nashville Government financial policies.

The Circuit Court Clerk should enhance controls related to cash custody transfers.

GOVERNANCE

The Circuit Court Clerk is an elected official in Davidson County serving a four year term. All transactions associated with funds held in trust in terms of the amounts invested, monitored, and disbursed are governed by court orders.

OBJECTIVES AND CONCLUSIONS

1. *Did the Circuit Court Clerk administer funds held in trust in accordance with Davidson County Local Rule 34, Tennessee Code Annotated §§ 8-21-401, 34-1-104, and applicable court orders?*

Yes. The Circuit Court Clerk has designed and implemented internal controls to gain assurance that funds held in trust were administered in accordance with applicable financial policies, laws and court orders.

Supporting Objectives and Conclusions

- a. *Were the collections of funds held in trust complete, recorded, monitored, secure, and deposited in the general ledger?*

Yes. Funds held in trust were complete, recorded, monitored, secure, and deposited in the Circuit Court Clerk general ledger system and in accordance with circuit and probate court orders. Transactions tested showed that receipts for payments agreed to amounts recorded in the Viaduct system, bank accounts, and with specific court orders. Transactions tested were deposited with the bank and recorded in the general ledger in accordance with Metropolitan Nashville Government financial policies. However, there were multiple people with access to the cash drawer and no formal transfer of ownership of the drawer. (See Observation A.)

- b. *Were disbursements made regarding funds held in trust reviewed, approved, disbursed to the correct party for the correct amount, and in accordance with applicable court orders?*

Yes. Controls over disbursements were reasonably designed and effectively implemented. Transactions tested flowed from the general account into the investment banks, where applicable, and/or to the appropriate party as specified by the respective court order.

- c. *Was internal monitoring being performed?*

Yes. The Circuit Court Clerk Internal Auditor was performing monitoring activities over the activities associated with funds held in trust. These duties included monthly bank reconciliations and follow-up, audit of financial transactions, confirming court orders, and audits of financial transactions flow into the appropriate journals.

2. *Did general and application controls exist over the VIADUCT System to support the achievement of management objectives related to funds held in trust?*

Yes. Viaduct and C3Plus access contained a process that included authorization, menu and option selection, and retirement of user accounts.

AUDIT OBSERVATIONS

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

Observation A – Custody and Transfer of Cash Collections

There were multiple people with access to the cash drawer throughout the day. There was no formal documentation of transfer of ownership when cash collections were transferred from one person to another. Accountability for custody of cash was materially diminished due to this practice.

Criteria:

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

Recommendation for management of the Circuit Court Clerk to:

Implement a procedure whereby cash tills are retained in the custody of only one employee at a given time. When assets are transferred to another party, the verification of amounts transferred to the other person should be documented at the time of transfer.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

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

METHODOLOGY

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

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

AUDIT TEAM

Bill Walker, CPA, CIA, Quality Assurance

Joe McGinley, CISA, In-Charge

Laura Henry, CFE

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Davidson County

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RICHARD R. ROOKER

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September 2, 2015

Mr. Mark Swann
Metropolitan Auditor
Office of Internal Audit
404 James Robertson Pkwy., Ste. 190
Nashville, TN 37219

Re: Audit of the Circuit Court Clerk
Funds Held in Trust

Dear Mr. Swann:

This letter acknowledges that the Circuit Court Clerk received the report entitled Audit of the Circuit Court Clerk Funds Held in Trust. The Circuit Court Clerk has evaluated the observation and recommendation cited in the report. We appreciate the recommendation in the report and have initiated implementation effective September 8, 2015.

It is important to acknowledge that our office has never received cash payments for our trust fund cases and the amount of cash our office handles for other types of cases/copies is minimal. However, we welcome any recommendation which would improve the business practices of our offices as our offices strive for excellence in our financial duties and responsibilities.

I would like to express my appreciation to you and your staff for your professionalism and quality of work your office demonstrated in the audit process.

Sincerely,

Richard R. Rooker
Circuit Court Clerk

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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.

Recommendations	Concurrence and Corrective Action Plan	Proposed Completion Date
<i>Recommendation for management of the Circuit Court Clerk to:</i>		
<p>A. Implement a procedure whereby cash tills are retained in the custody of only one employee at a given time. When assets are transferred to another party, the verification of amounts transferred to the other person should be documented at the time of transfer.</p>	<p>Agree.</p>	<p>September 8, 2015</p>