



**A Report to the
Audit Committee**

Mayor
Megan Barry

Chief Operating Officer
Richard Riebeling

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**Clerk and Master of the Chancery
Court**

March 18, 2016

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

March 18, 2016



Why We Did This Audit

The audit was initiated based on the request of the State Trial Court Administrator on behalf of the Chancellors due to the transitioning of the Clerk and Master position.

What We Recommend

The Clerk and Master's Office could become more efficient by placing reliance on the Financial Manager of the Odyssey Case Management system and better mitigate risks by improving segregation of duties and compensating controls.

CLERK AND MASTER OF THE CHANCERY COURT AUDIT

BACKGROUND

The Clerk and Master administer the Chancery Court caseload by maintaining books, records, and case files. Also, the Clerk and Master collects and reports revenue from delinquent taxes and court costs along with investing funds held as trustee of the Chancery Court.

Exhibit 1: Clerk and Master Financials for FY 2014 and FY 2015

| | FY 2014 | FY 2015 |
|--|--------------------|--------------------|
| REVENUES | | |
| Charges, Commissions, and Fees (Program) | \$1,184,528 | \$1,100,017 |
| Fines, Forfeits, and Penalties (Non-Program) | 515,699 | 519,132 |
| Litigation Taxes (Non-Program) | 54,286 | 50,715 |
| Total Revenues | \$1,754,513 | \$1,669,864 |
| EXPENDITURES | | |
| Personal Services | \$1,213,217 | \$1,166,509 |
| Other Services | 224,159 | 109,034 |
| Total Expenditures | \$1,437,376 | \$1,275,543 |
| FUNDS HELD IN TRUST AS OF JUNE 30 | \$5,999,530 | \$6,712,828 |

Source: Metro Nashville's EnterpriseOne Financial System

OBJECTIVES AND SCOPE

The objectives of the audit were to determine if:

- Controls and procedures were in place to properly manage fiscal resources.
- Audit recommendations contained in the August 28, 2013, Clerk and Master internal audit report were implemented.

The audit scope included July 1, 2014, through November 30, 2015.

WHAT WE FOUND

The Clerk and Master had controls in place to effectively manage resources and protect assets. However, information systems could be more effectively utilized and protected, and controls could be improved around leave time and credit card purchases. Additionally, six prior accepted audit recommendations from the August 28, 2013, internal audit report were not implemented.

GOVERNANCE

The Clerk and Master position is appointed by the chancellors with a six-year term. Cristi Scott was appointed Clerk and Master in 2003 and served for two terms. She chose not to seek reappointment and resigned on November 30, 2015. Maria M. Salas was appointed as the new Clerk and Master on December 1, 2015.

The Clerk and Master's Office serves as the filing and support office for the Chancery Courts. The office administers the dockets and keeps the calendar and permanent records as directed by the chancellors or required by law. Additionally, the Clerk and Master sell real property and deposits or remits judgment funds pursuant to court order and statute as an arm of the court.

OBJECTIVES AND CONCLUSIONS

1. *Are controls in place to ensure proper managements of fiscal resources?*

Generally yes. The Clerk and Master's Office is effectively managing revenues, disbursements, leave time, and credit card purchases. However, the Odyssey Case Management System should be consistently used as the only source for records keeping and reporting to achieve better control of data integrity, the practice of maintaining user access to the system should be improved, and proper segregation of duties should be implemented in the disbursement process and credit card purchase review process. (See Observations A, B, C, D and E.)

Supporting Objectives and Conclusions

1. *Are reported revenues complete, accurate, and recorded timely?*

Generally yes. Deposits are being deposited and recorded timely. Since the last audit report dated August 28, 2013, the Clerk and Master's Office began using the Odyssey Case Management System to record financial transactions, print receipts, and print checks. However, the manual receipt process using a combination Microsoft Access and Microsoft Excel is still being used in conjunction with the Odyssey Case Management System. (See Observation A.)

Two terminated employees still had access to Clerk and Master information systems. (See Observation B)

The receipt process lacks segregation of duties. (See Observation D.)

Reviews of adjustments performed within the Odyssey Case Management System and Manatron tax system are not being performed. (See Observation F.)

2. *Is leave time calculated and recorded in accordance with Clerk and Master Leave Policy?*

Generally yes. The leave time accruals for each employee were independently calculated according to the Clerk and Master Leave Policy and compared to the leave accrual records maintained by the office. No material differences were noted, and the Clerk and Master's office is recording payroll and accruing leave according to policy requirements. However, employee negative leave balances existed, which is not allowed by the Clerk and Master Leave Policy. (See Observation C.)

3. *Are reported disbursements complete and accurate?*

Yes. Documentation within the Odyssey Case Management System and other supporting documentation are complete, accurate and reviewed for each disbursement. However, segregation of duties around the disbursement process could be improved. (See Observation D.)

4. *Are credit card purchases made in accordance with Metropolitan Nashville Finance policies and procedures?*

Generally yes. All credit card purchases align with the service delivery objective of the Clerk and Master. However, the Clerk and Master's Office is not using the online banking system to review and approve credit card transactions timely. Additionally, the office cardholder authorizes purchases and records transactions in EnterpriseOne, Metropolitan Nashville Government's financial system. (See Observations D and E,)

2. *Have audit recommendations contained in the previous Clerk and Master audit report dated August 28, 2013, been implemented?*

Generally yes. The Clerk and Master's Office fully implemented 7 out of 13 accepted audit recommendations from the August 28, 2013, internal audit performed by the Metropolitan Nashville Office of Internal Audit. (See Observation F.)

AUDIT OBSERVATIONS

Observation A: Odyssey Case Management System Financial Manager Utilization

Employee tasks are duplicated because financial transactions are recorded concurrently in the Odyssey Case Management System and a legacy Microsoft Access and Excel financial system. The legacy Microsoft Access and Excel financial system allows financial information to be manipulated or changed without detection. The Odyssey Case Management System has controls such as assigned user identification with specific roles and an audit trail that protects against data manipulation. It is less efficient to operate both systems concurrently.

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.

Recommendation for management of the Clerk and Master to:

Use the Odyssey Case Management System Financial Manager function exclusively for receipting, recordkeeping, and reporting financial transactions.

Observation B: Access Privileges for Information Systems

Two terminated employees had access to information systems within the Clerk and Master's Office. Access privileges to the Odyssey Case Management Financial Manager System are still valid for one previously terminated Clerk and Master employee. Also, access privileges to the Manatron property tax system are still valid for another previously terminated Clerk and Master employee.

Criteria:

COSO, Control Activities—Principle 11—The organization selects and develops general control activities over technology to support the achievement of objectives.

Recommendation for management of the Clerk and Master to:

Adjust user access to information systems accordingly whenever there is a change in staff such as a termination, transfer to another department, or change of job function within the Clerk and Master's Office.

Observation C: Negative Leave Time Balances

Contrary to Clerk and Master's Office Leave Policy, negative leave time balance existed for four employees between January 1, 2014, and November 30, 2015. The Clerk and Master Leave Policy states "all vacation must be accrued before the requested vacation begins. Any vacation taken prior to accrual will be deducted from the employee's pay" and "all sick leave must be accrued before it is taken." It should be noted that no employees had a negative leave balance at the time of the audit.

Criteria:

- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Office of Clerk and Master Policies and Rules Manual

Recommendation for management of the Clerk and Master to:

Strengthen the leave approval process to ensure leave is accrued before it is taken.

Observation D: Segregation of Duties

The cash receipts, disbursements, and credit card purchasing processes lack segregation of duties. While segregation of duties is not always possible with a smaller staff, no compensating controls are in place to offset the risk. There are two bookkeepers within the Clerk and Master’s Office, and both have custody of blank check stock, check-signing authorization, and recording of disbursements responsibilities. For cash receipts, both bookkeepers accept cash, record transactions, and make deposits.

Additionally, the credit card holder for the Clerk and Master’s Office authorizes purchases and records the purchases in the Metropolitan Nashville Government’s financial system, EnterpriseOne; these two functions should be segregated.

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 18

Recommendations for management of the Clerk and Master to:

1. Perform frequent independent reviews of financial activities or segregate responsibilities for the following processes.
 - a. Cashier daily closing, deposits, and recording of deposits.
 - b. Custody of blank check stock, check signature authority, and recording of disbursements.
 - c. Credit card purchase pre-approval, on-line account classifications, and reconciliation of purchases to credit card statements.

Observation E: Credit Card Control Weakness

The accuracy and usefulness of financial reporting may be jeopardized when transactions are not approved and posted timely. Credit card transactions are not reviewed and approved using the Metropolitan Nashville Government’s online credit card system. In addition, general ledger credit card journal entries are not processed timely.

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.
- Metropolitan Nashville Finance Department Policy: Treasury #19
- Metropolitan Nashville Credit Card Cardholder Responsibility Acknowledgement

Recommendations for management of the Clerk and Master to:

Classify, review, and approve credit card transactions using the Metropolitan Nashville Government's online banking system.

Observation F: Prior Accepted Audit Recommendations not Implemented

Out of 13 accepted audit recommendations from the August 2013 Clerk and Master's Office internal audit, 6 recommendations were not implemented. The status of the six recommendations is as follows:

- Reconciliations of the Clerk and Master bank accounts are performed, but no one independent of bookkeeping is performing a review of the reconciliations.
- Explanation sheets are being maintained for missing receipt numbers, but are not signed by two employees.
- Confirmation of leave balances was not performed in 2014 and 2015. The office manager is able to produce examples of confirmations from July 2013.
- Job specific procedure manuals for each position in the office are still ongoing.
- User access to Manatron is not reviewed to define specific roles based on the functions needed and to remove unnecessary access from employees. Although Manatron is currently being replaced by a new system, the recommended practice is still applicable in the new system.
- Routine reviews of transactions performed by employees within Odyssey and Manatron are not conducted.

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.
- COSO, Control Activities—Principle 11—The organization selects and develops general control activities over technology to support the achievement of objectives.
- COSO, Control Activities—Principle 12—The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Recommendations for management of the Clerk and Master to:

1. Implement monthly reviews of bank reconciliations by a party independent of the cash collection and recording process.
2. Reconcile all receipt numbers at the end of the month. Missing receipt numbers should be documented with an explanation. Removing receipt numbers should require documented approval.

3. Confirm all leave time balances annually. Employees should confirm the hours being accrued, the hours taken, and the hours carried forward.
4. Create job specific procedure manuals for each position within the department. Implement a regular schedule of reviewing the materials for accuracy and currency.
5. Review user access to all applicable information systems and define specific roles for each employee based on the functions needed. Remove excess access from any employees.
6. Perform routine reviews of employee transactions within the Odyssey and Manatron systems to ensure all are authorized.

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 the Clerk and Master.
- 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.
- Considered risk of fraud, waste, and abuse.
- Considered information technology risks.

AUDIT TEAM

Seth Hatfield, CPA, CIA, In-Charge Auditor

Kimberly Smith, Staff Auditor

Qian Yuan, CIA, CISA, ACDA, Quality Assurance

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

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

MARIEA M. SALAS
CLERK & MASTER
CHANCERY COURT



Davidson County

VICKI BAILEY, OFFICE MANAGER

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March 17, 2016

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

Re: Audit of the Office of the Chancery Court Clerk and Master

Dear Mr. Swann:

This letter acknowledges receipt and review of the audit report of the Office of the Chancery Court Clerk and Master. The audit confirmed that the Clerk and Master's Office has controls in place to effectively manage resources and protect assets, while also noting areas for improvement. Implementation of many of the audit recommendations has already been completed. Implementation of the other recommendations is ongoing. It was a pleasure to work with your staff. We will continue the process of improving our operations to provide the most efficient and quality service. Thank you for your cooperation.

Sincerely,

Handwritten signature of Mariea M. Salas in cursive.

Mariea M. Salas
Clerk and Master

♿ ADA Coordinator, Mariea M. Salas (862-5710)

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 |
|---|--|--|
| <i>Recommendations for management of the Clerk and Master to:</i> | | |
| A.1 Use the Odyssey Case Management System Financial Manager function exclusively for receipting, recordkeeping, and reporting financial transactions. | Accept. Staff has advised of reasons for preference of legacy system receipts. Management intends to work with staff and the Odyssey case management system vendor to address issues and migrate to exclusive use of Odyssey. | Ongoing |
| B.1 Adjust user access to information systems accordingly whenever there is a change in staff such as a termination, transfer to another department, or change of job function within the Clerk and Master’s Office. | Accept. | Completed |
| C.1 Strengthen the leave approval process to ensure leave is accrued before it is taken. | Accept. | Completed |
| D.1 Perform frequent independent reviews of financial activities or segregate responsibilities for the following processes. <ul style="list-style-type: none"> a. Cashier daily closing, deposits, and recording of deposits. b. Custody of blank check stock, check signature authority, and recording of disbursements. c. Credit card purchase pre-approval, on-line account classifications, and reconciliation of purchases to credit card statements. | Accept. Segregation of duties is challenging with a small office size. However, the pending hire of another bookkeeping clerk and the scheduling of regular independent reviews should address this matter. | Ongoing |
| E.1 Classify, review, and approve credit card transactions using the Metropolitan Nashville Government’s online banking system. | Accept. Office credit card is used 3-4 times per year. | To be completed with next use of credit card, which should be by 12/31/2016. |
| F.1 Implement monthly reviews of bank reconciliations by a party independent of the cash collection and recording process. | Accept. | Completed |

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

| Recommendation | Concurrence and Corrective Action Plan | Proposed Completion Date |
|---|---|--|
| <p>F.2 Reconcile all receipt numbers at the end of the month. Missing receipt numbers should be documented with an explanation. Removing receipt numbers should require documented approval.</p> | <p>Accept.</p> | <p>Completed</p> |
| <p>F.3 Confirm all leave time balances annually. Employees should confirm the hours being accrued, the hours taken, and the hours carried forward.</p> | <p>Accept. Staff has advised this is already being done verbally. It will be done in writing for 2015 and going forward.</p> | <p>Complete for 2015 by 4/15/2016 and implemented going forward.</p> |
| <p>F.4 Create job specific procedure manuals for each position within the department. Implement a regular schedule of reviewing the materials for accuracy and currency.</p> | <p>Accept. This was started by previous Clerk and Master. Current Clerk and Master will complete and conduct review regularly going forward.</p> | <p>Ongoing</p> |
| <p>F.5 Review user access to all applicable information systems and define specific roles for each employee based on the functions needed. Remove excess access from any employees.</p> | <p>Accept.</p> | <p>Ongoing</p> |
| <p>F.6 Perform routine reviews of employee transactions within the Odyssey and Manatron systems to ensure all are authorized.</p> | <p>Accept.</p> | <p>Ongoing</p> |